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Support to Post-Primary Education and Training Expansion and Improvement (Education IV) Project
Uganda Teacher and School Effectiveness Project (UTSEP)

TRADE SECTOR

Ministry of Trade, Industry and Cooperatives
District Commercial Support Services (DICOSS)
Ministry of Information and Communications Technology
Uganda Support to Municipal Infrastructure Development Program (USMID) Project

EDUCATION SECTOR

Ministry of Education and Sports
Support to Higher Education Science and Technology (Education V) Project
Support to Post-Primary Education and Training Expansion and Improvement (Education IV) Project
Uganda Teacher and School Effectiveness Project (UTSEP)

EDUCATION SECTOR

Ministry of Education and Sports
Support to Higher Education Science and Technology (Education V) Project
Support to Post-Primary Education and Training Expansion and Improvement (Education IV) Project
Uganda Teacher and School Effectiveness Project (UTSEP)

GENDER AND LABOUR SECTOR

Ministry of Gender, Labour and Social Development

WATER AND ENVIRONMENT SECTOR

Ministry of Water and Environment

LAND SECTOR

Ministry of Tourism, Wildlife and Antiquities

INFORMATION AND COMMUNICATION SECTOR

Ministry of Information and Communications Technology

PUBLIC ADMINISTRATION SECTOR

Ministry of Foreign Affairs

TRADE SECTOR

Ministry of Trade, Industry and Cooperatives
District Commercial Support Services (DICOSS)
Trade Capacity Enhancement Project (TRACE)

MISSIONS

Uganda Embassy, Addis Ababa
Uganda Embassy, Beijing
Uganda Embassy, Berlin
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List of Acronyms and Abbreviations

AC
Assistant Commissioner
ACCA
Association of Chartered Certified Accountants
AEC
Atomic Energy Council
AG
Accountant General
AGM
Annual General Meeting
AHPC
Allied Health Professionals Council
AIDS
Acquired Immune Deficiency Syndrome
APLO
Assistant Procurement and Logistics Officer
ART
Anti-Retroviral Therapy
ASYCUDA
Automated System for Customs Data Analysis
ATM
Automated Teller Machine
B.Com
Bachelor of Commerce
BBA
Bachelor of Business Administration
BEL
Bujagali Energy Ltd
BFP
Budget Framework Paper
BoQ
Bills of Quantities
BoU
Bank of Uganda
BTC
Belgium Technical Cooperation
BTVET
Business, Technical and Vocational Education Training
CA
Continuous Assessment
CAA
Civil Aviation Authority
CAES
College of Agriculture and Environment Sciences
CAO
Chief Administrative Officer
Cap
Chapter
CBC
Customs Business Centre
CCTV
Close-Circuit Television
CDC
Center for Disease Control
CDO
Cotton Development Organization
CDS
Central Depository System
CEDAT
College of Engineering Design Art and Technology
CEES
College of Education and External Studies
CEMAS
Computerized Education Management and Accounting System
CEO
Chief Executive Officer
CESS
Export Levy
CGV
Chief Government Valuer
CHOOGM
Commonwealth Heads of Governments Meeting
CHS
College of Health Sciences
CHUSS
College of Humanities and Social Sciences
CIF
Cost Insurance and Freight
CIID
Criminal Investigation and Intelligence Directorate
CMA
Markets Authority Capital
CME
Chief Mechanical Engineer
COBAMS
College of Business and Management Sciences
COCIS  College of Computing and Information Sciences
COCTU  Coordinating Office for Control Of Trypanosomiasis In Uganda
COHRE  Clinical Operational and Health Services Research
COMESA  Common Market for Eastern & Southern Africa
CONAS  College of Natural Sciences Committee on Commissions, Statutory Authorities and State Enterprises
COSASE  Committee on Commissions, Statutory Authorities and State Enterprises
COVAB  College of Veterinary Medicine and BioSecurity
CSD  Central Securities Depository
CUFH  China Uganda Friendship Hospital
DADIs  District Assistant Drug Inspectors
DBICs  District Business Information Centres
DCL  Dairy corporation limited
DDA  Dairy Development Authority
DFCU  Development Finance Company Uganda
DHO  District Health Officer
DNs  Delivery Notes
DPP  Directorate of Public Prosecution
DRIC  Divestiture and Reform Implementation Committee
DSCs  District Service Commissions
DT  Domestic Taxes
DTA  Double Taxation Agreement
EAC  East African Community
EACC  East African Community Customs
EACCMA  East African Community Customs Management Act
EALA  East African Legislative Assembly
EARC  East Africa Railways Corporation
EATTFP  East African Trade and Transport Facilitation Project
ED  Executive Director
EFT  Electronic Funds Transfer
EGI  E-Government Infrastructure
EIA  Environmental Impact Assessment
EMS  Express Mail Services
ERA  Electricity Regulatory Authority
ERT  Energy for Rural Transformation
ESAAG  East and Southern African Association of Accountant Generals
ESC  Education Service Commission
ETP  Entrepreneurship Training Program
FAR  Fixed Asset Register
FAR  Financial and Accounting Regulations
FERM-PC  Foreign Exchange Reserve Management –Policy Committee
FIEFOC  Farm Income Enhancement and Forest Conservation
FINMAP  Financial Management and Accountability Programme
FK  Fredkorpset
FOC  Faculty of Commerce
FUFA  Federation of Uganda Football Association
FY  Financial Year
GoU  Government of Uganda
GRN  Goods Received Note
HC  Health Centre
HIO  Health Insurance Organization
HIV  Human Immunodeficiency Virus
HMO  Health Membership Organization
Hon.  Honourable
HR  Human Resource
HSC  Health Service Commission
HTTI  Hotel & Tourism Training Institute
IAC  Internal Audit and Compliance
IAS  International Accounting Standards
ICGR  International Conference for Great Lakes Region
ICT  Information and Communications Technology
IDA  International Development Agency
IFMS  Integrated Financial Management System
IFRS  International Financial Reporting Standards
IICSP  Integrated Intelligent Computer System Project
ILO  International Labour Organization.
IPO  Initial Public Offer
IPSAS  International Public Sector Accounting Standards
IRA  Insurance Regulatory Authority
ISP  Internet Service Provider
IT  Information Technology
ITFC  Institute of Tropical Forest Conservation
ITMCo  Iran Tractor Manufacturing Company
ITSC  Interim Technical Supervisory Committee
IXP  Internet Exchange Point
JBIC  Japan Bank for International Cooperation
JCRC  Joint Clinical Research Center
JLOS  Justice, Law and Order Sector
JMS  Joint Medical stores
KCC  Kampala City Council
KCCA  Kampala Capital City Authority
KCCL  Kasese Cobalt Company Limited
KIBP  Kampala Industrial Business Park
KIU  Kampala International University
KM  Kilometers
KML  Kilembe Mines Limited
KYC  Know your client
KYU  Kyambogo University
L.T.C ward  Lymphoma Treatment Centre
LAA  Administering the Lease and Assignment Agreement
LANs  Local Area Networks
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<th>Abbreviation</th>
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<td>LC</td>
<td>Letter of Credit</td>
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<tr>
<td>LCs</td>
<td>Local Councils</td>
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<td>LDC</td>
<td>Law Development Centre</td>
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<tr>
<td>LIST</td>
<td>Lira Service Territory</td>
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<tr>
<td>LPO</td>
<td>Local Purchase Order</td>
</tr>
<tr>
<td>LST</td>
<td>Local Service Tax</td>
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<tr>
<td>LSTM</td>
<td>Liverpool School of Tropical Medicine</td>
</tr>
<tr>
<td>LTO</td>
<td>Large Tax Payer</td>
</tr>
<tr>
<td>M&amp;E/MIS</td>
<td>Monitoring &amp; Evaluation/Management Information System</td>
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<tr>
<td>MAA</td>
<td>Memorandum &amp; Articles of Associations</td>
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<tr>
<td>MAAIF</td>
<td>Ministry of Agriculture Animal Industry and Fisheries</td>
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<td>MALG</td>
<td>Ministries, Agencies and Local Governments</td>
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<td>MCCs</td>
<td>Milk Collection Centres</td>
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<td>MCP</td>
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<td>MEACA</td>
<td>Ministry of East African Community Affairs</td>
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<tr>
<td>MEMD</td>
<td>Ministry of Energy and Mineral Development</td>
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<tr>
<td>MI</td>
<td>Micro Insurance</td>
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<tr>
<td>MICT</td>
<td>Ministry of Information and Communications Technology</td>
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<tr>
<td>MKCCAP</td>
<td>Mulago Kampala Capital City Authority Project</td>
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<tr>
<td>MNRH</td>
<td>Mulago National Referral Hospital</td>
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<tr>
<td>MNSL</td>
<td>Mandela National Stadium Limited</td>
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<tr>
<td>MoD</td>
<td>Ministry of Defence</td>
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<tr>
<td>MoES</td>
<td>Ministry of Education and Sports</td>
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<tr>
<td>MoFA</td>
<td>Ministry of Foreign Affairs</td>
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<tr>
<td>MoFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
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<tr>
<td>MoGLSD</td>
<td>Ministry of Gender Labour and Social Development</td>
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<tr>
<td>MoGLSD</td>
<td>Ministry of Gender, Labour &amp; Social Development</td>
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<td>MoH</td>
<td>Ministry of Health</td>
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<td>MoJAC</td>
<td>Ministry of Justice and Constitutional Affairs</td>
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<td>MoLG</td>
<td>Ministry of Local Government</td>
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<td>MoLHUD</td>
<td>Ministry of Lands, Housing and Urban Development</td>
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<td>MoTWA</td>
<td>Ministry of Tourism Wildlife and Antiquities</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>MoWT</td>
<td>Ministry of Works and Transport</td>
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<td>MSC</td>
<td>Micro Finance support Centre</td>
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<td>MSI</td>
<td>Millennium Science Initiative</td>
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<td>MTAC</td>
<td>Management Training Advisory Committee</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>MTIC</td>
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<td>MTWA</td>
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MUST  Mbarara University of Science and Technology
MW  Mega Watts
MWE  Ministry of Water and Environment
NACOTHA  National Council of Traditional Healers and Herbalists Association
NAGRC & DB  National Animal Genetic Resources Centre and Databank.
NARC  National Aids Research Committee
NBC  National Bio-safety Committee
NBI  National Backbone Infrastructure
NCA  Ngorongoro Conservation Area Authority
NCBS  National College of Business Studies
NCC  National Council for Children
NCD  National Council for Disability
NCDC  National Curriculum Development Centre
NCHE  National Council for Higher Education
NCS  National Council of Sports
NCSFVF  New Connections Survey & Field Verification Form
NDA  National Drug Authority
NEC  National Enterprise Corporation
NHS  Interconnection of Electrical Grids of Nile Equatorial Lakes
NELSAP  Countries
NFA  National Forestry Authority
NGO  Non – Government Organization
NHCCCL  National Housing and Construction Company Limited
NHIL  Nile Hotel Institute Limited
NHIS  National Health Insurance Scheme
NIC  National Insurance Corporation
NIP  Nakawa In-Land Port
NISF  National Information Security Framework
NITA-U  National Information Technology Authority Uganda
NLU  National Library of Uganda
NMC  Nurses and Midwives Council
NMS  National Medical Stores
NPL  Non- Performing Loans
NRWL  Nalukolongo Railway Workshop Limited
NSSF  National Social Security Fund
NTC  National Teachers College
NTR  Non Tax Revenue
NWC  National Women’s Council
NWSC  National Water and Sewerage Corporation
OAG  Office of the Auditor General
OPD  Out Patients Departments
PAC  Public Accounts Committee
PAYE  Pay As You Earn
PFAA  Public Finance and Accountability Act
PFAR  Public Finance and Accountability Regulation
PIC  Planning Investment Committee
PPDA  Public Procurement & Disposal of Assets
PPS  Private Patients Services
PS  Permanent Secretary
PS/ST  Permanent Secretary/Secretary to the treasury
PSC  Public Service Commission
PSU  Pharmaceutical Society of Uganda
PWD  People With Disability
S.T.C ward  Solid Tumor Centre ward
TAI  Treasury Accounting Instruction
UAC  Uganda AIDS Commission
UBTS  Uganda Blood Transfusion Services
UCI  Uganda Cancer Institute
UGX  Uganda Shillings
UHI  Uganda Heart Institute
ULC  Uganda Land Commission
UNHRO  Uganda National Health Research Organisation
UNICEF  United Nations International Children’s Emergency Fund
URA  Uganda Revenue Authority
USD  United States Dollar
WAN  Wide Area Network
WRS  Warehouse Receipt System
SECTION ONE: MINISTRIES, DEPARTMENTS AND AGENCIES

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 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 Section of my Annual Report to Parliament covers financial audits carried out on Central Government Ministries, Departments, Agencies, Universities and Uganda Missions abroad.

1.1 Status of completion of Audits

A total of 92 entities comprising of Ministries, Agencies, Commissions, Departments, Uganda Missions abroad, Public Universities, Referral Hospitals and the Consolidated Government of Uganda Financial Statements, were audited during the year ended 30th June 2016. Accordingly, separate audit reports were issued for each of them.

Out of the 92 entities audited, 71 entities had unqualified opinions and 21 had qualified opinion. The basis used to arrive at the audit opinion is described in the separate reports issued on individual entities. Appendix I summarises the types of audit opinions issued on each of the entities audited.
2.0 **Key Findings Central Government**

2.1  **Low debt absorption/non-performing loans**
My review of the loan disbursements revealed that several loans appeared to be performing poorly, with some nearing expiry; while others reached the closing date without fully disbursing. As at 30th June 2016, committed but un-disbursed debt stood at UGX.18.1 trillion (comprising of UGX.8.6 trillion multilateral and UGX.9.5 trillion bilateral).

Such low levels of performance undermines the attainment of planned development targets and render commitment charges of UGX.20.9Bn paid in respect of undisbursed funds nugatory.

2.2  **Operationalization of the Contingencies Fund**
Section 26 (1) of the PFMA, 2015 (as amended), establishes a Contingencies Fund which shall, every financial year, be replenished with an amount equivalent to a half percent (0.5%) of the appropriated annual budget of Government of the previous financial year. However, during the year under review, I noted that the contingencies fund was not operationalized.

Failure to operationalize the Contingencies Fund is irregular and undermines the purpose for which it was created. Furthermore, there is a risk that Government may fail to respond to contingencies/emergency situations as and when they occur.

I advised government to engage the concerned stakeholders to come up with a feasible solution for operationalizing the Fund.

2.3  **Government Contingent Liabilities**
A trend analysis of the accumulation of government contingent liabilities over the last four years indicated that the figure has increased from UGX.2.275 trillion in the financial year 2012/2013 to UGX.6.532 trillion in the year under review.
Further analysis of this contingency indicated that the bulk of this amount (i.e. over 90%) are as a result of the legal proceedings lodged against the Government.

In the event that all these contingencies crystalize, Government will have to spend substantial amounts which will adversely affect the implementation of other government programs.

2.4 **Interest Payments on Public Debt**

Whereas the GOU Public Debt Management Framework, 2013 puts a cap on the ratio of total nominal interest payments to total government revenue at 15%, this ratio has for the first time gone beyond this cap and in the year under review, it reached 16% in relative terms and UGX.1.75 trillion in absolute terms.

The increment was attributed to the high cost on domestic borrowing and an increased share of bilateral loans which are not concessional. Such a rate may not be sustainable in the long run.

2.5 **High Interest Rates on Domestic Borrowing**

Analysis of the trend of interest rates for domestic borrowing revealed a significant increment over the last four years (2013: 13.1% and 2016: 19.1%). Accordingly, the differential in interest rates (risk premium) between commercial lending rates and Treasury bill rates is getting smaller each year.

This is an indicator of a higher perceived risk by the market in regard to Government borrowing which is manifested by a number of indicators, including among others; increased volume of domestic borrowing arising from increased Government expenditure and downgrading of the sovereign credit rating by Moody’s from ‘B1’ to ‘B2’ status.

Under the current circumstances, this has an effect of crowding out the private sector; going by the risk-return relationship, it is more lucrative to lend to Government than to the private sector.
If the above trend persists, the cost of finance to Government from the domestic market will become a deterrent to borrowing from the domestic market.

2.6 **Comparison of IPPS data with National ID Data (Identity Theft)**

The Ministry of Public Service initiated a comparison of the biometric data from the National Identification System and the Government of Uganda Integrated Personnel Payment system (IPPS) that revealed 1,629 cases in which the facial image and fingerprints of employees were matching but other details like names and date of birth were grossly different.

This is an indicator of identity theft and creates suspicion on the authenticity of the documents used by these personnel to acquire employment in the Civil Service.

The Ministry of Public Service has so far taken very strong measures to weed these employees from the payroll and ultimately from the civil service as well as forwarding the said names to the IGG for further investigation.

2.7 **Audit of salary and pension payrolls in government**

During the year 2014/15, government decentralized both the salary and pension payrolls which were originally being centrally managed by the Ministry of Public Service. Under the new arrangement, the various Accounting Officers are individually expected to manage the payrolls for their entities.

During my audits across government for the year under review, specific examination of the salary and pension payrolls was undertaken, given that expenditure on salaries and pension by the government entities is a substantial portion, of the entity budgets (UGX.2,133 bn in total as per the 2015/16 budget).

The audits revealed that whereas the policy has had positive impacts including reduction in ghost employees, quicker access to payrolls as well as timely payment of salary and pension, several challenges were identified including the following;
(i) Manual interface between IFMS and IPPS which continue to allow changes to the payrolls as they are uploaded onto the IFMS

(ii) Over and under Payment of Salary and pensions

(iii) Multiple Salary Payments

(iv) Inadequate Budgeting for Salaries

(v) Salary Payments to Non Existent Staff

(vi) Non preparation of payroll reconciliations at the district

(vii) Deletion cases still on the payroll

(viii) Unsupported Pension Payments

(ix) Delayed payment of pension

(x) Double Payment of Death Gratuity processed through the IPPS

I have advised government to consider making further enhancements in the system and issue further guidance to entities on the requirements under the new system, in order to mitigate the occurrence of the challenges mentioned above fraught.

2.8 Domestic Arrears (DA)

I noted that the trend of government outstanding commitments/domestic arrears have continued to escalate for the past three years as shown below;

Table summarizing government commitments

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Pension arrears</th>
<th>Other Domestic arrears</th>
<th>Total Commitments</th>
<th>Outstanding Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>122,442,613,993</td>
<td>1,265,406,925,415</td>
<td>1,387,849,539,408</td>
<td></td>
</tr>
<tr>
<td>2014/15</td>
<td>216,738,848,444</td>
<td>1,108,490,291,820</td>
<td>1,325,229,140,264</td>
<td></td>
</tr>
<tr>
<td>2015/16</td>
<td>561,454,457,691</td>
<td>1,692,936,368,937</td>
<td>2,254,390,826,628</td>
<td></td>
</tr>
</tbody>
</table>

Whereas the consolidated financial statements put the figure of domestic arrears at UGX.2.254 trillion the audited position of the Internal Auditor General puts the figure at UGX.2.700 trillion as at 30th June 2016 leading to a variance of UGX.446Bn.

I further noted that in a number of entities, Accounting Officers are paying for domestic arrears which previously were not disclosed nor budgeted for, and that some entities did not fully disclose their arrears position as a result of the guidance provided by the PS/ST.
This scenario points to weaknesses in the commitment control system that continues to enable accounting officers to incur domestic arrears, as well as absence of a clear policy to entities regarding the treatment of arrears that do not meet the criteria set in the guidance.

I have advised Government to review the current policies on commitment control with the aim of enhancing its effectiveness.

In addition, Government should provide a clear policy on how to disclose arrears that do not qualify to be recognized in the financial statements as prescribed by the circular from PS/ST.

2.9  **Mischarge of Expenditures**
I noted that during the year under review, a total of UGX.168Bn was charged on items which do not reflect the nature of the expenditure i.e. mischarged. This, despite my recommendations in the previous audit reports.

Mischarge of expenditure impacts on the credibility of the financial statements since the figures reported therein do not reflect true amounts expended on the respective items. It further impacts appropriateness of the future budgets since the reported actual figures are misleading.

I was informed by management that the Ministry of Finance Planning and Economic Development has developed a concept note to address mischarges. This is still under internal discussions and once finalized, guidelines to all Accounting Officers on the matter will be issued.

I have advised that Government needs to further streamline the budgeting processes and to enforce strict adherence to the provisions regarding reallocation of funds, in order to have this practice contained.
2.10 **Advances through Personal Bank Accounts**

Despite my recommendations in previous reports advising Accounting Officers to stop the practice of advancing funds through personal bank accounts, I noted that during the year under review, various entities continued to advance large sums of money onto personal bank accounts. A total of UGX.2.318 bn was advanced to personal accounts by MDAs during the year under review.

This is not only contrary to the accounting regulations but also exposes government funds to a risk of loss since staff may be tempted to divert such funds to personal gain, given that the entities do not have any control over such funds deposited into personal bank accounts.

Management explained that these have been significantly reduced and will further be decimated with the implementation of E-Cash, which is expected to be operational by end of December 2016.

2.11 **Special Audit on Land for Education Institutions**

A forensic investigation into the alleged mismanagement of land for ten (10) education institutions around Kampala revealed gross malpractices several of which resulted from inadequate legal and administrative framework of the Uganda Land Commission (ULC). Whereas Article 239 of the Constitution of the Republic of Uganda, 1995 (as amended) mandates ULC “to hold and manage any land vested in or acquired by the Government of Uganda…”, Parliament is yet to enact a specific law (Act) that would define, regulate, and control the functions and operations of the Commission.

The absence of such a regulatory framework resulted into a number of malpractices during the allocation of the school/institution land to purported investors by ULC including: Allocation of land without consent by the School management Committees, Boards and other government institutions; poor management and monitoring of lease offers by ULC; irregular transfer of lease into freehold land, mortgaging of leased land in commercial banks before fulfilment of lease terms, under valuation of the school land leading to payment of lesser premiums and ground rent; selling off of leased properties
contrary to lease terms; and inadequate compensation to schools with others loosing property during forceful eviction.

I have advised Government to expedite the process of enacting of a specific law to define, regulate and control the operations of the Uganda Land Commission. This will go a long way in streamlining the relationship between ULC and other government entities whose land is held in trust by the Commission.

2.12 Special audit on the Uganda Communications Employees Contributory Pensions Scheme (UCECPS)
The Uganda Communications Employees Contributory Pensions Scheme (UCECPS) was founded by the Government of Uganda and established under an irrevocable Trust in accordance with Clause 89 of Uganda Communications Act, 1997, as a Retirement Benefit Scheme in 1998. The Scheme is required to take care of the pension obligations of the existing pensioners at the time of its creation; continuing employees of former UPTC; and employees of the newly established entities, namely: Uganda Telecom Limited (UTL), Uganda Posta Limited (UPL), Post Bank Uganda (PBU), and Uganda Communications Commission (UCC).

I noted, that the Scheme was not properly managed. Government released a total UGX.32.2 billion from 1998 to 2005, which was used to pay for employee benefits and establishment of the Investment Fund. The Scheme received additional funding of UGX.37.7 billion from contributing employers, investment income and sale of property which was all used to pay pension benefits and other administrative expenses.

Although the Scheme was set to be self-sustaining after the initial government investment and subsequent establishment of the Investment Fund, by the beginning of 2015 the Scheme had collapsed and could no longer afford to meet its member’s pension obligations. At the time of concluding this report (December, 2016), the Scheme had not paid its members their pension entitlements totalling to UGX.2.6 billion for over one and a half years.
The major causes of mismanagement include: lack of a fully constituted Board of Trustees; lack of key policies in funds, investment, benefits, and human resource management; inadequate enforcement of recovery measures on outstanding pension contributions from participating successor companies; failure to interpret and act on actuarial reports which had all along indicated actuarial deficits; poor management of the pension payroll (220 pensioners out of 702, could not be physically verified); poor financial management, including premature redemption of investment assets; adhoc and unplanned retrenchment of staff by successor companies; and poor management of Scheme’s disposable Assets.

Given the current plight of the pensioners, I advised Government to devise an immediate short-term intervention to settle the unpaid pension obligations that have since crystalized, and to revive the scheme investments to be able to sustain annual pension obligations as they continue falling due. However, a major business re-engineering of the scheme is required if it is to meet its long-term pension obligations.

2.13 Implementation of single spine extension services

Government committed to provide support towards the implementation of the single spine agriculture extension system in FY 2015/16 and in the medium term in line with the reform of the National Agricultural Advisory Services (NAADS) that was undertaken to create a unified Single Spine Extension System (SSES). The approach aims to address the inadequate lack of extension services in the country.

Accordingly, Ministry Of Agriculture, Animal Industry And Fisheries (MAAIF) carried out restructuring and established the Directorate of Agricultural Extension at the Centre with 5,173 staff but only 2,624 have been recruited.

Inadequate extension workers are likely to affect programs such as NAADS where government so far spent so far UGX.155.8Bn in procurement of agricultural inputs.
There is need for government to expedite the recruitment process to enable provision of extension services throughout the country in order to support agricultural production and productivity.

2.14 **Inadequate absorption of Agricultural Credit Facility Loans**

The Agriculture Credit Facility (ACF) Scheme was set up in 2009 by the government of Uganda in partnership with commercial banks, credit institutions, Micro Deposit-Taking Institutions (MDIs) as well as Uganda Development Bank Ltd (UDBL) for the purpose of facilitating the provision of medium and long term loans to projects engaged in agriculture and agro-processing.

It was noted that the loan absorption capacity for the funds so far provided by GOU falls short by UGX.116.94bn. Since inception of ACF in 2009/2010 financial year, the GOU has allocated UGX.210bn to the facility. The funds received into the Fund for purposes of disbursements to the loan beneficiaries so far amount to only UGX.93.06bn, implying an under absorption of 56% of the envisaged funds.

In addition, I carried out a verification exercise of the delinquent loans under the scheme as requested by government. I noted that nine (9) loans valued at UGX.2.221bn had been recommended for write-off by Participating Financial Institutions (PFIs) due to non-performance. However, only two (2) loans valued at UGX.21,319,309 could qualify for the commencement of the write-off process as laid down in the Public Finance Management Act, 2015 (as amended).

The low absorption of loans implies that the Scheme is not operating as envisaged. There is a need for government to review the operations of this scheme with a view to increasing the number of beneficiaries accessing these loans.

2.15 **Incentive payments to BIDCO**

In April, 2003, government and BIDCO Oil Refineries Limited entered into an agreement for the development of oil palm industry in Uganda. Under article 5(7) of the agreement, GOU was required to pay VAT on the product of the project from all companies
envisaged under the project from the first year of the project activities and ending after a period of eleven (11) years from the year of handing over the 26,500 hectares of land at a cost of UGX.27.79Bn after which, the company would then refund the VAT paid by government with interest over a period of eight (8) years in eight equal instalments. Government has however failed to provide the balance of the 10,000 hectares of land as had then been envisaged.

As result, the Ministry has continued to settle all tax obligations on behalf of BIDCO and during this year alone, a total of UGX.12.4Bn was paid. There is a risk that the funds government has paid as VAT on behalf of BIDCO since the date of signing the agreement may not be recovered.

I advised government to expedite the process of acquiring all the required land for BIDCO to enable recovery of VAT payments that amounted to UGX.22.07Bn as initially agreed (based on OAG records).

2.16 **Payment of taxes on behalf of a local hotel company**

According to the agreement between government and a local hotel company, the goods and respective quantities for the construction of the Hotel are limited to the bills of quantities certified by URA. Besides, construction materials were not to be sold or transferred to another person or used for any other purposes.

The company imported ceramic tiles and other construction items worth UGX.12.6Bn for the last five years for completion of the Hotel. However, there was no evidence on file to show that each import was being tracked to the original Bills of Quantities (BOQ) as certified by URA.

The Ministry has no mechanism in place to establish the percentage of the import being paid for to the original approved BOQs. Besides, there is no proof that URA is consulted on this matter prior to making each payment to enable a reconciled position.
Further, it was observed that the company appears to have been given an open-ended tax holiday through annual renewals. As a result, the Ministry has continued to settle all its tax obligations since 2013 when the MoU was signed. There was no indication that support to the investor is to stop soon.

I advised the government to reconcile the company imports status clearly indicating how much has so far been imported and paid for and what the balance is in relation to the approved BOQs. In addition, a proper tracing system should be instituted to track all imports to avoid such hitches.

2.17 Outstanding subscriptions
I noted that UGX.32.2Bn was budgeted for capitalization of the banks, however, only UGX.21.7Bn was released leading to a shortfall of UGX.10.5Bn. As a result, Uganda lost 1,347 shares in the African Development Bank specifically due to government failure to meet its subscription obligations worth US$.1.293million with further losses expected if a balance of US$.1.655million is not cleared.

I also noted that overall outstanding commitments to international organizations as at 30th June 2016 amounted to UGX.27.485Bn in 17 organizations. Failure to make timely subscription will continue to affect the country’s ability to benefit from these international organizations.

There is need for government to consider reviewing and rationalizing the current subscriptions to these international organizations with a view of establishing the most relevant to which government should subscribe.

2.18 Outstanding Court Awards, Compensations and other liabilities
Government had outstanding amounts in court awards, compensations and other liabilities totaling to UGX.684Bn as at 30th June 2016. The outstanding amount in Court awards and compensations has been accumulating over the last five financial years raising from 54Bn to now 684Bn.
I observed that as a result of government’s failure to pay these court awards on time, the awards have accumulated interest and in some instances the interest has exceeded the principal award. As at the close of the year outstanding interest had accumulated to UGX.175.3Bn.

I advised government to ensure that adequate planning is done to avail funds to prioritize payments for cases with high interest rates. I also noted that government has adopted the policy of decentralizing court awards to the respective MDAs. I await the outcome of this policy.

### 2.19 Absence of a Policy Framework on the compensation of persons for property lost due to rebel activity

There have been compensation claims arising out of the past rebel and insurgent activities in the country. I noted that the war claims from eastern, west nile and northern region are currently among the ones pending and contributing highly to the contingent liabilities of the government. These contingent liabilities amount to UGX.3.564trillion for some of the known cases.

I further observed that in August 2003, the Minister of Internal Affairs was instructed by the Prime Minister, to develop a policy framework by September 2003 to govern the management of compensation of properties destroyed by rebel activity. At the time of writing this report, the policy had not been developed.

As such, I was not able to establish how the different categories of liabilities are being accepted, considered and paid by government. In absence of a Policy Framework, it becomes difficult to determine the beneficiaries and the related amounts for compensation.

I advised government to expedite the formulation of guidelines that shall set out controls and manage any concerns that arise out of these claims.
2.20 **Case backlogs**

I observed case backlogs across several entities in government. These include; 395,962 cases under prosecution by Directorate of Public Prosecution (DPP), 856 disciplinary cases under Judicial Service Commission, 181,121 court cases for hearing in courts of law under Judiciary and 4,326 pending cases for analysis under government Analytical Laboratories. Because of the backlogs, over 30,000 suspects are on remand in prisons for a long time and under investigations in five Police stations. Delays in settling cases impair the timely administration of justice.

I advised government to come up with robust systems that support efficiency and effectiveness in reducing or eliminating backlogs. Government could also explore systems such as PROCAMIS procured under DPP to focus on court case administration, court filing and file retrieval, recording of court proceedings and capturing case backlogs.

2.21 **Failure to collect royalties from gold exports**

During the financial year 2015/16, I noted that the Ministry of Energy and Mineral development assessed royalty and awarded export permits for only 93kgs of gold worth UGX.11.822Bn thereby realizing UGX. 0.365Bn in revenues.

However, collaborative reports from the Customs and Excise Department of Uganda Revenue Authority indicated that 5,316 kgs of gold had been exported with a total value of UGX.698Bn.

Accordingly, Government should have collected between UGX.6.98Bn and UGX.34.9Bn in royalties using the applicable rates of 1% and 5% for the imported or locally mined gold respectively.

I advised management to put in place adequate controls over mineral imports and exports. Meanwhile I await results of the investigations and recovery measures.
2.22 **Irregularities in transfer of funds to private universities**

During the year under review the Ministry of Education and sports transferred a total of UGX.2.192Bn to various private Universities in partial fulfillment of presidential pledges. However there was no accountability framework for the disbursements.

I advised that this makes it difficult to assess whether the funds are applied as intended. I was informed that government is in the process of preparing an accountability framework and memoranda of Understanding with the Universities. I await results of this action.

2.23 **Under allocation of library funds at universities**

Contrary to Paragraph 9 (4) of the Universities and other Tertiary Institutions Regulations, 2005, which requires a university to allocate at least 10% of its budget towards library and information materials, I noted that Gulu University budgeted for only UGX. 0.163Bn for acquisition of new information materials from the total University budget of UGX.45.975Bn equivalent to 0.4%. Similarly Kyambogo University allocated only UGX. 0.344Bn (0.42%) for acquisition of new information materials from the total University budget of UGX.81.155Bn.

I advised them to enhance the budgetary allocation to the libraries as this will enable achievement of the academic mandate of universities.

2.24 **Performance of the Youth Livelihood Programme (YLP)**

By 30th June 2016, the Youth Livelihood Programme (YLP) had been operating for three years. However, there was no proper accounting framework and/or detailed guidelines for accountability of the revolving funds.

Consequently the implementing entities under the programme accounted for funds differently, which is not only a recipe for improper accounting for programme funds but also impedes comparability of accounting reports across the implementing entities.
Review of the performance of the programme revealed some weaknesses as indicated below;

(i) An analysis of recovery of the programme funds in a sample of 35 Districts revealed low recovery ranging from 0% to 86%.

(ii) Overall recoverability as at 28th October, 2016 stood at UGX.5.501Bn (39%) of the UGX.14.2 billion that was due for repayment by the beneficiaries.

(iii) Inspections on sample basis revealed some non-traceable group projects. Consequently UGX. 0.527Bn which had been released to these specific groups may not be recoverable.

(iv) Some projects which had received funding of UGX. 0.673Bn, never signed financing agreements, contrary to the MOU requirements. Consequently there was a challenge of enforceability of responsibilities and obligations.

I advised government to review implementation of the programme with a view of enhancing its management and sustainability.

2.25 **Costs on treatment abroad**

Review of the Health Sector Ministerial Policy Statement for the year 2015/2016 indicated that reduction of referrals abroad would be a key result area for the ministry.

Statistics derived from the Ministry revealed that a total of 140 patients were referred abroad for treatment by the Medical Board over the past three financial years at an estimated cost of USD.2,837,909 excluding flight, upkeep and attendants’ costs.

The common ailments for which reference was made to hospitals abroad were Neurology, Cancers, Heart conditions, Kidney diseases, Orthopaedics, Ophthalmology, and Gastro-entorology.
I advised government to come up with a comprehensive Health Sector Strategic plan to develop capacity for treatment of the identified ailments locally, so as to be able to serve a bigger population and minimize foreign exchange hemorrhage. Liaison with all relevant stakeholders to mobilize the necessary funding for infrastructure and staffing needs.

### 2.26 Review of cost recovery statements from oil companies

The Production sharing Agreements signed between Government of Uganda and Oil Exploration and production companies provide that the government auditor will review the cost recovery statements submitted by the companies to ascertain compliance with the provisions of the agreement before confirming recoveries if any.

Accordingly, I reviewed cost recovery statements relating to the period 2004-2011 in the sum of US $ 983,063,050 and made the following observations;

- **(i)** A sum of USD 39,094,724 was determined unrecoverable because of non-compliance with the provisions of the PSAs.

- **(ii)** A sum of USD 41,585,800 was determined unclaimable in accordance with the PSA provisions as commercial Oil and Gas reserves were not discovered in the licensed exploration areas.

- **(iii)** A sum of USD 902,382,526 was considered compliant with the provisions of the PSAs and is therefore recoverable from future oil earnings.

Having obtained the subsequent cost recovery statements, I have now embarked on the audit of recoverable costs for the period 2012-2015.
3.0 General Findings

3.1 Non-Compliance with Income Tax Act

During the year under review, thirteen MDAs did not comply with The Income Tax Act 1997 (as amended) in respect to taxes amounting to UGX.27,665,025,642. The non-compliance was due to non-deduction of taxes worth UGX.5,741,031,745 and non-remittance of tax worth UGX.21,923,993,897. Table 1 refers.

The failure to deduct and remit taxes directly impacts on collections by the Uganda Revenue Authority. I advised Accounting Officers to comply with the tax law.

Table 1: Non-deduction and Non-remittance of Taxes

<table>
<thead>
<tr>
<th>Entity</th>
<th>Non Deduction of Taxes</th>
<th>Non Remittance of Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Directore of Public Prosecution</td>
<td>68,984,447</td>
<td>0</td>
</tr>
<tr>
<td>2 Ministry of Agriculture, Animal Industry and Fisheries</td>
<td>77,521,212</td>
<td>161,906,117</td>
</tr>
<tr>
<td>3 Privatization Unit</td>
<td>0</td>
<td>2,100,681,000</td>
</tr>
<tr>
<td>4 Directorate of Ethics and Integrity</td>
<td>11,661,487</td>
<td>0</td>
</tr>
<tr>
<td>5 Ministry of Water and environment</td>
<td>131,988,814</td>
<td>0</td>
</tr>
<tr>
<td>6 Uganda embassy in Moscow</td>
<td>71,524,238</td>
<td>0</td>
</tr>
<tr>
<td>7 Ministry of energy and mineral development</td>
<td>0</td>
<td>147,401,266</td>
</tr>
<tr>
<td>8 Community Agricultural Infrastructure Improvement Programme-Project II</td>
<td>1,057,567,008</td>
<td>878,226,605</td>
</tr>
<tr>
<td>9 Community Agricultural Infrastructure Improvement Programme-Project III</td>
<td>4,321,784,539</td>
<td>7,655,677,812</td>
</tr>
<tr>
<td>10 Market and Agricultural Trade Improvement Programme 1</td>
<td>0</td>
<td>10,546,416,279</td>
</tr>
<tr>
<td>11 Makerere University Business School</td>
<td>0</td>
<td>433,684,818</td>
</tr>
<tr>
<td>Total</td>
<td>5,741,031,745</td>
<td>21,923,993,897</td>
</tr>
</tbody>
</table>

3.2 Budget performance-Budget shortfall

I noted that forty one (43) entities budgeted to receive UGX. 5,800,072,729,373 out of which UGX. 5,277,967,873,705 was received, translating into a 90% out-turn for the financial year. This left a funding gap of UGX. 522,104,855,668 (10%). Details are in the table 2 below:
Failure to release the budgeted funds to the Entities affected implementation of the planned activities which affects fulfillment of their mandates in the long run.

I advised Accounting Officers to take up this matter with the relevant authorities to ensure all the budgeted funds are released so as to accomplish planned activities.

Table 2 Budget shortfall

<table>
<thead>
<tr>
<th>No.</th>
<th>Entity</th>
<th>Revised Budget</th>
<th>Actual Releases</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Directorate of Public Prosecutions</td>
<td>28,822,300,124</td>
<td>28,236,394,112</td>
<td>585,906,012</td>
</tr>
<tr>
<td>2</td>
<td>Judiciary</td>
<td>109,725,105,619</td>
<td>108,523,121,660</td>
<td>1,201,983,959</td>
</tr>
<tr>
<td>3</td>
<td>Ministry Of Justice &amp; Constitution Affairs</td>
<td>89,426,600,137</td>
<td>78,676,011,249</td>
<td>10,750,588,888</td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Internal Affairs</td>
<td>14,419,944,039</td>
<td>13,863,232,609</td>
<td>556,711,430</td>
</tr>
<tr>
<td>6</td>
<td>Uganda Prison Service</td>
<td>157,463,466,863</td>
<td>154,109,801,816</td>
<td>3,353,665,047</td>
</tr>
<tr>
<td>7</td>
<td>Uganda Police Force</td>
<td>661,925,803,204</td>
<td>657,690,720,648</td>
<td>4,235,082,556</td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
<td>95,550,121,304</td>
<td>81,083,401,301</td>
<td>14,466,720,003</td>
</tr>
<tr>
<td>9</td>
<td>Ministry Of Works and Transport</td>
<td>218,417,648,642</td>
<td>186,275,030,173</td>
<td>32,142,618,469</td>
</tr>
<tr>
<td>10</td>
<td>Ministry of Local Government</td>
<td>54,464,754,239</td>
<td>47,535,474,887</td>
<td>6,929,279,352</td>
</tr>
<tr>
<td>11</td>
<td>Office of the Prime Minister</td>
<td>123,576,415,926</td>
<td>129,790,256,505</td>
<td>2,786,159,421</td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Information and Communications Technology</td>
<td>12,319,522,062</td>
<td>8,480,289,438</td>
<td>3,839,232,624</td>
</tr>
<tr>
<td>13</td>
<td>Parliament</td>
<td>437,858,675,122</td>
<td>429,476,332,122</td>
<td>8,382,343,000</td>
</tr>
<tr>
<td>14</td>
<td>Privatization Unit</td>
<td>7,929,967,000</td>
<td>4,656,501,000</td>
<td>3,273,466,000</td>
</tr>
<tr>
<td>15</td>
<td>Directorate of Ethics and Integrity</td>
<td>5,643,008,155</td>
<td>5,585,354,264</td>
<td>57,653,891</td>
</tr>
<tr>
<td>16</td>
<td>Ministry of Finance, Planning and Economic Development</td>
<td>492,847,994,405</td>
<td>244,204,123,067</td>
<td>248,643,871,338</td>
</tr>
<tr>
<td>17</td>
<td>Ministry of Trade, Industry and Cooperatives</td>
<td>29,234,961,293</td>
<td>29,169,606,022</td>
<td>65,355,271</td>
</tr>
<tr>
<td>18</td>
<td>State House</td>
<td>319,507,312,618</td>
<td>319,499,093,257</td>
<td>8,219,361</td>
</tr>
<tr>
<td>19</td>
<td>Office of the President</td>
<td>135,765,437,440</td>
<td>134,957,387,728</td>
<td>808,049,712</td>
</tr>
<tr>
<td>20</td>
<td>Ministry of Defense</td>
<td>1,264,288,438,427</td>
<td>1,262,794,284,261</td>
<td>1,494,154,166</td>
</tr>
<tr>
<td>22</td>
<td>Addis Ababa Mission</td>
<td>3,575,878,330</td>
<td>2,892,876,369</td>
<td>683,001,961</td>
</tr>
<tr>
<td>23</td>
<td>Mulago Hospital</td>
<td>7,000,000,000</td>
<td>4,848,081,192</td>
<td>2,151,918,808</td>
</tr>
<tr>
<td>24</td>
<td>Strengthening Health Sector - IDA project (UHSSP)</td>
<td>269,653,148</td>
<td>141,839,614</td>
<td>127,813,534</td>
</tr>
<tr>
<td>25</td>
<td>East African Public Health Laboratory Networking Project</td>
<td>350,000,000</td>
<td>333,857,000</td>
<td>116,143,000</td>
</tr>
<tr>
<td>26</td>
<td>Ministry of Tourism, Wildlife &amp; Antiquities</td>
<td>87,678,769,691</td>
<td>71,525,218,926</td>
<td>16,153,550,765</td>
</tr>
<tr>
<td>27</td>
<td>Uganda Wildlife Training Institute</td>
<td>1,786,970,000</td>
<td>1,248,863,100</td>
<td>538,106,900</td>
</tr>
<tr>
<td>28</td>
<td>Ministry of Lands, Housing &amp; Urban Development</td>
<td>59,101,822,737</td>
<td>46,952,361,566</td>
<td>12,149,461,171</td>
</tr>
<tr>
<td>29</td>
<td>Ministry of Water and Environment (MWE)</td>
<td>232,182,397,717</td>
<td>204,907,032,938</td>
<td>27,275,364,779</td>
</tr>
<tr>
<td>No.</td>
<td>Entity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>--------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>LVEMP - MWE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Revised Budget</td>
<td>Actual Releases</td>
<td>Shortfall</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,621,000,000</td>
<td>1,432,355,270</td>
<td>188,644,730</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Reduction of Emissions from Deforestation Forest Degradation- Readiness project REDD+</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,777,106,180</td>
<td>2,243,477,220</td>
<td>533,628,960</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>JLOS /Sector Wide Approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>42,225,282,300</td>
<td>32,542,207,592</td>
<td>9,683,074,708</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>IG-Northern Uganda Social Action Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,053,156,950</td>
<td>2,325,674,636</td>
<td>727,482,314</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Credit Reference Bureau</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8,127,326,403</td>
<td>156,965,904</td>
<td>7,970,360,499</td>
<td></td>
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<tr>
<td>35</td>
<td>FINMAP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>49,318,100,000</td>
<td>44,612,927,676</td>
<td>4,705,170,233</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Agricultural Technology Agribusiness Advisory Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>54,363,750,000</td>
<td>42,185,693,205</td>
<td>12,178,056,795</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Vegetable Oil Development Programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>41,417,226,703</td>
<td>38,097,003,925</td>
<td>3,320,222,778</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Community Infrastructure Agriculture Improvement Programme 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>42,026,868,389</td>
<td>36,503,099,920</td>
<td>5,523,768,487</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Market and Agricultural Trade Improvement Programme 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,875,247,999</td>
<td>4,257,933,920</td>
<td>1,617,314,079</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Kampala Institutional Infrastructure Development Programme-2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>129,638,933,346</td>
<td>123,139,692,634</td>
<td>6,499,240,712</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>National Agricultural Research Organisation (NARO)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,621,875,000</td>
<td>3,259,694,556</td>
<td>2,362,180,444</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Ministry of Education and Sports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>251,884,866,284</td>
<td>228,733,742,074</td>
<td>23,151,124,210</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Makerere University</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>239,424,418,796</td>
<td>216,449,410,452</td>
<td>22,975,008,344</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>5,800,072,729,373</td>
<td>5,277,967,873,705</td>
<td>522,104,855,668</td>
</tr>
</tbody>
</table>

### 3.3 Wasteful/ Nugatory Expenditure

Good practice requires Accounting Officers to reduce cases of apparent waste, extravagant administration or failure to achieve value for money due to management’s laxity in the conduct of operations. However, I noted wasteful expenditure to the tune of UGX. 6,991,516,123. These arose as a result of interest on late payments, breach of contracts, storage of unwanted items, litigation costs among others. Table 3 below refers. This affected the implementation of activities in the entities and on the overall service delivery.

I advised management to adhere to the contract arrangements with a view of avoiding such expenses.
Table 3 Wasteful/Nugatory Expenditure

<table>
<thead>
<tr>
<th>S.No</th>
<th>Entity</th>
<th>Particulars</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
<td>Accumulated Interest on delayed clearance of Construction Certificates</td>
<td>1,965,330,275</td>
</tr>
<tr>
<td>2</td>
<td>Office of the Prime Minister</td>
<td>Old items occupying 562 square meters of office floor space</td>
<td>225,924,000</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Education and Sports</td>
<td>Interest charges due to failure to pay the VAT component on contracts for construction of schools.</td>
<td>3,296,489,555</td>
</tr>
<tr>
<td>4</td>
<td>Busitema University</td>
<td>Litigation costs as a result of breach of three contracts regarding rehabilitation, refurbishment and construction works.</td>
<td>636,266,294</td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Water &amp; Environment</td>
<td>Interest charges on delayed payments of approved certificates for construction of various water facilities.</td>
<td>358,605,505</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Public Service</td>
<td>Interest charges</td>
<td>508,900,494</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>6,991,516,123</strong></td>
</tr>
</tbody>
</table>

3.4 Irregularities in Procurements

I noted that a number of entities conducted procurements worth UGX.14,524,961,893 and US$.91,308 in violation of the provisions of the procurement law and its regulations. Table 4 below refers.

The violations were mainly in form of non-enforcement of performance security, advances beyond set limits, procurements without plans, huge variance between estimated and actual prices, supplies before contract award, un-authorized call off orders, un-authorized direct procurements and insufficient procurement records.

I advised Accounting Officers to always adhere to the provisions of the procurement laws and regulations.
<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Lack of procurement files &amp; records (UGX)</th>
<th>Breach of procurement procedures (UGX) (Non-compliance with PPDA procedures)</th>
<th>Contract management weakness (UGX), eg No contract manager, no implementation plans, no supervision or progress reports, etc</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
<td></td>
<td>1,477,602,557</td>
<td>Performance security was not secured on Call off orders</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Ministry Of Works and Transport.</td>
<td></td>
<td>2,000,000,000</td>
<td>The bid document had provided for 20% advance payment but the amount paid was above 20% SHS 2,000,000,000 was the advance payment on UGX 2,305,041,027</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Office of the prime minister</td>
<td></td>
<td>2,191,363,317</td>
<td>Variance between planned amounts and contracted amounts</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Office of the prime minister</td>
<td></td>
<td>1,187,223,154</td>
<td>It was noted that despite of the availability of 15 prequalified service providers of air tickets Office of the Prime Minister directly procured to the tune of 1,187,223,154 tickets from only four service providers</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Trade, Industry and Cooperatives</td>
<td></td>
<td>0</td>
<td>USD.91,308</td>
<td>Irregular supply of additional double cabin pickup</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Finance, Planning and Economic Development - Enterprise Uganda</td>
<td></td>
<td>0</td>
<td>Lack of a Disposal Plan</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Defence</td>
<td>3,471,873,590</td>
<td>4,196,899,275</td>
<td>Lack of supporting documents</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>3,471,873,590</strong></td>
<td><strong>11,053,088,303</strong></td>
<td><strong>USD.91,308</strong></td>
<td></td>
</tr>
</tbody>
</table>
3.5 **Outstanding Receivables**

During the review, it was noted that receivables worth UGX. 24,925,703,507 were not collected by the various Ministries, Departments and Agencies and were therefore still outstanding as at 30th June 2016 as summarized in table 5 below.

There is a risk that the activities for which these receivables were appropriated were not carried out and this could have affected the implementation of planned activities.

I advised the Accounting Officers to ensure timely collection of receivables.

**Table 5 Outstanding Receivables**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Entity</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Justice &amp; Constitution Affairs</td>
<td>5,869,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Prison Service</td>
<td>449,843,952</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Police Force</td>
<td>2,878,061,500</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Internal Affairs</td>
<td>1,135,795,708</td>
</tr>
<tr>
<td>5</td>
<td>Ministry Of Works and Transport.</td>
<td>614,837,134</td>
</tr>
<tr>
<td>6</td>
<td>State House</td>
<td>590,200,000</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Energy and Mineral Development</td>
<td>691,900,000</td>
</tr>
<tr>
<td>8</td>
<td>Washington Mission</td>
<td>205,848,800</td>
</tr>
<tr>
<td>9</td>
<td>Mandela National Stadium</td>
<td>1,127,000,000</td>
</tr>
<tr>
<td>10</td>
<td>Ministry of foreign affairs</td>
<td>3,343,140,729</td>
</tr>
<tr>
<td>11</td>
<td>Mulago Hospital</td>
<td>1,256,811,309</td>
</tr>
<tr>
<td>12</td>
<td>Kyambogo University</td>
<td>4,632,644,731</td>
</tr>
<tr>
<td>13</td>
<td>Gulu University</td>
<td>1,001,815,144</td>
</tr>
<tr>
<td>14</td>
<td>Busitema University</td>
<td>246,527,500</td>
</tr>
<tr>
<td>15</td>
<td>Joint Patnership Fund</td>
<td>882,277,000</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>24,925,703,507</strong></td>
</tr>
</tbody>
</table>

3.6 **Staff Shortages**

A review of the approved staffing structures of various entities revealed a total of 68,749 vacant posts. These included key staffing posts like Professors and Associate Professors at universities, consultants in various medical facilities and directors in various institutions. The Table 6 below refers. Inadequate staffing affects the timely implementation of entity activities. It may adversely impact on the entities in the achievement of its strategic objectives.
I advised Accounting Officers to make concerted efforts in liaising with all stakeholders to ensure that vacant posts are filled to enable the entities adequately deliver on their mandate.

**Table 6: Staff shortages**

<table>
<thead>
<tr>
<th>S/No</th>
<th>Entity</th>
<th>Established posts</th>
<th>Filled posts</th>
<th>Vacant posts</th>
<th>Percentage</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Directorate of Public Prosecution</td>
<td>771</td>
<td>635</td>
<td>136</td>
<td>18%</td>
<td>key posts not filled</td>
</tr>
<tr>
<td>2</td>
<td>Judiciary</td>
<td>1,400</td>
<td>1,020</td>
<td>380</td>
<td>27%</td>
<td>key posts not filled</td>
</tr>
<tr>
<td>3</td>
<td>Ministry Of Justice &amp; Constitution Affairs</td>
<td>447</td>
<td>260</td>
<td>187</td>
<td>42%</td>
<td>key posts not filled</td>
</tr>
<tr>
<td>4</td>
<td>National Citizenship and Immigration Control</td>
<td>680</td>
<td>642</td>
<td>38</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Internal Affairs</td>
<td>237</td>
<td>178</td>
<td>59</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Uganda Prison Service</td>
<td>49,470</td>
<td>9,344</td>
<td>40126</td>
<td>81%</td>
<td>key posts not filled like Principal industrial manager, Principal veterinary officer, Principal executive ,Principal environmental health officer.</td>
</tr>
<tr>
<td>7</td>
<td>Uganda Police Force</td>
<td>68,848</td>
<td>45,219</td>
<td>23629</td>
<td>34%</td>
<td>ASP and SPC totaling to 5,162 not filled</td>
</tr>
<tr>
<td>8</td>
<td>Ministry Of Agriculture, Animal Industry and Fisheries</td>
<td>888</td>
<td>547</td>
<td>341</td>
<td>38%</td>
<td>Only 62% of the established Positions are filled</td>
</tr>
<tr>
<td>9</td>
<td>Coordinating Office For Control of Trypanosomiasis</td>
<td>27</td>
<td>15</td>
<td>12</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Ministry of Works and Transport</td>
<td>582</td>
<td>490</td>
<td>92</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Ministry of Local Government</td>
<td>414</td>
<td>340</td>
<td>74</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Information and Communications Technology</td>
<td>109</td>
<td>70</td>
<td>39</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Parliament</td>
<td>414</td>
<td>325</td>
<td>89</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Office of the President</td>
<td>643</td>
<td>448</td>
<td>195</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Butabika National Mental Referral Hospital</td>
<td>309</td>
<td>302</td>
<td>7</td>
<td>2%</td>
<td>1 Consultant Psychiatry, 5 medical officer’s special grade and 1 Senior Principal Nursing officer.</td>
</tr>
<tr>
<td>16</td>
<td>Fuel Marking And Quality Monitoring Program</td>
<td>12</td>
<td>8</td>
<td>4</td>
<td>33%</td>
<td>technical staff</td>
</tr>
<tr>
<td>S/No</td>
<td>Entity</td>
<td>Established posts</td>
<td>Filled posts</td>
<td>Vacant posts</td>
<td>Percentage</td>
<td>Remarks</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------------------------------------</td>
<td>-------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>17</td>
<td>The Ministry of East African Community Affairs</td>
<td>76</td>
<td>64</td>
<td>12</td>
<td>16%</td>
<td>Commissioners, Principal Economist, Senior Policy Analyst, Accountant and Human resource Officer</td>
</tr>
<tr>
<td>18</td>
<td>The Ministry of Lands, Housing And Urban Development</td>
<td>839</td>
<td>431</td>
<td>408</td>
<td>49%</td>
<td>Director Land Management, Commissioners, Assistant Commissioners and Policy Analysts.</td>
</tr>
<tr>
<td>19</td>
<td>The Ministry Of Tourism, Wildlife And Antiquities</td>
<td>334</td>
<td>183</td>
<td>151</td>
<td>45%</td>
<td>Assistant commissioners, Principal Officers, Senior Officers, Statistician, Analyst, Tourist officers</td>
</tr>
<tr>
<td>20</td>
<td>Kyambogo University</td>
<td>14</td>
<td>6</td>
<td>8</td>
<td>57%</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>21</td>
<td>Ministry of Education And Sports:. Uaheb &amp; Unmeb</td>
<td>88</td>
<td>33</td>
<td>55</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Mbarara University</td>
<td>2,248</td>
<td>529</td>
<td>1719</td>
<td>76%</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>East African Civil Aviation Academy (EACAA)</td>
<td>81</td>
<td>48</td>
<td>33</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Hoima Regional Referral Hospital</td>
<td>415</td>
<td>264</td>
<td>151</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Jinja Regional Referral Hospital</td>
<td>418</td>
<td>342</td>
<td>76</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Kabale Regional Referral Hospital</td>
<td>442</td>
<td>249</td>
<td>191</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Lira Regional Referral Hospital</td>
<td>402</td>
<td>279</td>
<td>119</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Moroto Regional Referral Hospital</td>
<td>395</td>
<td>162</td>
<td>237</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Makerere University Business School</td>
<td>1152</td>
<td>971</td>
<td>181</td>
<td>16%</td>
<td>the category of academic staff was the most affected</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>132,155</td>
<td>63,404</td>
<td>68,749</td>
<td>52.02%</td>
<td></td>
</tr>
</tbody>
</table>
3.7 **Untitled Land/ encroached land/ other land matters**

Land matters have again remained an issue featuring in my current year audit report. A number of instances have been noted where Government entities have continued to lose out on land to encroachers because the land is not fenced, surveyed and titled.

These entities include; Uganda Police, Uganda Prisons, Busitema University, Ministry of Energy and Mineral Development, Ministry of Tourism, Wildlife and Antiquities, Butabika Hospital, Ministry of Justice and Constitutional Affairs, Presidential Initiative on Banana Industrial Development (PIBID), Ministry of Trade Industries and Cooperatives and Office of the President.

Further, I noted that the Uganda Land Commission which is mandated to hold Government Land in trust does not have an updated register of all the land it holds in trust for Government. There is a need to address land issues in Government Institutions.

Table 7 refers;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Land Matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Busitema University</td>
<td>Namasagali and Arapai operational campuses lacked land titles.</td>
</tr>
<tr>
<td>2.</td>
<td>Ministry of Energy and Mineral Development</td>
<td>Mineral leases were granted to persons without securing surface rights. These include, leases 0762, 1209, 1297, 1355, 1466, 4128 and 0127.</td>
</tr>
<tr>
<td>3.</td>
<td>Ministry of Tourism, Wildlife and Antiquities</td>
<td>A number of museums namely, Soroti, Kabale, Bakers Fort Patiko and Balonyo Memorial, lacked land titles.</td>
</tr>
<tr>
<td>4.</td>
<td>Butabika Hospital</td>
<td>Approximately 4 acres of land belonging to the Hospital had been encroached on by squatters.</td>
</tr>
<tr>
<td>5.</td>
<td>Ministry of Justice and Constitutional Affairs</td>
<td>MoJCA-Regional offices in Mbale, Mbarara, Gulu, Arua and Staff Quarters in Moroto lacked land titles</td>
</tr>
<tr>
<td>6.</td>
<td>Uganda Prisons Services</td>
<td>Muinaina, Ndorwa, Farm Loro, Kapchorwa, Ngora, Ngenge, Kauga – Mukono, Kaladima, Dokolo, Oyam, Nebbi and Amolatar lacked titles and values were unknown</td>
</tr>
<tr>
<td>7.</td>
<td>Uganda Police Force</td>
<td>Tororo, Natete, Katuna, Fortportal, Kaberamaido and Iganga Police Station land are encroached on</td>
</tr>
</tbody>
</table>
| 8.  | Ministry of Trade Industries and Cooperatives | - Private Mailo situate at plot 579 411 Block 262 in Kibuye, Kyadondo county, makindye division Luwafu Nakinyuguzi zone Makindye
- Mailo land at Plot 580, Block 262 in Kibuye Kyadondo county, Makindye division
- Mailo land at Plot 581, Block 262 in Kibuye Kyadondo county, Makindye division
- Mailo land at Plot 582, Block 262 in Kibuye Kyadondo county, Makindye division Luwafu Nakinyuguzi zone
- Private Mailo situated at plot 411 Block 262 in Kibuye, Kyadondo county, makindye division
- Plot in Bukoto

The ministry does not have land titles for the above plots.
9. Office of the President

- Approximately 7.6 Hectares of Land in 6 districts had Deed Plans submitted to Uganda Land Commission to process land titles yet no titles had been processed.
- Land in 36 districts where some survey exercise has been on-going for over the years yet the exercise has not been concluded. I could not establish the size of this land.
- Land in 37 districts which is not surveyed and in some areas the size of the land is not known, which might result in the office losing some of the pieces of this land.
- In 3 districts, the location of the Land is not known. Government is likely to lose this land if no follow up is done.
- 14 districts had some properties developed with government buildings and are accommodating Offices of RDCS yet these properties have no land titles.

10. Masaka Regional Referral Hospital

- It was observed that the hospital land had been encroached on.

11. Mbale Regional Referral Hospital

- Hospital lacks land titles of title to its property located on plot No’s. 19-21, Union Road, Plot No’s. 2-6, Nabuyonga Rise and Plot No’s. 34-42 and Pallisa Road all in Mbale Municipality

12. Presidential Initiative on Banana Industrial Development (PIBID)

- Land located seven kilometres away from the Technology Business Incubator (TBI) pilot plant in Kyamugambira Bushenyi district where the water treatment plant that supplies water to the TBI pilot plant was constructed, I was not availed with certificates of land

### 3.8 Expenditure on Rent

During the year, I noted that a sample of nineteen (16) entities incurred rental expenditure of UGX. 22,223,368,138 due to lack of own premises. Table 8(i) refers. I further noted that five entities remained with unsettled rent amounting to UGX. 13,033,170,323. Table 8(ii) refers.

This rental expenditure is a constraint on Government resources. There is need for Government to evaluate continued payment of rent as opposed to construction of its own premises.
Table 8(i) Actual Rental Expenditure

<table>
<thead>
<tr>
<th>No</th>
<th>Entity Name</th>
<th>Actual Rental Expenditure (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Judiciary</td>
<td>9,707,804,948</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Justice and Constitution Affairs</td>
<td>2,111,597,329</td>
</tr>
<tr>
<td>3</td>
<td>Directorate of Ethics and Integrity</td>
<td>449,999,999</td>
</tr>
<tr>
<td>4</td>
<td>Office of The President</td>
<td>837,414,300</td>
</tr>
<tr>
<td>5</td>
<td>State House</td>
<td>2,482,720,212</td>
</tr>
<tr>
<td>6</td>
<td>Vegetable Oil Development Programme</td>
<td>50,840,400</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Education and Sports, departments and projects</td>
<td>2,937,116,784</td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Local Government</td>
<td>1,337,104,979</td>
</tr>
<tr>
<td>9</td>
<td>Office of the Prime Minister</td>
<td>1,730,633,187</td>
</tr>
<tr>
<td>10</td>
<td>Uganda High Commission, Ankara</td>
<td>578,136,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>22,223,368,138</strong></td>
</tr>
</tbody>
</table>

Table 8(ii) Accumulated Outstanding Rent as at 30th June 2016

<table>
<thead>
<tr>
<th>No</th>
<th>Entity Name</th>
<th>Outstanding Rent obligations as at 30th June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Judiciary</td>
<td>7,092,288,149</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Justice and Constitutional Affairs</td>
<td>3,223,876,006</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Local Government</td>
<td>1,011,603,207</td>
</tr>
<tr>
<td>4</td>
<td>Office of the Prime Minister</td>
<td>438,358,481</td>
</tr>
<tr>
<td>5</td>
<td>National Agricultural Research Organisation (NARO)</td>
<td>192,720,000</td>
</tr>
<tr>
<td>6</td>
<td>Ugandan Mission in Abu Dhabi</td>
<td>1,074,324,480</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>13,033,170,323</strong></td>
</tr>
</tbody>
</table>

3.9 Unspent funds

Budget estimates are based on outputs to be achieved for the financial year and during implementation, efforts should be made to achieve the agreed objectives or targets of the entity within the availed resources.

A review of eighteen (18) entities however revealed that UGX.174,968,865,564 remained unspent at the end of the financial year.

Details are as per Table 9 below;

<table>
<thead>
<tr>
<th>No</th>
<th>Entity</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
<td>3,070,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Coordinating Office For Control Of Trypanosomiasis</td>
<td>25,649,406</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Works and Transport.</td>
<td>107,000,000</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Local Government</td>
<td>59,606,048</td>
</tr>
<tr>
<td>5</td>
<td>Parliament</td>
<td>1,644,758,381</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Information, Communication and Technology</td>
<td>28,970,480</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Internal Affairs</td>
<td>1,108,385,890</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Prison Service</td>
<td>351,027,450</td>
</tr>
<tr>
<td>9</td>
<td>Ministry of Trade, Industry and Cooperatives</td>
<td>3,895,144</td>
</tr>
<tr>
<td>10</td>
<td>Ministry of Defense</td>
<td>696,748,338</td>
</tr>
<tr>
<td>11</td>
<td>FINMAP</td>
<td>1,027,893,159</td>
</tr>
<tr>
<td>12</td>
<td>Agricultural Technology Agribusiness Advisory Services</td>
<td>15,672,494,652</td>
</tr>
<tr>
<td>13</td>
<td>Vegetable Oil Development Programme</td>
<td>10,584,833,661</td>
</tr>
<tr>
<td>No</td>
<td>Entity</td>
<td>Amount (UGX)</td>
</tr>
<tr>
<td>----</td>
<td>------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>14</td>
<td>Community Infrastructure Agriculture Improvement Programme 2</td>
<td>27,381,840,219</td>
</tr>
<tr>
<td>15</td>
<td>Community Infrastructure Agriculture Improvement Programme 3</td>
<td>26,548,516,306</td>
</tr>
<tr>
<td>16</td>
<td>Market and Agricultural Trade Improvement Programme 1</td>
<td>7,257,536</td>
</tr>
<tr>
<td>17</td>
<td>Market and Agricultural Trade Improvement Programme 2</td>
<td>408,490,637</td>
</tr>
<tr>
<td>18</td>
<td>Kampala Institutional Infrastructure Development Programme-2</td>
<td>86,241,498,257</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>174,968,865,564</strong></td>
</tr>
</tbody>
</table>

As a result of unspent balances, service delivery is hampered and the appropriating authority’s objectives are not met.

### 3.10 Outstanding Commitments

It was noted that a number of government entities have continued to enter into commitments beyond the available funds. This is contrary to the commitment control system which requires the accounting officer to commit Government within the provided funds, as indicated in the graph below.

**Graph 1: Domestic arrears for the last three years**

![Graph showing domestic arrears for the last three years](image-url)
The total amount of domestic arrears increased during the year from UGX.1,349,261,370,583 in 2014/2015 to UGX.1,929,919,981,712 in 2015/2016 as illustrated in the table 10.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Consolidated Entities</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Judiciary</td>
<td>9,533,271,859</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Justice &amp; Constitution Affairs</td>
<td>684,752,969,473</td>
</tr>
<tr>
<td>3</td>
<td>National Citizenship and Immigration Control</td>
<td>6,133,248,212</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Internal Affairs</td>
<td>2,446,792,088</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Prison Service</td>
<td>49,889,787,029</td>
</tr>
<tr>
<td>6</td>
<td>Uganda Police Force</td>
<td>27,339,764,749</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
<td>24,097,096,854</td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Local Government</td>
<td>31,591,315,454</td>
</tr>
<tr>
<td>9</td>
<td>Ministry of Information, Communication and Technology</td>
<td>4,151,855,208</td>
</tr>
<tr>
<td>10</td>
<td>Office of the Prime Minister</td>
<td>797,401,768</td>
</tr>
<tr>
<td>11</td>
<td>Ministry of Finance, Planning and Economic Development</td>
<td>139,962,218,293</td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Trade, Industry and Cooperatives</td>
<td>8,874,452,422</td>
</tr>
<tr>
<td>13</td>
<td>Office Of The President</td>
<td>37,144,575,107</td>
</tr>
<tr>
<td>14</td>
<td>State House</td>
<td>1,087,768,633</td>
</tr>
<tr>
<td>15</td>
<td>Ministry Of Defense</td>
<td>718,433,532,863</td>
</tr>
<tr>
<td>16</td>
<td>Ministry of Health</td>
<td>8,611,667,216</td>
</tr>
<tr>
<td>17</td>
<td>Butabika Hospital</td>
<td>119,905,150</td>
</tr>
<tr>
<td>18</td>
<td>Ministry of Energy and Mineral Development</td>
<td>2,615,711,993</td>
</tr>
<tr>
<td>19</td>
<td>Ministry of Education and Sports</td>
<td>14,012,359,825</td>
</tr>
<tr>
<td>20</td>
<td>Kyambogo University</td>
<td>14,228,047,787</td>
</tr>
<tr>
<td>21</td>
<td>Gulu University</td>
<td>6,749,931,044</td>
</tr>
<tr>
<td>22</td>
<td>Makerere University</td>
<td>119,664,797,892</td>
</tr>
<tr>
<td>23</td>
<td>Gulu Regional Referral Hospital</td>
<td>1,056,269,075</td>
</tr>
<tr>
<td>24</td>
<td>Masaka Regional Referral Hospital</td>
<td>193,201,001</td>
</tr>
<tr>
<td>25</td>
<td>Ministry of Lands, Housing and Urban Development</td>
<td>10,346,764,849</td>
</tr>
<tr>
<td></td>
<td><strong>Sub Total</strong></td>
<td><strong>1,923,834,705,844</strong></td>
</tr>
</tbody>
</table>

| | Non-Consolidated Entities | |
| | 26. Support to the Post Primary Education Training Expansion & Improvement (Education IV) Project - ADB IV | 6,073,056,729 |
| | 27. FINMAP                  | 12,219,139 |
| | **Sub Total**               | **6,085,275,868** |
| | **Grand Total**             | **1,929,919,981,712** |
4.0 Report and Opinion on the Consolidated GoU Financial Statements

REPORT AND OPINION OF THE AUDITOR GENERAL ON THE GOVERNMENT OF UGANDA CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying consolidated financial statements of Government of Uganda for the year ended 30th June 2016. These financial statements comprise of the Statement of Financial Position as at 30th June 2016, Statement of Financial Performance, Statement of Changes in Equity, Cash flow Statement together with other accompanying statements, Schedules, Notes and accounting policies.

Management’s Responsibility for the Financial Statements
Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting 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 of Consolidated Financial Statements in accordance with the requirements of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2008, and for such internal control as management determines is 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, 1995 (as amended), 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 (ISA). 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.

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

Part “A” of this report sets out my qualified opinion on the consolidated 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 will form part of my annual report to Parliament.

PART “A”

Basis for Qualified Opinion

- Mischarge of Expenditure
  A review of the expenditures revealed that various entities charged wrong expenditure codes to the tune of UGX. 168,817,683,789.
  This practice undermines the budgeting process and the intentions of the appropriating authority as funds are not fully utilised for the intended purposes. The practice also leads to financial misreporting.
- **Unaccounted for Advances**
  A total of UGX. 31,320,236,136 advanced to staff to carry out activities in various entities remained un-accounted for by the time of audit, contrary to the Public Finance and Accounting Regulations. Delays in accounting for funds may encourage misuse.

- **Government Outstanding Commitments/Domestic Arrears**
  Although the Consolidated Financial Statements disclose an amount of UGX.2,254,390,826,628 as government outstanding commitments as at 30th June 2016, this is at variance with the amounts verified by the Internal Auditor General totalling to UGX.2,700,737,613,398, leading to a variance of UGX.446,346,786,770. Under the circumstances, I cannot confirm the completeness of the amounts reported in the consolidated financial statements.

**Qualified Opinion**
In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements of Government of Uganda for the year ended 30th June 2016 are prepared, in all material respects, in accordance with the Financial Reporting Guide, 2008 and the Public Finance Management Act, 2015, of the Laws of Uganda.

**Emphasis of Matter**
Without qualifying my opinion further, attention is drawn to the following additional matters which are also included in part B of this report and my annual report to Parliament;

- **Contingent Liabilities - UGX.6,532,497,083,522**
  As disclosed in the statement of contingent liabilities, Government contingent liabilities are reported at UGX.6,532,497,083,522 up from UGX.4,892,599,283,368 the previous year. The trend appears unsustainable in the event that a significant percentage crystallizes into liabilities.

- **Classified Expenditure**
  As disclosed in note 7, a total of UGX.731,111,054,008 relates to classified expenditure. In compliance with Section 24 of the Public Finance Management Act, 2015 (Classified
Expenditure), this expenditure is to be audited separately and a separate audit report issued.

**Other matters**
I consider it necessary to communicate the following matter other than those that are presented or disclosed in the financial statements that, in my judgment, are relevant to the users’ understanding of the audit report.

- **Operationalization of the Contingencies Fund**
  I noted that the contingencies fund has not been operationalized, contrary to Section 26 (1) of the PFMA, 2015. Accordingly, in the absence of a functioning Contingencies fund, I did not carry out the required audit to enable me express an opinion on the accounts of the Contingencies Fund as required under Section 26(16) of the PFMA, 2015.

John F.S. Muwanga

**AUDITOR GENERAL**

**KAMPALA**

29th December, 2016
PART “B”

DETAILED REPORT OF THE AUDITOR GENERAL ON THE CONSOLIDATED GOVERNMENT OF UGANDA FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2016

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

4.1 Introduction
Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the Consolidated Government of Uganda Financial Statements for the year ended 30th June 2016 to enable me report to Parliament.

4.2 Background Information
Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, an Accounting Officer shall be responsible and personally accountable to Parliament for the activities of a vote.

The Accountant General is appointed as the Accounting Officer and Receiver of Revenue for the Consolidated Fund. He is responsible for establishing and maintaining a system of Internal Controls designed to provide reasonable assurance that the transactions recorded are within the authority and properly record the use of all public funds by the Government of the Republic of Uganda.

Accordingly, the Accountant General is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with the requirements of the Public Finance Management Act, 2015, and the modified cash basis of accounting.
The accompanying Government of Uganda Consolidated Financial Statements provide a record of the Governments’ financial performance for the year 2015/16 and the financial position of the Consolidated Fund as at 30th June 2016, in accordance with the Public Finance Management Act, 2015.

4.3 Audit Scope
The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed on procedures as was considered necessary. In conducting my reviews, special attention was paid to;

a. Establish whether the consolidated financial statements have been prepared in accordance with consistently applied Accounting Policies and fairly present the revenues and expenditures of government for the year and of the consolidated financial position of the Consolidated Fund as at the end of the year.
b. Establish whether All funds were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.
c. Evaluate and obtain a sufficient understanding of the internal control structures of government, assess control risk and identify reportable conditions, including material internal control weaknesses.
d. Establish whether Management was in compliance with the Government of Uganda financial regulations.
e. Establish whether all necessary supporting documents, records, and accounts have been kept in respect of all activities, and are in agreement with the consolidated financial statements presented.

4.4 Audit Procedures Performed
The following audit procedures were undertaken;

a. Revenue
Obtained schedules of all revenues collected and reconciled the amounts to the entity’s cashbooks and bank statements.

b. Expenditure
The entity payment vouchers were examined for proper authorization, eligibility and budgetary provision, accountability, and support documentation.
c. **Internal Control System**
Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period audited.

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

### 4.5 Budget Performance

During the year under review, government realised domestic revenue amounting to UGX.11,647,894,758,562 out of the projected amount of UGX.11,568,500,000,000 representing a 100.68% performance. A total of UGX.539,222,128,067 was also realised from grants.

Further noted was that although a total of UGX.16,486,179,299,715 excluding external financing was appropriated for utilization by MDAs, government released a sum of UGX.15,888,866,420,812 excluding external financing to the MDAs to cater for their planned activities. This represents 96.3% of the approved budget.

### 4.6 Findings

#### 4.6.1 Categorization of Findings

The following system of profiling of the audit findings has been adopted to better prioritise the implementation of audit recommendations;

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

<table>
<thead>
<tr>
<th>No</th>
<th>Finding</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Unaccounted for Funds</td>
<td>High</td>
</tr>
<tr>
<td>b</td>
<td>Mischarge of Expenditure by MDAs</td>
<td>High</td>
</tr>
<tr>
<td>c</td>
<td>Government outstanding commitments/payables</td>
<td>High</td>
</tr>
<tr>
<td>d</td>
<td>Operationalization of the contingencies fund</td>
<td>High</td>
</tr>
<tr>
<td>e</td>
<td>Progress on the implementation of TSA</td>
<td>Moderate</td>
</tr>
<tr>
<td>f</td>
<td>Excessive Cash Withdrawals</td>
<td>High</td>
</tr>
<tr>
<td>g</td>
<td>Failure to collect funds due to the UCF</td>
<td>High</td>
</tr>
<tr>
<td>h</td>
<td>Implementation of PFMA 2015</td>
<td>Moderate</td>
</tr>
<tr>
<td>i</td>
<td>Harmonization of Government Reporting</td>
<td>High</td>
</tr>
<tr>
<td>j</td>
<td>Incomplete Consolidated Summary Statement</td>
<td>Moderate</td>
</tr>
<tr>
<td>k</td>
<td>Government Escrow accounts in commercial banks</td>
<td>High</td>
</tr>
<tr>
<td>l</td>
<td>Government contingent liabilities</td>
<td>High</td>
</tr>
<tr>
<td>m</td>
<td>Inadequate interface between URA systems and the IFMS</td>
<td>Moderate</td>
</tr>
<tr>
<td>n</td>
<td>Non deduction of withholding tax</td>
<td>Low</td>
</tr>
<tr>
<td>i</td>
<td>Advances to Staff Through Personal Bank Accounts</td>
<td>Moderate</td>
</tr>
<tr>
<td>ii</td>
<td>Unauthorized Receipt of grants by MDAs</td>
<td>Moderate</td>
</tr>
<tr>
<td>iii</td>
<td>Decentralized Payroll System</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

**a) Unaccounted for Funds**

Included in the various consolidated expenditure lines is a total of UGX. 31,320,236,136 that remained unaccounted by several MDA’s at the end of the year under review. Under the circumstances, I cannot provide assurance as to whether the funds were put to proper use.

This comprised of funds advanced to staff to carry out various activities in various MDAs. This is contrary to the Public Finance Management Regulations which require all such advances to be accounted within 14 days of the completion of the exercise, but in any case not later than 60 days.

Delayed accountability for funds may lead to falsification of accountability documents. This matter has also been raised in my previous reports but has not been addressed by Accounting Officers.

Management explained that this is one of the conditions for rescinding an Accounting Officer’s appointmentand that the Internal Auditor has been tasked to follow up on these cases and report to PS/ST for action.
I await the outcome of this management action on this matter.

<table>
<thead>
<tr>
<th>Name of MDA</th>
<th>Unaccounted for Funds/unsupported expenditures - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Prime Minister</td>
<td>228,750,463</td>
</tr>
<tr>
<td>Ministry of Local Government</td>
<td>359,266,925</td>
</tr>
<tr>
<td>Ministry of Education and Sports</td>
<td>271,106,919</td>
</tr>
<tr>
<td>Ministry of Energy and Minerals</td>
<td>315,736,080</td>
</tr>
<tr>
<td>Ministry of Water &amp; Environment</td>
<td>85,177,432</td>
</tr>
<tr>
<td>National Drugs Authority</td>
<td>44,516,339</td>
</tr>
<tr>
<td>Uganda National Roads Authority</td>
<td>6,334,861,669</td>
</tr>
<tr>
<td>Makerere University</td>
<td>882,316,616</td>
</tr>
<tr>
<td>Makerere University Business School</td>
<td>640,784,175</td>
</tr>
<tr>
<td>Uganda Police</td>
<td>21,980,468,000</td>
</tr>
<tr>
<td>Moroto Regional Referral Hospital</td>
<td>107,675,473</td>
</tr>
<tr>
<td>Uganda Embassy, Tehran</td>
<td>69,576,045</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,320,236,136</strong></td>
</tr>
</tbody>
</table>

b) **Mischarge of Expenditure by MDAs**

The Government Chart of Accounts defines the nature of expenditures for each item code. The intention is to facilitate better and consistent classification of financial transactions and also track budget performance per item.

I noted that during the year under review, a total of UGX.168,817,683,789 was charged on items which do not reflect the nature of the expenditure i.e. mischarged, despite the fact that it has been pointed out in my previous audit reports.

Mischarge of expenditure impacts on the credibility of the financial statements since the figures reported therein do not reflect true amounts expended on the respective items. It further impacts appropriateness of the future budgets since the reported actual figures are misleading.

I was informed by management that as the respective Accounting Officers provide explanations, the Ministry has developed a concept note to address the mischarges. This is still under internal discussions and once finalized, guidelines to all Accounting Officers on the matter will be issued.
Government needs to further streamline the budgeting processes and to enforce strict adherence to the provisions regarding reallocation of funds, in order to have this practice contained.

I also await the outcome of this management action.

Table showing Mischarge of expenditure by MDAs

<table>
<thead>
<tr>
<th>Name of MDA</th>
<th>Mischarge of Expenditure - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Prime Minister</td>
<td>350,416,743</td>
</tr>
<tr>
<td>Ministry of Finance, Planning and Economic</td>
<td>51,891,596</td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>287,970,565</td>
</tr>
<tr>
<td>Ministry of Agriculture, Animal Industry and Fisheries</td>
<td>299,836,985</td>
</tr>
<tr>
<td>Ministry of Local Government</td>
<td>4,112,552,119</td>
</tr>
<tr>
<td>Ministry of Lands, Housing &amp; Urban Development</td>
<td>124,516,400</td>
</tr>
<tr>
<td>Ministry of Education and Sports</td>
<td>1,416,591,629</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>3,121,479,198</td>
</tr>
<tr>
<td>Ministry of Trade and Industry</td>
<td>310,702,545</td>
</tr>
<tr>
<td>Ministry of Energy and Minerals</td>
<td>511,283,196</td>
</tr>
<tr>
<td>Ministry of Water &amp; Environment</td>
<td>1,344,180,592</td>
</tr>
<tr>
<td>Ministry of Communication &amp; ICT</td>
<td>68,693,022</td>
</tr>
<tr>
<td>Ministry of East African Affairs</td>
<td>158,364,846</td>
</tr>
<tr>
<td>Ministry of Tourism &amp; Wild Life and Antiquities</td>
<td>216,560,092</td>
</tr>
<tr>
<td>Electoral Commission</td>
<td>813,827,886</td>
</tr>
<tr>
<td>Law Reform Commission</td>
<td>527,438,980</td>
</tr>
<tr>
<td>Uganda Embassy, Cairo</td>
<td>27,511,853</td>
</tr>
<tr>
<td>Uganda Aids Commission</td>
<td>132,886,739</td>
</tr>
<tr>
<td>National Planning Authority</td>
<td>35,825,588</td>
</tr>
<tr>
<td>Uganda National Roads Authority</td>
<td>150,486,219,673</td>
</tr>
<tr>
<td>Uganda Tourism Board</td>
<td>359,395,142</td>
</tr>
<tr>
<td>Uganda Registration Services Bureau</td>
<td>57,147,039</td>
</tr>
<tr>
<td>Diary Development Authority</td>
<td>6,686,869</td>
</tr>
<tr>
<td>Directorate of Public Prosecutions</td>
<td>102,654,370</td>
</tr>
<tr>
<td>Makerere University</td>
<td>317,227,405</td>
</tr>
<tr>
<td>National Agricultural Research Org</td>
<td>181,863,440</td>
</tr>
<tr>
<td>Uganda Police</td>
<td>730,722,737</td>
</tr>
<tr>
<td>Uganda Prisons</td>
<td>469,218,264</td>
</tr>
<tr>
<td>Local Government Finance Commission</td>
<td>138,296,054</td>
</tr>
<tr>
<td>Judicial Service Commission</td>
<td>34,227,104</td>
</tr>
<tr>
<td>National Agricultural Advisory Services</td>
<td>414,788,364</td>
</tr>
<tr>
<td>Public Procurement and Disposal Authority</td>
<td>28,293,180</td>
</tr>
<tr>
<td>Uganda National Bureau of Standards</td>
<td>322,204,458</td>
</tr>
<tr>
<td>Coffee Development Authority</td>
<td>65,212,796</td>
</tr>
<tr>
<td>Makerere University Business School</td>
<td>259,930,020</td>
</tr>
<tr>
<td>Uganda Bureau of Statistics</td>
<td>228,362,321</td>
</tr>
<tr>
<td>Ministry of Works and Transport</td>
<td>300,983,973</td>
</tr>
<tr>
<td>Uganda High Commission, London</td>
<td>771,351,931</td>
</tr>
<tr>
<td>Uganda Embassy, Copenhangen</td>
<td>168,418,087</td>
</tr>
<tr>
<td>Rural Electrification Agency</td>
<td>207,888,341</td>
</tr>
<tr>
<td>Uganda Industrial Research Institute (UIRI)</td>
<td>65,181,828</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>168,817,683,789</strong></td>
</tr>
</tbody>
</table>
c) **Government Outstanding Commitments/Domestic Arrears**

According to the commitment control system procedures, an Accounting Officer is supposed to commit Government only to the extent of available funds; in addition, in November 2016, the PS/ST issued a circular which prescribed the criteria to be met for arrears that can be recognized in the financial statements.

During the audit, I reviewed the trend of government outstanding commitments/domestic arrears for the past three (3) financial years since 2013/14 and noted the amounts have continued to escalate as seen in the table below;

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Pension arrears</th>
<th>Other Domestic arrears</th>
<th>Total Outstanding Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>122,442,613,993</td>
<td>1,265,406,925,415</td>
<td>1,387,849,539,408</td>
</tr>
<tr>
<td>2014/15</td>
<td>216,738,848,444</td>
<td>1,108,490,291,820</td>
<td>1,325,229,140,264</td>
</tr>
<tr>
<td>2015/16</td>
<td>561,454,457,691</td>
<td>1,692,936,368,937</td>
<td>2,254,390,826,628</td>
</tr>
</tbody>
</table>

I noted that in a number of entities, Accounting Officers are paying for domestic arrears which previously were not disclosed nor budgeted for. In addition, whereas the consolidated financial statements put the figure of domestic arrears at UGX.2,254,390,826,628, the audited position of the Internal Auditor General puts the figure at UGX.2,700,737,613,398 as at 30th June 2016 leading to a variance of UGX.446,346,786,770. I further noted that some entities did not fully disclose their arrears position as a result of the guidance.
Under the circumstances, I am unable to confirm the completeness of the domestic arrears position, reflected in the consolidated financial statements.

The above scenario points to weaknesses in the commitment control system that continues to enable accounting officers to incur domestic arrears, as well as absence of a clear policy to entities regarding the treatment of arrears that do not meet the criteria set in the circular.

I was informed by management that there was no full disclosure of prior year arrears by Accounting Officers. However, with full disclosure of verified arrears this Financial Year, they expect this to be addressed.

I have advised Government to review the current policies on commitment control with the aim of enhancing its effectiveness. In addition, Government should provide a clear policy on how to disclose arrears that do not qualify to be recognized in the financial statements.

d) **Operationalization of the Contingencies Fund**

Section 26 (1) of the PFMA, 2015, establishes a Contingencies Fund which shall, every financial year, be replenished with an amount equivalent to a half percent (0.5%) of the appropriated annual budget of Government of the previous financial year.

However, during the year under review, I noted that the contingencies fund was not operationalized. Accordingly, in the absence of a functioning Contingencies fund, I did not carry out the required audit to enable me to express an opinion on the accounts of the Contingencies Fund as required under Section 26(16) of the PFMA, 2015.

Failure to operationalize the Contingencies Fund is irregular and undermines the purpose for which it was created. Furthermore, there is a risk that Government may fail to respond to contingencies/emergency situations as and when they occur.
Management in their response stated that the PFMA, 2015 provides for the funding of the Contingencies Fund to a level of 0.5% p.a. In theory, this fund is provided for given that it is a statutory and direct charge. But in practice, it is not possible to set aside funds when there are pressing issues. Previously, efforts have been made but the earmarked funds were reallocated during appropriation.

I advised management to engage the concerned stakeholders to come up with a feasible solution for operationalizing the Fund.

e) Progress on the Implementation of TSA

In 2013, the government adopted the TSA, which was intended to be a mechanism where all collections and payments are channeled through a centralized bank account (or linked accounts) in Bank of Uganda. The TSA mechanism was well thought out and has led to the improvement of government financial management. In October 2013, the PS/ST issued a TSA operation plan for two phases that would ensure that within the initial phase, the TSA would have been implemented for Holding accounts, URA tax collection accounts, Non-tax revenues, Treasury General Accounts, and would be the mechanism to manage all government revenues and expenditure.

However, for 3 years following the deployment of TSA, I noted the following;

- A total of 179 out of 881 Government of Uganda accounts (i.e. about 20%) in Bank of Uganda were found not to be part of the TSA system. The majority of these accounts were District Local Government Salary Accounts. These funds are not swept back to the TSA at the close of the day’s transactions.

- It was noted that a total of UGX.1,909,205,025,803 (or 8% of the total approved budget) had gone through the various non-TSA accounts as noted above.

Failure to fully adopt TSA in accordance with the plan affects the ability of government to realize the benefits associated with TSA. The failure to fully implement the TSA plan is due in part to the delayed rollout of the Integrated Financial Management System as well as challenges of incorporating donor payment conditions under the mechanism.
Management in their response stated that under the TSA Framework, they have; UCF and Petroleum Fund, Operational Holding Accounts, Revenue Accounts and Expenditure Accounts. The GOU strategy is to implement TSA in every entity where the IFMS is rolled out. The extension of the TSA to the remaining entities shall follow the intended roll-out of IFMS as planned over the next 3 years.

Management is advised to address all the challenges that are hindering the full implementation of the TSA. A revised implementation plan for migration to TSA should be prepared and approved and shared with all responsible stakeholders.

f) **Excessive Cash Withdrawals**

I noted that there were incidences of excessive withdrawal of cash by various Government entities. This is contrary to the directive by the Secretary to the Treasury on Cash Withdrawals. An update to the circular dated 9th October 2013 set the withdrawal limit to a maximum of UGX.40 Million per month with the exception of eight votes.

My review of the Bank Statements for a sample of 76 ministries revealed cash withdrawals in excess of UGX.40 million per month by 49 of these entities even when these entities were not on the exempt list. A total of UGX.10.7bn was spent as cash in contravention of this limit. The cash limit was put in place as a measure to control cash related expenditures since cash is considered to have a higher risk of fraud or misappropriation.

Management in their explanation stated that the respective Accounting Officers have been requested to explain circumstances under which these excesses were incurred. Failure to provide satisfactory explanations shall lead to rescinding of appointment as an Accounting Officer in line with Section 11 of the PFMA 2015.

I have advised Treasury to add a layer of controls at the centre to avoid excessive cash withdrawals.
g) **Failure to collect funds due to the Consolidated Fund**

Section 29 of the PFMA, 2015, provides that revenue shall not be collected or received by a vote, state enterprise or public corporation, except where the vote, state enterprise or public corporation is authorised by an Act of Parliament to collect or receive revenue.

However I noted that contrary to the said provision, the following entities collected revenue and there was no evidence to suggest that they had remitted the funds shown in the table below to the Consolidated Fund;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Amount - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda Investment Authority</td>
<td>15,203,609,1</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Communications Commission</td>
<td>7,145,134,6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>22,348,743,8</td>
</tr>
</tbody>
</table>

In the case of UIA, there is no Act of Parliament in place which authorises them to retain any of the revenue collected as per the PFMA provision.

I observed that in the case of UCC, Section 68 of the UCC Act as amended obliges the Commission to remit a half of all the levy charged to the Consolidated Fund and the balance to be shared between Information and Communication Technology Development and Rural Communication in the ratio of one to one.

I observed that in the year under review, a total of UGX.23,145,134,692 was due to the Consolidated Fund from levies by the UCC but only UGX.16,000,000,000 was remitted leaving an unremitted balance of UGX.7,145,134,692.

Failure to remit the funds violates the law and also exposes such funds to diversion and possible abuse, aside from depriving the GOU of revenue.

I also noted that the same amounts were not captured as receivables in the consolidated financial statements, yet the two entities are not fully consolidated by Treasury.
In their response, management explained that there was no appropriation for these entities in the FY under review and as such their balances may not fall under the PFMA, 2015 provision. However, it should be noted that collection of revenue referred to in the PFM, 2015 relates to all Government entities.

Treasury is advised to increase its vigilance to ensure recovery of all funds due to the UCF.

**h) Harmonization of Government Reporting and Implementation of IPSAS**

Section 52 of the PFMA, 2015 requires the Accountant General to prepare consolidated annual accounts for government and local governments and a summary statement of the financial performance of public corporations. In order to achieve this, all the entities that are to be included in the consolidation must follow the same standards and timing of financial reporting.

I note that the entities for consolidation follow different reporting standards and timing. Some entities that had already adopted the full accrual accounting, have been forced to scale back to modified accrual basis of accounting, for purposes of reporting to the Accountant General, despite their laws/Acts that created them specifying otherwise.

As the Treasury continues to operationalize the provisions of the PFMA, 2015, these differences may hamper progress. Besides, in the absence of comparable financial statements;

- Benchmarking performance across different MDAs is not possible
- The consolidation process will continue to encounter challenges
- Performance measurement and comparison against other economies may not be possible.

Management explained that they have gradually enhanced the Financial Statements towards compliance with IPSAS and to a large extent the Financial Statements comply with IPSAS. Also, under the East African Monetary Convergence Protocol, a consultant was procured to evaluate the current status of IPSAS implementation and develop a
road map. The draft IPSAS Implementation roadmap is available and is awaiting harmonization with other member states.

Management also informed me that they have procured a consultant to review the Financial Statements with a view to enhance compliance to IPSAS.

I have advised Government to come up with a clear roadmap on how it plans to adopt a uniform financial reporting framework. Government should take into consideration the need to modify existing laws and regulations in order to comply with uniform reporting by MDAs while considering future developments and adoption of internationally comparable standards such as IPSAS.

i) **Incomplete Consolidated Summary Statement of Financial Performance for Public Corporations and State Enterprises**

Section 52(c) of the PFMA 2015 requires that the Accountant General prepares a consolidated summary statement of the financial performance of public corporations.

I, however, noted that financial records for only 34 out of the 70 state enterprises had been included in the consolidated financial statements provided for audit.

This implies that the consolidated summary statement is incomplete and therefore cannot be relied upon.

Management informed me that several of these entities still report before or after June 30th and they do not prepare timely and reliable management information to be used for GoU reporting purposes as at 30th June. After the expiry of the transition period provided by the law, all these entities shall report as at 30th June. Management has made an effort to remind them to submit Financial Statements.

I have advised Government to expedite the harmonization of the reporting dates as provided for in the law.
j) **Government Escrow Accounts in Commercial Banks**

All government bank accounts with public funds are under the control of the Accountant General and can only be opened with the authorization of the Accountant General as provided for by Section 33 of the PFMA, 2015.

My review of a sample of escrow bank accounts that received public funds revealed that several bank accounts were operated by commercial banks (refer to the table below for Escrow Accounts in operation). Whereas audit could not find justification on the criteria followed in choosing which bank to open an escrow account, public funds held in commercial banks affect macroeconomic policy implementation and cash management by government.

In instances, where government borrows from the domestic market; there is a likelihood that government ends up paying interest on its own funds.

In addition, the maintenance of public funds in commercial bank accounts prevents the centralized monitoring of their usage and audit. Besides, the cost of management of escrow accounts may be exorbitant. For example; the annual account maintenance costs of the UMEME escrow account is USD.50,000 in the first year and subsequently USD.30,000 per annum and additional USD.30,000 for each time a drawing was made in the letter of credit.

It is important to note that a number of escrow accounts have been successfully operated in Bank of Uganda such as the Bujagali dam construction accounts.

Management explained that the opening of the Escrow bank accounts was done with the authorization of the Accountant General and the choice of a bank was determined by the lender.

I have advised Government to consider moving all public funds to the central bank for ease of monitoring, supervision, and management; Management promised to consider this in future negotiations.
### Table showing Escrow Accounts in Commercial Banks

<table>
<thead>
<tr>
<th>Account name</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min of Finance and Economic Development - Civil Aviation Authority Project Escrow account</td>
<td>USD</td>
</tr>
<tr>
<td>National Backbone and E-Government project phase III repayment reserve account</td>
<td>USD</td>
</tr>
<tr>
<td>CAA Entebbe expansion project escrow account – sales collection</td>
<td>UGX</td>
</tr>
<tr>
<td>MOPPED/Kampala- Entebbe airport escrow</td>
<td>USD</td>
</tr>
<tr>
<td>CAA Entebbe Expansion Project Escrow Account – Sales collection</td>
<td>USD</td>
</tr>
<tr>
<td>MOPPED/ISIMBA Hydropower project – Escrow account</td>
<td>USD</td>
</tr>
<tr>
<td>UEGCL/ISIMBA Hydropower project – Escrow account</td>
<td>UGX</td>
</tr>
<tr>
<td>Uganda National Roads Authority – Kampala Entebbe Expressway Control</td>
<td>UGX</td>
</tr>
<tr>
<td>NITA – u/NBI project phase III escrow account (Sales Collection)</td>
<td>UGX</td>
</tr>
<tr>
<td>Uganda Electricity Generation Company Limited</td>
<td>UGX</td>
</tr>
<tr>
<td>Uganda Electricity Generation Company Limited Karuma Sales Collection Account</td>
<td>UGX</td>
</tr>
<tr>
<td>Uganda National Roads Authority – Kampala-Entebbe Airport Expressway Control</td>
<td>UGX</td>
</tr>
<tr>
<td>UMECE-IEDCL Escrow account</td>
<td>UGX</td>
</tr>
<tr>
<td>UMECE-UEDCL Escrow account</td>
<td>USD</td>
</tr>
<tr>
<td>UEGCL Escrow account</td>
<td>USD</td>
</tr>
<tr>
<td>UEGCL Escrow account</td>
<td>USD</td>
</tr>
</tbody>
</table>

### k) Government Contingent Liabilities

A contingent liability is a possible future cash outflow whose occurrence is dependent on an event which is not in the control by an organization. Including any amounts in contingent liabilities implies that management’s assessment shows a possibility of a cash outflow in future.

A trend analysis of accumulation of government contingent liabilities over a 4-year period indicated an upward trend as indicated in the table;

### Table showing amounts included in the accounts for contingent liabilities

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>2,275,442,213,858</td>
</tr>
<tr>
<td>2013/14</td>
<td>4,784,569,306,022</td>
</tr>
<tr>
<td>2014/15</td>
<td>4,892,599,283,368</td>
</tr>
<tr>
<td>2015/16</td>
<td>6,532,497,083,522</td>
</tr>
</tbody>
</table>
My further analysis of this liability indicated that majority of the amounts i.e. over 90% are as a result of the legal proceedings lodged against government. The analysis in the table below refers;

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Amount (UGX)</th>
<th>Legal Proceedings (UGX)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>4,784,569,306,022</td>
<td>4,331,391,650,991</td>
<td>91%</td>
</tr>
<tr>
<td>2014/15</td>
<td>4,892,599,283,368</td>
<td>4,385,151,257,436</td>
<td>90%</td>
</tr>
<tr>
<td>2015/16</td>
<td>6,532,497,083,522</td>
<td>5,961,148,244,653</td>
<td>91%</td>
</tr>
</tbody>
</table>
Although I pointed out this matter in my previous reports, the contingent liabilities have continued to rise by more than UGX.1.6 Trillion in this year alone, which if left unchecked, may get to unsustainable levels.

In the event that all these liabilities crystalize, Government will have to spend substantial amounts which is likely to adversely affect the implementation of other government programs.

Management informed me that Government now intends to decentralize court awards to be part of their MTEF to eliminate the incentive of these court awards.
In addition, the PFMA, 2015 Section 39 introduced a criteria and more stringent conditions for government to guarantee loans which is expected to check the accumulation of contingent liabilities.

I have advised Government to seriously look into the causes of the accumulation of contingent liabilities with a view of curtailing further growth.

1) **Inadequate interface between URA systems and IFMS for proper tax management**

Most of the Government expenditure is made to suppliers and service providers who are paid through the IFMS. Although the IFMS is configured to automatically deduct WHT due, the system cannot deal with other tax heads such as VAT and corporation tax directly due to the nature and timing of when they become due and how the tax is calculated and accounted for.

However, I noted that the access to the IFMS given to URA is not sufficient to enable them fully track taxpayers incomes earned from transacting with Government through the IFMS. For instance, my review of a sample of IFMS payments revealed that 117 taxpayers who received government payments worth UGX.14,196,378,727 made false declarations of VAT in their monthly VAT returns by excluding output tax (sales) thus creating a loss to government of UGX.2,555,348,171.
In addition, a number of suppliers signed contracts with Government and got paid VAT inclusive amounts, when they were actually not registered. The continued failure for URA to have the appropriate access is leading to loss of revenue to Government.

Management explained that URA has access to the IFMS. Though data from the IFMS is extracted from the system and given to URA, they require an automated interface where they can directly pick information about unclassified transactions from the IFMS without human intervention.

I advise the Ministry to work out modalities aimed at interfacing e-tax with IFMS for purposes of enhancing tax collections.

m) **Non deduction of withholding tax**

Section 120(1) of the Income Tax Act requires all Ministries to withhold tax from suppliers at the rate of 6% of the aggregate sums. Further, section 124(1) of the Act requires a withholding tax agent to remit the tax within fifteen days after month end. The control to withhold taxes was automated within the IFMS system and is centralized.

However, I noted that a number of suppliers were being paid without deduction of withholding tax, and in other instances, WHT remained a payable. See table below for examples;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Vote</th>
<th>Amount - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Works and Transport</td>
<td>225,237,670</td>
</tr>
<tr>
<td>2</td>
<td>Diary Development Authority</td>
<td>34,958,212</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Agriculture</td>
<td>161,906,117</td>
</tr>
</tbody>
</table>

This control is centrally controlled and failure to deduct WHT automatically was attributed to relaxation of the control on the system for given suppliers. It should be noted that URA maintains an up-to-date list of all exempted suppliers on their website, therefore a change of status does not need entity intervention. The practice leads to loss of revenue to Government.
Management explained that they had earlier taken action to enable WHT on all suppliers except those exempted by URA. These are reviewed every 6 months by URA and therefore require half yearly updates which require extra vigilance to pick changes from URA and that they will re-instate this mode.

However, it is also incumbent upon the respective Accounting Officers to ensure that they withhold tax from all eligible suppliers and update supplier exemption status.

The Accountant General is advised to fully centralize this control to avoid further loss of revenue by Government.

n) **Other cross-cutting issues noted during audit of MDAs**

The following cross-cutting matters have been observed while undertaking audits of Ministries, Departments and Agencies (MDAs) during the year under review;

(i) **Advances to Staff through Personal Bank Accounts**

Despite my recommendations in previous reports advising Accounting Officers to stop the practice of advancing funds through personal bank accounts, I however, noted that during the year under review, various entities advanced a total of UGX. 2,318,973,072 onto personal bank accounts.

This is not only contrary to the accounting regulations but also exposes government funds to a risk of loss since staff may be tempted to divert such funds to personal gain, given that the entities do not have any control over such funds deposited into personal bank accounts.

Management explained that these have been significantly reduced and will further be decimated with the implementation of E-Cash. A Contract was awarded and the system’s requirements have been finalized with the integrator. This system is expected to be operational by end of December 2016.

*Table Showing Advances to personal Staff Accounts*
(ii) **Unauthorized Receipt of Grants by MDAs**

My review of some of the individual financial reports for MDA’s revealed that they continued to receive grants from Development Partners that were not reported in the consolidated financial statements of Government and are therefore unknown to Treasury.

This may imply that funds were solicited on behalf of GoU without the involvement of the Minister responsible for Finance, and are therefore unknown to the Ministry.

This creates risks of; double financing by both GoU and donors; abuse of funds by recipients; uninformed allocation of GoU funds and the risk of using GoU funded activities to account for donor funds and/or vice versa. It also implies that the total of Grants reported in the consolidated financial statements is understated and misleading.

Management explained that whereas some MDAs have been receiving funds without the approval of the Minister for Finance, as part of implementing the new law, this issue has been emphasized and all Accounting Officers sensitized on the need to budget and seek Minister’s approval before obtaining any grant.

The Hon. Minister has since written to all Accounting Officers to that effect.

I await the outcome of this initiative.

(iii) **Decentralized Payroll System**

Although the decentralized Salary Payment system introduced by government resulted in positive results including timely salary payments, reduction of ghosts, prompt inclusion on the payroll of newly appointed staff and fully assigning payroll responsibility to Accounting Officers; the continued manual interface between the IPPS and the IFMS was again manipulated by some fraudulent individuals at several MDAs, to fraudulently
effect changes on the payrolls released from the IPPS before payment through the IFMS. This practice, therefore, continues to lead to loss of public funds.

Management explained that under the decentralized payroll system, any changes to payment files after upload into the IFMS is a responsibility of the Accounting Officer and where these changes result into fraud, government has taken action, including interdiction as investigation is concluded with the view of prosecution. Effective this financial year, all sites are using the interface for payroll transactions and management is also working on the full integration of the IPPS and the IFMS.

Government needs to consider undertaking further review of the decentralized salary payment system, with an aim of further enhancing its effectiveness and addressing the weaknesses that have led to the fraudulent practices by some MDAs and Local Governments.

I have advised Government to consider putting in place more effective mechanisms to track the performance of these MDAs with regard to the implementation of audit recommendations, including where necessary, sanctioning Accounting Officers who fail to adhere to any such recommendations leading to loss of government funds.
ACCOUNTABILITY SECTOR

5.0 Ministry of Finance, Planning and Economic Development

5.1 Funding Gap
The Ministry budgeted to receive transfers from Treasury totalling UGX.492,847,994,405 but only UGX.244,204,123,067 was received, creating a funding gap of UGX.248,643,871,338. The shortfall mainly affected the development budget which had an approved budget of UGX.364,584,792,160 but only UGX.110,430,567,999 was released (approximately 30% performance level). There is a risk that most of the development planned activities were not achieved as planned.

Management explained that the funding gap was failure by government to release a non-resource budget of UGX.200,000,000,000 budget specifically to capitalize Bank of Uganda. The other gap totalling UGX.46.9bn could not be released because of inadequate resources in the national envelope. Included in this amount is UGX.27.291bn annual contribution to ACF to facilitate the operation of the agricultural credit scheme.

I advised Accounting Officer to continue to liaise with the Treasury to secure funding to finance the affected activities.

5.2 Failure to fund the Agricultural Credit Facility
The Agricultural Credit Facility (ACF) was set up in 2009 by Government in partnership with commercial banks; Credit Institutions and Participating Financial Institutions (PFIs) with the aim of providing medium and long term loans to projects engaged in agriculture and agro-processing on more favourable terms than usually available from Financial Institutions. The facility is meant to provide financing for agricultural and agro-processing machinery, equipment and implements at affordable terms to support the commercialization and modernization of agriculture in Uganda.

Government was supposed to contribute UGX.30 billion annually and the Participating Financial Institutions (PFIs) were to match the GoU contribution thereby creating a revolving pool of loanable fund amounting to UGX.60 billion for eight years.
It was noted that the Ministry budgeted for UGX.27,291,494,010 as the annual contribution but no funds were remitted to the scheme. I informed management that non-provision of annual contributions may negatively affect the operation of agricultural credit scheme.

The Accounting Officer explained that GOU has so far provided a total of UGX.58bn out of which only UGX.14bn has been utilised by the scheme an indicator of low absorption of funds and hence releases for the budgeted funds for the year was not given.

I advised management to engage BoU to establish the reasons and implications for low credit absorption with a view of assessing the success of the agricultural facility.

5.3 Un-released capitalization budget

Under the capitalisation budget, the Ministry aims to provide resources to capitalise banks to which Uganda subscribes. In return the banks provide long term development financing needs for the economy. The banks involved include East African development Bank (EADB), Islamic Development bank (IDB), African Development Bank (ADB), Uganda Development Bank (UDB) and PTA Bank.

I noted that the Ministry budgeted UGX.32,302,344,100 for capitalization of the banks, however, only UGX.21,716,847,786 was released leading to a shortfall of UGX.10,585,496,314. As a result, Uganda lost 1,347 shares in the African Development Bank specifically due to government failure to meet its subscription obligations worth US$.1,293,299.70. A communication from ADB indicates that Uganda stands to lose more shares if the total outstanding obligations worth USD.1,655,488 as at 16/03/2016 is not cleared.

I explained to management that underfunding and non-release of budgeted amounts has led to increased domestic arrears. Loss of shares and failure to make timely subscription will continue to affect the country’s benefits from these organizations.

The Accounting Officer explained that the action by the bank was majorly due to inadequate releases and cash limits to fund the capitalisation item.
I urge the Accounting Officer to liaise with Treasury to ensure sufficient budget provisions are made for capitalization of banks otherwise government stands to lose the benefits that come with these initiatives.

5.4 **Breach of contractual obligation to BIDCO**

On April 4, 2003, Government and BIDCO Oil Refineries Limited entered into an agreement for the development of oil palm industry in Uganda. Under article 5(7) of the agreement, GOU was required to pay VAT on the product of the project from all companies envisaged under the project from the first year of the project activities and ending after a period of eleven (11) years from the year of handing over the 26,500 hectares of land. It was agreed that the company would then refund (subject to clause 3 of article 4) the VAT paid by government with interest over a period of eight (8) years in eight equal instalments, including accrued interest starting in the twelfth (12th) year.

As noted in my prior year’s report, Government has however failed to provide the balance of the 10,000 hectares of land as had then been envisaged. There is no documentation to show that the Ministry has made any follow-up on this matter.

I also noted that since the date of signing the agreement, thirteen years (13) have elapsed and BIDCO has not started paying back the taxes with accrued interest that government has been paying on its behalf.

Because of government’s failure to provide the balance of the required land, the Ministry has continued to settle all tax obligations on behalf of BIDCO. In the year under review, the Ministry paid a total of UGX.12,364,819,655 to cater for the agreed obligations. There is a risk that the funds government has paid VAT on behalf of BIDCO since the date of signing the agreement may not be recovered. There is also a risk that government will continue to lose more funds to BIDCO in form of tax payments.

The Accounting Officer explained that Ministry of Agriculture has identified 6,500 hectares of land on Buvuma Island which is being procured for the purpose and a sum of UGX.30bn was provided for the purpose.
I advised Accounting Officer to liaise with Ministry of Agriculture to expedite the process of identifying and procuring all the required balance of land for BIDCO and also seek legal advice from the Attorney General on the possibility of amending the terms of the agreement affecting the VAT payment.

5.5 **Payment of taxes on behalf of AYA investments without certification of BOQ**

According to the conditions set out in the correspondence signed by the Minister of Finance with the Managing Director of AYA Investments Limited dated 29th July 2013, condition one (1) state that the goods and respective quantities are limited to the bills of quantities certified by URA.

In addition, condition four (4) requires that the said construction materials will not be sold or transferred to another person or used for any other purpose under any circumstances, implying that each import should be tracked to the BOQs as certified by URA to ensure they are not exceeded.

In the interest of prudence, the Ministry needed to establish a tracking mechanism to monitor all imports by AYA by coordinating with URA with a view of only limiting to the approved quantities only.

During the year, AYA investment limited imported ceramic tiles and other construction items worth UGX.1,281,778,058 for completion of Kampala Hilton Hotel. However, there was no evidence on file to show that each import was being tracked to the original quantities as certified by URA. The Ministry has no mechanism in place to establish the percentage of the import being paid for to the original approved BOQs and what the balance is to avoid overshoots. Besides, there is no proof that URA is consulted on this matter prior to making each payment to enable a reconciled position.

In the circumstances, the Ministry had no current position on what had been paid for and what the balance is in relation to the originally approved BOQs. There is a risk of overpayments beyond the approved BOQs because the process is not being tracked. Besides, there are no controls to ensure that the items do not end up in the open market.
Although management explained that AYA submitted the BOQs as requested and that URA carries out detailed verification and assessment on behalf of the Ministry before payments are effected; there was no reconciled position with URA availed for my verification.

I advised the Accounting Officer to reconcile the AYA imports status clearly indicating how much has so far been imported and paid for and what the balance is in relation to the approved BOQs. In addition, a proper tracing system should be instituted to track all imports.

5.6 Lack of set time limit or condition for continued tax support to AYA Investments

Best practice requires investment incentive and tax holidays to be given for a specific period of time guided by the business plan submitted by the investors to avoid abuse and misuse.

It was observed that AYA Investments appears to have been given an open-ended tax holiday (through annual renewals) without due consideration to the associated risks of projects which overrun timelines set in their business plans. As a result, the Ministry has continued to settle all tax obligations for AYA since 2013 when the MoU was signed. There was no indication that the Ministry is about to stop supporting the investor soon.

There is a risk that the originally envisaged benefits like employment opportunities when the hotel becomes operational and resulting taxes when the business starts filing tax returns may not be achieved.

The Accounting Officer explained that the Ministry has been paying import duty and taxes due for projects that are deemed strategically important. The extensions have been based on the challenges faced by investors in completing the project.

I urge the Accounting Officer to evaluate the prudency and assess the sustainability of continued support against originally expected economic benefits given that it’s not open to all investors in the hotel industry.
6.0 Project for Financial Inclusion in Rural Areas (PROFIRA)

6.1 Budget Under Absorption

According to the Ministry of Finance approved estimates for the FY 2015/2016 specifically ‘Support to Micro Finance,’ external funding to the project was budgeted at UGX.13,251,632,000. The donors (IFAD) use an imprest system of funding to finance the PROFIRA project whereby funds are reimbursed to the project account when the minimum balance has been reached.

It was noted that total reimbursements during the year amounted to only UGX.9,507,634,334 leading to under release of UGX.3,743,997,666. As a result, SACCO census was conducted in only 109 districts instead of all the 112. Besides, the signing of contracts with service providers to train in Credit and Default management were not carried out as anticipated.

The Accounting Officer explained that the procurement process for service providers in Credit and Default Management training took long to be completed leading to under absorption capacity. In addition, SACCO census in Kampala was delayed because the SACCO database at MTIC was still being updated in order to establish the location of the SACCOs.

I advised the Accounting Officer to rollover and budget for these activities to enable their eventual implementation.

6.2 Capacity Building, training and skilling SACCOs

In an effort to build capacity and skills of SACCOs as a vehicle through which all parts of the country will be able to access financial services in an affordable and sustainable manner, the Ministry of Finance signed an MOU with Uganda Cooperatives College, Kigumba to provide training services. Under the (2) year MOU, the college is to undertake the following;

- Provide management development support to SACCOs through training of trainers;
- Develop skills of SACCO management and staff as well as District Commercial Officers;
• Provide leadership to the technical committee reviewing and endorsing SACCO training materials developed by contracted service providers;

• Produce best practice manuals for each of the training areas and

• Drawing on best modules from existing materials in accordance with the agreed work plan.

However, I noted that the training of SACCOs was for only two years implying the PROFIRA project life of seven (7) years may not create the required impact to consolidate the project gains.

There is need for sustained training, monitoring and constant evaluation of SACCO performance in skills development and transfer since the SACCO boards and managers are subject to change and therefore the need for sustained training beyond the two (2) year contract.

There is need to build capacity and skills in monitoring and evaluation of SACCO financial performance on an annual or regular basis.

The Accounting Officer explained that the MoU signed between Uganda Cooperatives College Kigumba (UCCK) and MoFPED provides for a possibility of extension of the activities.

I advised the Accounting Officer to review the outcome of the 2 year period and assess whether there is need to reconsider sustainable training of SACCOs in consultation with the funders.

6.3 Project Partnership with Ministry of Trade and its sustainability

In order to promote the objectives of PROFIRA project, the Ministry of Finance signed a three (3) year MOU with the Ministry of Trade specifically the department of cooperatives development to undertake the following;

• Maintain and update the register and database of SACCOs;

• Facilitate regional and district forums of SACCOs to share knowledge and information about regulatory requirements, transfer skills and identify areas of common interest for the benefit for SACCOs;
• Investigate non-compliance of SACCOs with a view to identify SACCOs for possible turnaround support or liquidation; and

• Undertake SACCOs liquidation process and maintain an updated register of fully compliant SACCOs

It was noted that the support may not be sustainable since it runs for only three (3) years while the PROFIRA project life is (7) years. The Ministry of Trade may not have the resources to sustain facilitation and yet the project is currently providing facilitation to the District Commercial Officers to oversee and supervise the SACCOs at the district level. Besides, there is no proper exit plan in case the MOU expires without any extension to sustain the support to SACCOs currently provided by the Ministry of Trade, and the achievements made under the PROFIRA project support may not be realised unless the issue of sustainability is addressed early enough.

Management explained that the MoU provides for a possibility of extension at the expiry of 3 years. This requirement will be assessed and gaps identified for implementation.

The advised the Accounting Officer to consult with the relevant authorities to consider the issue of continuity and sustainability of the project achievements at the end of its life by developing an exit plan.

7.0 Enterprise Uganda

Enterprise Uganda (EU) is a public entity duly registered and constituted according to the Laws of Uganda with the objectives among others to work with Government to promote Government policies, directives and programmes. EU envisages Micro, Small and Medium Scale Enterprises (MSMEs) as important vehicles for expanding production, providing self-employment and generally enhancing economic growth in the country. This is in line with the government objective of enhancing the quality and availability of gainful employment and uplifting the standards of living in households. A review of the expenditure records revealed the following:
7.1 **Delay in obtaining funds for the construction of office block and training Centre**

According to the EU strategic plan for the period 2012 - 2016, one of the objectives is to build the institutional capacity for the development and promotion of small and medium scale enterprises. The expected output as per the objectives among others required EU to build a Centre of Excellence to address the needs of its different segments of clients.

I noted that EU is in the process of acquiring land in a prime location in Kampala purposely for the construction of its office block and training Centre. However, this process has encountered delays due to lack of funds. Delay in securing funds for the construction undermines the achievement of the project objective and yet rental costs currently stand at US$.31,819 annually which could be avoided.

Accounting Officer explained that Enterprise Uganda is in consultations with the Ministry of Finance to secure the financial resources for the development of the Entrepreneurship Centre.

I urge the Accounting Officer to continue with the consultations with a view of securing funds for the construction of the office block to minimise rental costs.

8.0 **Presidential Initiative on Banana Industrial Development (PIBID)**

8.1 **Delay in undertaking transformation of TBI to BIRDC**

Review of the PIBID project five year strategic plan reveals that among the key objectives is to transform the Bushenyi Technology Business Incubator (TBI) into a Banana Industrial Research and Development Centre (BIRDC) and this was supposed to be done effective 2015.

However, it was observed that the transformation has not yet taken place due to various strategic reasons among which is the delay to hand over the pilot processing plant to the client (PIBID) by the contractor (Dott Services) reportedly due to non-payment of
outstanding certificates of works. The delay in under taking the transformation to BIRDC undermines the ultimate objectives of the project.

Management explained that despite the delay, the project is in the interim transition phase awaiting final endorsement of the legal and operational framework.

I advised the Accounting Officer to liaise with the relevant authorities to ensure timely endorsement of the legal and operational framework and settle all outstanding certificates due to the supplier to allow a formal hand over of the TBI and enable progress to BIRDC.

**8.2 Lack of Supply Chain Management Plan prior to commencement of production**

The PIBID project is approaching the product development and marketing stage which requires proper planning. Best practice therefore requires the development of a supply chain management system to be put in place. This involves the design, planning, execution, control and monitoring of supply activities with the objective of creating net value, building a competitive infrastructure, leveraging logistics, synchronizing supply with demand and measuring performance.

It was noted that the PIBID project has not yet developed a plan on how to manage its supply chain when the production of Tooke products commences in 2017. There is no documentation regarding handling of logistics, production, warehousing, material handling, packaging, marketing and transportation. There is a risk that the project may fail to move the Tooke products from the point of production to the point of consumption more so safely and efficiently.

The Accounting Officer explained that the blue print for the supply chain is in place awaiting operationalization of the entire framework.

I advised the Accounting Officer to expedite the operationalization of the framework prior to the commencement of production of Tooke products.
9.0 **Treasury Operations**

9.1 **Government Investments**

a) **Shareholding and Board Representation**

Section 27 (i) of the Public Enterprises Reform and Divestiture Act (PERD), 1993, authorises the Minister to acquire and hold shares in any enterprise in which the State is required to hold shares. Section 9(4) of the PERD Act 1993 and Section 194 of the Companies Act, 2012 authorise shareholders to appoint board members.

I noted that in a number of entities in which Government holds majority interest, the Minister for Finance holds the Government shares in several companies and, as the law mandates, he appoints representatives to the shareholders’ meetings. Audit notes that with this arrangement, there are risks such as the following;

(i) The sector objectives included in the National Development Plan may not be enforced or monitored as effectively as when the shareholding and/or board representation and decision making is held within the responsible sector. Without adequate line ministry participation in the operations of the enterprise, Government is unlikely to adequately meet the development strategies for which the enterprise was set up.

(ii) I also note that the line ministry cannot enforce board representation as the decision to appoint a board member lies with the shareholders (as provided for under Section 9(4) of the PERD Act, 1993 and in the Companies Act) who may or may not appoint a suitable official of the line ministry to the board.

In his response, the Accounting Officer informed me that there is a residual responsibility with the Ministry of Finance to monitor the financial health of these institutions; however, appointments to these boards is also guided by the respective laws. In addition, Sections 11, 12 and 13 of the PERD Act also allow participation of the line Minister in the oversight of State Enterprises together with the Minister responsible for Finance.
I have advised that where a particular enterprise serves interests of multiple sectors, government could consider having more than one Ministry to hold shares on its behalf in that entity, to ensure that they are part of the decision-making process of the organisation through board representation.

b) **Investment in a Local (Ugandan) Hotel**

Included in the financial statements is an investment of UGX.2,100,000,000 in a local Hotel. However, though the investment was made seven (7) years ago, Government does not hold a share certificate and the sole shareholder does not recognise Government’s interest in the company as shown by the records at the Registrar of Companies. Under the circumstances, the government shareholding as well as its rights in regard to management of the Hotel, cannot be enforced in the absence of a share certificate evidencing ownership. This matter has been raised in my previous audit reports; however, the status quo has not changed.

The Accounting Officer indicated that efforts by the Ministry to get share certificates from shareholders are ongoing and letters had been written to the investor in this regard.

I have advised government to initiate concrete measures to either obtain the share certificates that will enable it exercise its rights over the management of the Hotel or recover the advanced amount with interest from the sole shareholder.

c) **Irregular Conversion of Loan into Equity**

I observed that the Government of Uganda irregularly converted debt worth UGX.563,502,895,496 into equity which it had on-lent to UEB successor companies (UEDCL, UETCL, and UEGCL). I noted that the successor companies originally contracted loans totalling to USD.243.5 Million from ADB, IDA and NORAD in 2010 for developing infrastructure in generation and transmission and by the end of December 2013, the outstanding loan obligations were USD.164.2 Million and accrued interest of USD.35.7 million for all the three companies. However the following anomalies were noted;
(i) There is no evidence that an opinion was sought from the Attorney General in accordance with articles 119 (4) (b) and 119 (5) of the 1995 Constitution of the Republic of Uganda. Consultations appear to have been only limited to Electricity Regulatory Authority, Ministry of Energy and Mineral development and Ministry of Finance, Planning and Economic Development and Uganda Manufacturer’s Association. This presents a risk of the debt conversion to equity being null and void.

(ii) I also noted that whereas there is no policy framework guiding Government investments, following best practice criteria for making investments, the debt-equity conversion was done without due regard to parliamentary approval as required by the Public Finance and Accountability Act of 2003 (the applicable law by then), since the Government was made to write off a receivable (Asset) from these companies.

In their response, management informed me that to enable UEDCL, UETCL and UEGCL play their respective roles in the ongoing developments in the electricity sector; the Minister responsible for Finance in 2013/14 undertook financial restructuring of the mentioned Public Enterprises by converting their debts to equity in line with Section 20 (2)-(4) of the PERD Act, which allows the Minister responsible for Finance to undertake restructuring and reform of Public Enterprises.

However, it should be noted that since the restructuring involved a write-off of public moneys, approval was required in accordance with Section 41 of the PFAA, 2003 (which was the existing law by then).

I have advised government to consider initiating steps to correct the irregularities made by converting the debt into equity.

d) **Failure to Disclose Government Interest in Companies**
It was noted that there was no disclosure of the following companies in which GOU invested both in the Treasury Accounts and/or respective ministry accounts;
Table showing companies not reflected as investments

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dairy Corporation Limited</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Refinery Holding Company Limited</td>
</tr>
<tr>
<td>3</td>
<td>Victoria Airways Ltd</td>
</tr>
</tbody>
</table>

As a result, Government of Uganda risks losing the funds that were invested in these companies.

In his response, the Accounting Officer stated that the enlisted entities have been contacted to submit Financial Statements to enable Treasury to update the investment schedule with its net worth; however, this had not yet been done and efforts to engage them are still ongoing.

I have advised the Accountant General to follow up all Government investments and include them on the investment register and also reflect the value of the investments in the financial statements as required by the PFMA, 2015.

9.2 Domestic Debt

a) Interest Rate Risk - Domestic Borrowing

Under Section 2.3(3) of the Public Debt Management Framework 2013, GoU aims to ensure that the ratio of total nominal interest payments (on domestic and external debt combined) to total government revenue (excluding grants) does not exceed 15% and that interests shall continue to be fixed.

My review of interest payments revealed that in the financial year 2015/2016, the debt office was in breach of its debt management policy when finance interest repayments for the first time reached 16% of total government revenue (excluding grants).

Further analysis revealed that the finance costs as a percentage of total government revenue (excluding donor) have increased at an accelerated rate from 12% in the financial year 2012/2013 to 16% in 2015/2016 (refer to table below);
Table showing Interest payment for Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>URA collections - UGX</th>
<th>Interest payment - UGX</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>11,036,411,683,874.00</td>
<td>1,751,640,689,274.00</td>
<td>16%</td>
</tr>
<tr>
<td>14/15</td>
<td>9,879,661,854,328.00</td>
<td>1,272,446,531,528.00</td>
<td>13%</td>
</tr>
<tr>
<td>13/14</td>
<td>8,094,437,031,946.00</td>
<td>981,367,279,594.00</td>
<td>12%</td>
</tr>
<tr>
<td>12/13</td>
<td>7,231,400,621,081.00</td>
<td>899,320,813,651.00</td>
<td>12%</td>
</tr>
</tbody>
</table>

The drastic increment was attributed to high cost on domestic borrowing and an increased share of bilateral loans which are not concessional, examples of which are shown below;

Table showing Bilateral/multi-lateral loans with high-interest rates

<table>
<thead>
<tr>
<th>CURR</th>
<th>Loan Amount</th>
<th>Creditor Name</th>
<th>Project Name</th>
<th>Interest Rate (%)</th>
<th>Maturity (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>84,979,502</td>
<td>Exim Bank Of China</td>
<td>Luzira, Mukono, Iganga &amp; Namanve</td>
<td>3.44</td>
<td>15y</td>
</tr>
<tr>
<td>USD</td>
<td>645,821,407</td>
<td>Exim Bank Of China</td>
<td>Karuma Hydropower Dam</td>
<td>3.94</td>
<td>15y</td>
</tr>
<tr>
<td>USD</td>
<td>9,000,000</td>
<td>Govt Of Nigeria</td>
<td>Nigerian Loan</td>
<td>4.00</td>
<td>11y</td>
</tr>
<tr>
<td>EUR</td>
<td>15,000,000</td>
<td>Govt. Of Germany</td>
<td>132 Kv Double Circuit Tr. Line</td>
<td>4.50</td>
<td>14y</td>
</tr>
<tr>
<td>USD</td>
<td>4,833,325</td>
<td>ADB</td>
<td>Health Services Rehab Project.</td>
<td>4.00</td>
<td>24y</td>
</tr>
</tbody>
</table>

I have advised government to always undertake adequate evaluations of the wider implications of any new debt to the existing debt stock, so as to ensure that the set policy targets are not exceeded.

b) **High Interest Rates on Domestic Borrowing**

Analysis of the trend of interest rates for domestic borrowing revealed a significant increment over the last four years, as shown in the table below;

Table showing comparison between Government and private sector borrowing rates

<table>
<thead>
<tr>
<th>Year</th>
<th>364 day Treasury bill rate</th>
<th>Commercial loans</th>
<th>Differential (risk premium)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>13.1%</td>
<td>23.3%</td>
<td>10.2%</td>
</tr>
<tr>
<td>2014</td>
<td>12.7%</td>
<td>21.6%</td>
<td>8.9%</td>
</tr>
<tr>
<td>2015</td>
<td>18.5%</td>
<td>22.6%</td>
<td>4.1%</td>
</tr>
<tr>
<td>2016</td>
<td>19.1%</td>
<td>24.9%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

*Source: Bank of Uganda website*

The above table shows that the differential in interest rates (risk premium) between commercial lending rates and Treasury bill rates is getting smaller each year.
This is an indicator of either a higher perceived risk by the market in regard to Government borrowing or that the Government borrowing rate may not be determined by free market forces.

The higher risk is manifested by a number of indicators, including; increased volume of domestic borrowing arising from increased Government expenditure; failure to follow the treasury instruments issuance calendar; failure to commit funds for redemption of domestic borrowing (all redemptions are done through refinancing); and downgrading of the sovereign credit rating by Moody’s from 'B1' to 'B2' status.

Under the current circumstances, this has an effect of crowding out the private sector; going by the risk-return relationship it is more lucrative to lend to Government than to the private sector.

If the above trend persists, the cost of finance to Government from the domestic market will become a deterrent to borrowing from the domestic market.

In his response, the Accounting Officer explained that 2015/16 saw a sharp increase in domestic government yields, especially before the February 2016 election when yields on government securities rose up to 25%.

This was caused by several factors, including Investor uncertainty on whether the Government would stick to its domestic financing budget; a sharp depreciation in the Ugandan shilling; a global sell-off of Emerging Market Assets as well as the increase in the domestic debt stock to finance the Government’s budget.

He further explained that as yields are not expected to decline significantly further, the Government has taken steps to control interest payments in future, by reducing net domestic government borrowing over the medium term as evidenced by the reduction in the net domestic financing targets as agreed with the IMF.

I have advised Treasury to investigate the causes of the ever increasing cost of domestic borrowing and provide a lasting solution to the problem.
9.3 **Bilateral and Multilateral Debt**

a) **Low debt absorption/non-performing loans**

My review of the loan disbursements revealed that several loans appeared to be performing poorly, with some nearing expiry; while others reached the closing date without fully disbursing. As at 30th June 2016, committed but un-disbursed debt stood at UGX.18.1 trillion (comprising of UGX.8.6 trillion multilateral and UGX.9.5 trillion bilateral).

Such low levels of performance undermines the attainment of planned development targets and render commitment charges of UGX.20,922,168,282 paid in respect of undisbursed funds nugatory.

Besides, Government may suffer sanctions from the lenders/Development Partners which may affect future funding and service delivery as was the case with the World Bank.

In their response the Accounting Officer stated that Government has committed to avail Project Preparation Funds for projects to ensure the Feasibility Studies, Environment Impact Assessments (EIAs), Projects Affected Persons (PAPs) and Project Managements Units (PMUs) are established early enough so that by Loan signature, the projects are ready to take off in the first year of implementation as per agreed disbursement Schedules.

In addition, government is now emphasizing linking work plans and budgets to cash flow requirements and providing timely counterpart funds through identification of all counterpart obligations and strictly enforcing the protection of budgeted resource meant for counterpart funding and payment of taxes.

I advised Government to undertake a comprehensive analysis to identify all the bottlenecks hindering the smooth implementation of the above projects with a view of resolving them so as to enhance the absorption rates.
b) Foreign Debt Composition and Exchange rate risk

Under Section 2.3(5) of the Public Debt Management Framework 2013, GoU aims to ensure that the proportion of foreign currency debt to total debt does not rise above a maximum of 80% over the lifetime of the framework.

Audit noted that since the operationalization of the framework, the foreign debt composition (including disbursed and undisbursed debt) to total debt has significantly been increasing from 67% as at June 2013 to 77% as at June 2016 (Refer to table below);

<table>
<thead>
<tr>
<th>Year</th>
<th>External Debt (UGX)</th>
<th>Total – (UGX)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>35.4 trillion</td>
<td>46,270,530,231,190</td>
<td>77%</td>
</tr>
<tr>
<td>14/15</td>
<td>25.9 trillion</td>
<td>33,133,576,066,692</td>
<td>78%</td>
</tr>
<tr>
<td>13/14</td>
<td>16.6 trillion</td>
<td>22,698,495,901,981</td>
<td>73%</td>
</tr>
<tr>
<td>12/13</td>
<td>15 trillion</td>
<td>22,325,040,846,815</td>
<td>67%</td>
</tr>
</tbody>
</table>

Further analysis revealed that the accelerated increment in the absolute value of foreign debt was caused by both increase in the nominal amounts borrowed and also the increase in the translation rate arising from the depreciation of the Uganda shilling against major currencies especially the US dollar.

If the current trend persists Government is likely to exceed the 80% cap in the near future, which may negatively impact on the risk perception of the lenders to Government; translating into higher interest rates on foreign denominated loans.

I have advised government to prudently manage the rate of acquisition of fresh debt, so as to ensure sustainability.

9.4 Mandamus Payments

In 2015/16 financial year, UGX.63,501,117,771 was paid out to beneficiaries of court awards from Treasury Operations. The following matters were noted from my review of the transactions;
a) **Court Orders with no Writ of Mandamus**

A writ of mandamus is a court order to a Government agency compelling that Government agency to abide by a ruling of the court. The Ministry of Finance settled various court awards on the basis that a writ of mandamus had been served on the PS/ST. Budgeting and payment for court awards is done by the Ministry of Justice and Constitutional Affairs.

During the year, the Ministry made payments for 17 court-ordered settlement cases and paid UGX.63,501,117,771. Only 3 of these court cases settled during the year is supported with a writ of mandamus implying that UGX.53,699,692,771 or 85% of the total payments made by the Treasury as mandamus was not supported by a writ of mandamus.

The documentation availed indicates that the claims upon which the payments were made, were supported by court rulings (but not a writ of mandamus).

In my view, these payments could have been paid from the Ministry of Justice and Constitutional Affairs where they were budgeted for as per their mandate.

Management on their part explained that in June 2013, the Attorney General advised the ministry to clear payments for Court Cases with high interest to avoid further accumulation.

I have advised the Accounting Officer to have payments without writ of mandamus paid through the established payment frameworks to reduce distortions.

8.0 **Budget Monitoring and Accountability Unit**

8.1 **Composition of the Steering Committee**

Section 7.1 of the Project Financing Agreement provides for a steering committee chaired by the Director Budget-Ministry of Finance, Planning and Economic Development for policy guidance. Members to this committee shall be drawn from the following institutions;
• Director Budget, MFPED
• Office of the Prime Minister (Dept. of M&E)
• Office of the President (Monitoring Office)
• DANIDA
• Parliamentary Budget Office
• Ministry of Public Service (ROM)
• Coordinator of CSBAG
• BMAU

It was noted during review of steering committee minutes that the National Planning Authority and the Ministry of Public Service had not nominated representatives to the steering committee. There is a risk that the project did not benefit from the expertise/resources from these institutions and this may have negatively impacted the achievement of the project objectives.

Management explained that the two institutions were invited to form part of the steering committee but didn’t respond.

I advised the project management to continue engaging these institutions and ensure that steering committee is fully constituted as planned.

8.2 **External Communication**

The following were noted during review of the communications strategy, regarding external communication with stakeholders;

• The BMAU has not extensively used the media to disseminate its information, thus limiting visibility opportunities. This leaves the public with little information about the work of the Unit.
• The BMAU has a page on the Finance Ministry website containing only a short brief about the unit, monitoring reports and policy briefs. At times, current information is not quickly uploaded on the page. The structure of Government websites does not allow for flexible sharing of various forms of information like video clips and photos.

In light of the above, there is a risk that the project may not obtain valuable comments from the public with regard to its activities.
Although management indicated that reports are now accessible on the MoFPED website and various for a, they acknowledge that it is slow and makes access to information rather difficult.

I advised management to address the gaps identified above during future projects implementation.

9.0 **Financial Management and Accountability Programme (FINMAP III)**

9.1 **Discrepancy between expenditure in quarterly reports and ledgers**

The Program Management Team is required to prepare and submit quarterly financial reports to Development Partners. During the audit, I noted a discrepancy between cumulative quarterly report expenditure and the underlying ledgers amounting to UGX.160,076,181 (Shillings One Hundred Sixty Million Seventy Six Thousand One Hundred Eighty One) as follows;

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative quarterly expenditure</td>
<td>50,474,973,703</td>
</tr>
<tr>
<td>Cumulative ledger expenditure</td>
<td>50,635,049,884</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>160,076,181</strong></td>
</tr>
</tbody>
</table>

Quarterly financial reports should be derived from underlying accounting ledgers. The discrepancy between the two implies misstatement of quarterly financial reports.

Management explained that the Customized Expenditure by Activity Report was specifically designed to report based on expenditure on various programme activities, to meet the reporting requirements of Development Partners. In contrast, the Government of Uganda Financial Management System (The Integrated Financial Management and Information System – IFMS), through which budgeted funds are accessed, procurements initiated and payments facilitated, also provides a reporting framework which is based on the Chart of Accounts. It is along this framework, that the Programme Final Accounts are prepared and audited.
The inaccuracy of the Customized Expenditure by Activity Report is attributed to the fact that it only came into operation in the second quarter of the financial year.

Management promised to follow up the reconciliation between the Customized Expenditure by Activity Report and the IFMS generated accounts on a monthly basis to ensure that there are no more differences and that quarterly reports are accurate.

I advised management to ensure that quarterly financial reports are derived from underlying accounting records.

10.0 Departed Asians Properties Custodian Board (DAPCB)

10.1 Winding up of the activities of DAPCB

Review of the Board extra Ordinary Meeting of 19th December, 2014 under minute 2 DAPCB/2014 revealed that Cabinet through the Minister of Finance (Board Chairman) had directed the board to cause the production of the following;

(i) A clear roadmap outlining the activities to be undertaken in the process of winding-up of the Custodian Board.

(ii) The development of an exhaustive Asset Register of the properties under the Board.

(iii) Reconstruction of the books of accounts of the board by a firm appointed by the Accountant General.

(iv) Develop clear terms of reference for the appointment of a liquidator to be tasked to wind-up the activities of the Custodian Board.

(v) To ensure all pending litigations are transferred to the Solicitor General for prosecution or defence.

(vi) Compensation claims be sent to Solicitor General for advice once proven genuine, these should be sent to Accountant General for verification and thereafter scheduled for payment.

It was noted that there was no documentation to confirm that the directives were implemented except for appointment of an audit firm to prepare books of accounts.
There appears to be a delay in implementing the Cabinet directives discussed and agreed by the Board. Such inaction delays the winding-up process of the board activities.

I advised the Board to ensure that these activities are urgently implemented as directed by Cabinet in order to facilitate the winding up of Board activities.

10.2 Governance Matters

a) Lack of a substantive Board Secretary

Section E-c 5(e) of the Uganda Public Service Standing Orders, 2010 limits the period of acting in a same position to six months unless renewed by the appointing authority. It was noted that Board in its 6th meeting of 9/05/2013 under minute 3/DAPCB/2013(6) appointed Mr. Sam Male as Ag. Executive Secretary (ES). The officer has continued to act in this position to-date. I was not provided with evidence to show that the board renewed his appointment as required by the standing orders. It is irregular for an acting position to run indefinitely.

Management explained that the Board of Directors could not make a final decision on this matter because the former ES kept on insisting that he was still the ES. Following the Attorney General’s guidance, the former ES was terminated effective 5th May, 2016. This will enable the Board of Director to address the matter in the next meeting.

I urged management to follow up the matter with a view of appointing a substantive Executive Secretary to facilitate winding up of the activities of the Board.

b) Holding of multiple positions by Ag. Executive Secretary

In its 7th meeting of 24/04/2015, under minute 5/DAPCB/2015 the board noted with concern that the Ag. Executive Secretary was holding additional two positions of Chairman Divestiture Committee and Presidential nominee to the Board. The Board indicated that this could cause conflict of interest in implementation of board directive especially as Chair of the divestiture committee.
This position was demonstrated under minute 3/DAPCB/2015(2) of 09/07/2015 whereby the Divestiture Committee had prepared a report for the board but submitted copies directly to individual board members instead of through the Executive Secretary. As a result, the board directed that the other (3) members of the Divestiture Committee submit their CVs to the Executive Secretary for onward presentation to the board to enable the latter appoint one of them Chairperson of the committee.

To date the board decision has not been implemented.

Management explained that a new Chairman of the Divestiture Committee has been appointed during the recent Board meeting although the appointment letter is yet to be signed by the Minister of Finance, Planning and Economic Development.

I advised Management to follow-up the matter with a view of complying with board directives to avoid situations where conflict of interest.

c) **Frequency of Board meetings**

Section 5(1) of the Assets of Departed Asians Act (CAP 83) provides that the board shall meet for the discharge of its functions under this Act at least once every month at such time and place as the chairperson may appoint.

It was noted that the DAPCB did not meet regularly as required. A review of the Minutes revealed that after the meeting of 21st September, 2011, the next board meeting took place on 21st October, 2012 after a period of thirteen (13) months.

In a similar instance, the 6th meeting was held on the 9th May 2013, while the 7th meeting took place on the 24th April 2015, after a period of ten (10) month an indication that the board was not regularly meeting.

Failure to meet regularly as provided for by the Act tantamount to non-compliance with the above section of the law which may result into making delayed decisions.

Management explained that the Board of Directors consists of six (6) Cabinet Ministers and their schedules are normally very busy. As a result the Board very often fails to
realize the necessary quorum. Going forward, the members will be informed of this matter, reminding them of their legal obligations.

I urge the Board to hold regular meetings to enable timely discharge of its obligations.

d) **Divestiture Committee Minutes**

As per section C ‘the divestiture Committee’ of the cabinet Memorandum dated 12/9/2013 page 4, the divestiture committee was established by statutory instrument No: 82 of 1993 and was mandated to carry out activities with a view of facilitating the respective procedures of the board.

However, the divestiture committee meeting minutes from 2009 were not provided for audit. I was therefore unable to satisfy myself that the committee did perform its activities in line with the cabinet memo and the appointment letters. There is a risk that the appointed divestiture committee may not have met the required standards, capacity and resources to execute their responsibilities thus putting the board’s resources at risk of being misappropriated.

Management explained that minutes are being reconstructed since the originals in (soft copy) were lost on the official computer. Attempts are being made to retrieve them. The committee was recalled in October 2010 but also lacks resources to inspect properties and establish their current status.

I advised management to follow up the matter and provide all authenticated meeting minutes of the divestiture committee to enable assessment of its performance in line with DAPCB objectives and eventual winding up of board activities.

e) **Un-Authenticated Board Minutes**

Section 7(2-3) of the assets of Departed Asians Act (CAP 83) requires the Executive Secretary of the Board to take, or cause to be taken, minutes of the meetings of the Board and to keep proper records of all transactions of the Board. However, it was noted that all the board minutes provided for review were not authentic by way of
signatures of both the Chairperson and Board Secretary. I was unable to confirm the genuineness of the minutes and Board decisions. Failure to endorse board minutes poses the risk of unauthorised omissions and or amendments resulting into implementation of wrong board resolutions.

Management explained that they are in the process of locating the authenticated copies. The authenticated copies are suspected to have been misplaced by the presence of several security organs investigating DAPCB.

Management action on the matter is awaited.

f) **Appointment of a Legal Officer by the Attorney General**

In the 7\textsuperscript{th} meeting of 24/04/2015 under minute 4/DAPCB/2015 paragraph (5), the Board resolved that the Attorney General appoints a Legal Officer who should liaise with the Executive Secretary in handling legal issues especially those matters related to the winding-up process of the Board. It was however observed that there was no Legal Officer currently available to guide in handling the entity legal issues. Management had recommended the recruitment of a legal officer but this was rejected by the Board of Directors. Once in a while, the Ag.ES represented DAPCB on legal matters in courts. A review of DAPCB documentation revealed that 40 cases were in court and had not been resolved.

Management explained that the Board of Directors had recommended that DAPCB utilize the services of the government legal expert (Attorney General (AG)) but the AG could not second a legal Officer to handle all DAPCB due to staff shortage.

I advised the Board to follow up the matter further with the Attorney General for effective government representation in courts of law. This will also facilitate winding up of board activities.
g) Lack of report on Divestiture Committee activities

In the last paragraph of the minute 5/DPACB/2015 in its meeting of 24/04/2015, the board had directed the production of a report on the activities of the Divestiture Committee to enable the Board determine whether the committee’s existence was still necessary in light of the pending appointment of a liquidator to wind-up the Custodian Board. However, it was noted that this report was not submitted for review. The absence of the report could have denied the Board the basis for determining the current continued existence of the Divestiture Committee pending the winding-up exercise.

Although it was explained that the report was submitted to the Board of Directors, a copy has not been provided for audit verification.

I urged management to provide a copy of the Divestiture Committee report and the related action on the report.

10.3 Status of matters raised by the PS/ST to Cabinet

In a communication referenced FAD.85/275/01/ Vol.13 dated 12th September, 2013, the PS/ST forwarded the Cabinet Memorandum (Paper) raising a number of outstanding issues regarding DAPCB that required urgent attention. This paper was obtained for review and it was noted that the matters have largely remained unresolved. The board should resolve the matters to enable winding up of the board activities.

a) Non-inspection and valuation of (136) identified properties

Under item number 18 in the Cabinet Paper, it was disclosed that one hundred and thirty six (136) properties had been identified and required inspection by the Divestiture Committee and there after cause their valuation.

It was however observed that the inspection and valuation reports were not provided for review during audit since the valuations were not done and concluded as expected.

As a result, I was unable to establish the locations, status and values of the 136 identified properties. There is a risk of loss of government properties and proceeds from
the sale of these properties unless inspections have been done and valuation concluded urgently.

Management explained that this was due to lack of budget provisions and other logistics to perform the inspections.

I urged the Divestiture Committee to have these properties inspected and valued.

b) Need for revaluation of twenty two (22) properties
The Cabinet Memorandum had also indicated the existence of (22) properties which had been valued in 2009 and were ready for disposal. However, I noted that there is need to have these properties revalued to establish the current market values before the disposal is done as the original valuations have been overtaken by time and events. However, this was not done. To sell these properties on the basis of old valuations would lead to loss of revenue since land values are subject to frequent changes (appreciations) in the current market. Unless revalued, there is a risk of selling these properties at lower than current market rates, hence loss of public money.

The Ag. Executive Secretary explained that the delay in revaluations was due to limited resources but this process will be done before disposal is considered.

Management action on the matter is awaited.

c) Un-Recovered balances from partly paid for properties
According to the cabinet paper (81) properties had been partly paid for. The paper indicated that all outstanding balances be fully collected before the board wind-up its activities.
It was however noted that the schedule for the outstanding balances for the (81) properties and the respective ledgers indicating details of the outstanding amounts were not provided for audit verification.
There was no documentary evidence to show that the Divestiture Committee had made any efforts in identifying and recovering the outstanding balances. There is a risk that the board could wind-up business without recovering the outstanding balances.

Management explained that efforts have been made to recover the money and the exercise is still on-going. The number of partially paid for properties has now gone down. The Board has been financially constrained, without a budget to run some of these activities.

I advised the Divestiture Committee to identify the current occupants of these properties and recover all outstanding balances. Further, the schedules of the outstanding balances together with supporting individual ledgers be provided for audit verification.

d) **Properties valued by un-qualified personnel**

Section (13) of the Expropriated Properties Act CAP 87 guides the Minister in matters of valuations in utilizing the services of the board of valuers established under section 2 of the Properties and Businesses (Acquisition) Decree, 1975.

A review of the Cabinet Memorandum revealed that there were thirty six (36) properties which require revaluation and offer for sale because existing valuations were done by un-qualified personnel. However it was noted that since then (2013) the said properties have not been revalued. There is no evidence to show that action has been taken to initiate the revaluation process. There is a risk that these properties could be offered for sale at unrealistic values resulting into loss of government revenue.

Management explained that efforts to get the opinion of the Attorney General on this matter were not responded to hence, no action could be taken without a clear legal position.

I advised the Ag; Executive Secretary to seek Board of Directors authority to have these properties revalued by qualified registered and practicing valuers as guided by the Act before the properties are sold.
e) **Failure to inspect, value and sell properties redeemed from banks**

It was also noted in the Cabinet paper that a total of (80) eighty properties were redeemed by the board and their respective title Deeds were still in custody of the DAPCB. Cabinet had recommended that the properties be valued and offered for sale. However, it was noted that the properties had not been inspected by the Divestiture Committee at the time of audit in June 2016. There were no valuation reports hence the delayed disposal. There is a risk that these properties could have been lost to third parties without any proceeds being realized.

Management explained that this was due to lack of facilitation and logistics to undertake this exercise however, the cases will be reviewed and the Chief Government Valuer will be invited to inspect and value them for eventual sale.

I urged management to have these properties urgently inspected and their current status established to enable valuations to be done for subsequent sale.

f) **Properties whose certificates have never been collected**

Section 9(3) of the Expropriated Properties Act CAP 87 empowers the Minister of Finance (Board Chair) to issue a certificate to the purchaser or recipient of any property or business sold or otherwise disposed of under this section, and the certificate shall have the same effect as a certificate issued under sections 5 and 6.

The Cabinet Memorandum indicated that seventy one (71) dully signed repossession certificates have never been collected by the owners and were still in the custody of the Board. Cabinet had implored the Divestiture Committee to ascertain the current status of these properties to identify those which could be offered for sale since the owners never complied with the Act.

However, it was noted that there was no inspection reports availed for verification indicating the current status of these properties as had been directed by the Cabinet Paper.
There was no other documentary evidence to show management efforts/actions in ascertaining these properties. There is a risk that other title deeds were obtained from the land commission without basing on the certificates issued by the Custodian Board as required.

Management explained that efforts were made in the past, reminding the reposseors or their agents to collect these certificates but in vain.

I advised management to endeavor to inspect these properties and establish the current status.

g) **Allocation of Plots 36 & 38 Nile Crescent Jinja; Without Board Authority**

Section 6(1) of the Assets of Departed Asians Act (CAP 83) gives the Board powers to take over and manage all assets transferred to it by virtue of section 13 of the Assets of Departed Asians Decree, 1973. Section 3(1) of the Expropriated Properties ACT CAP 87 also empower the Minister of Finance (Board Chair) to transfer to the former owner of any property or business vested in the Government. Section 9(1) of the Act further provides that where a former owner of any property or business does not apply for repossession within the period of one hundred and twenty (120) days, the Minister may make an order that the property or business be retained by Government, or be sold or disposed of in such manner as may be stipulated in the regulations made under this Act.

A review of communication from the Inspectorate of Government to the Minister of Finance (Board Chair) revealed that property on plots 36 & 38 LRV 166 FOLIO 3 & 4 Nile Crescent originally repossessed by M/s Sikh Saw Mills & Ginners Ltd; on May, 1992 was irregularly allocated to M/s Loyal Small Scales Industries Ltd.

The original repossession was confirmed by the Ag. Executive Secretary in a communication referenced VC8/121/8UGC dated 23/08/2011.

The minutes of the Board authorizing this allocation together with written communication from the Minister (Board Chair) for the same were not provided for review. Unless supported, the allocation remains un-authorized and irregular.
I urged management to provide the Board authority or any documentary evidence supporting the regularity of the allocation.

h) **Un-supported compensation**

Under issue number (20) on page (6) of the Cabinet Paper, it was disclosed that there are currently twenty six (26) unsettled compensation claims amounting to UGX.1,770,041,243. These claims relate to properties sold by the Custodian Board, prior to receiving repossession claims by original owners.

This was caused by lack of a fixed deadline for submission and receiving of claims which created a loophole for departed Asians who can technically apply for compensation at any time (even to-date).

However, it was noted that the schedule and respective claim files supporting the compensation amounts indicated above were not provided for audit. I was therefore unable to confirm the authenticity of these claims.

I urged management to provide the claims schedule together with supporting files.

10.4 **Book keeping and preparation of financial statements**

a) **Failure to Keep Proper Books of Accounts and prepare financial statements**

Section (8) of the Assets of Departed Asians Act (CAP 83) requires the Board to maintain books of accounts and proper records relating to them. These include a balance sheet, a statement of income and expenditure, a cash flow statement as well as a statement of surplus or deficit each financial year.

It was noted that the Board did not maintain proper books of accounts as the annual financial statements have not been prepared since 1999. The Board had earlier resolved to contract a firm of Accountants to prepare the annual financial statements for the last ten years but at the time of audit, process of preparing accounts had not started.
I was therefore unable to audit and issue an opinion on the transactions of the board for the period under review. There is a risk of loss of public funds and property as well as non-accountability of the entity expenditures.

Management explained that the Board has not had an Accountant since 1999 following a decision by the then Hon Minister of Finance to halt recruitment since the entity was in the process of being wound up. Going forward, Management has now recruited and appointed a firm of Accountants to compile the accounts.

I urge the Board to follow up with the appointed firm of Accountants to expedite the preparation of financial statements. This will also facilitate winding up of board activities.

b) **Lack of Comprehensive Asset Register as Originally gazetted**

Section (8) of the Assets of Departed Asians Act (CAP 83) requires the responsible Minister of Finance to ensure that the Board keeps a register of property and businesses of the assets of departed Asians declared under Form PRO/4 specified in the Schedule to this Act and to cause the contents of the register to be accurately published in the Gazette from time to time.

However, it was noted that the Board does not have a comprehensive and reliable asset register and a supporting copy of the gazette. The Board under minute 3/DAPCB/2014 (2-Asset Register) resolved that the firm of Accountants that will be appointed to prepare financial statements will also prepare a comprehensive asset register but this was not the case.

I was unable to establish the total assets as originally left by the departed Asians. Although management provided me with a draft asset register, there is a risk that the draft provided may be incomplete and inaccurate resulting into loss or misappropriation of government assets.
Management explained that efforts to trace the original gazette did not yield results despite several attempts to trace it from Government Printery at Entebbe, Parliament Library, Makerere University Library, Attorney General’s Chambers and Ministry of Trade.

I advised management to continue following up the matter with a view of establishing a comprehensive asset register and ensure that these assets are properly recorded to ensure winding up of board activities.

c) **Failure to prepare monthly bank reconciliation statements**

The objective of preparing bank reconciliation statements is to ensure that the bank transactions in the cash book tallies with the entries in the bank statements on a monthly basis. DAPCB operates two bank accounts with Bank of Uganda as indicated in the table below;

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Account Number</th>
<th>Principal Signatory</th>
<th>Category (B) Signatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departed Asian Custodian Board – Collection Account</td>
<td>000080088000203</td>
<td>Mr. Samuel Male and Mrs. Irene Apio</td>
<td>Mr. Samuel Male and Mrs. Irene Apio</td>
</tr>
<tr>
<td>Departed Asian Custodian Board – Operational Account</td>
<td>000080088000202</td>
<td>Mr. Samuel Male and Mrs. Irene Apio</td>
<td>Mr. Samuel Male and Mrs. Irene Apio</td>
</tr>
</tbody>
</table>

It was however noted that the Board did not prepare monthly bank reconciliation statements as guided by best practice. This implies that errors identified could not be corrected and or adjusted in a timely manner.

There is a risk that loss of funds from the bank account may occur undetected.

Management attributed this issue to lack of an Accountant who could not be recruited since the winding-up process had started. The Board had decided that the procured firm of Accountants would carry out the reconciliations.

I urged management to ensure that bank reconciliation statements are prepared on a monthly basis.
10.5 **Review of revenue collection records**

a) **Revenue Cash Collections**

Section 11 of The Expropriated Properties Act CAP (87) provides that all monies realized from the sale or other disposal of any property or business under this Act shall be paid into such account of the Government or Government body as the Minister may direct. To operationalize this Act, Government opened up a collection account in Bank of Uganda and all proceeds from sale of assets were to be deposited on this Collection Account number –00080088000203.

It was however noted that revenue to a tune of UGX.50,275,000 was received in cash contrary to the regulations. The respective payees were required to make direct bank deposits and present bank deposit slips to the Custodian Board for purposes of processing receipts but this was not the case. Besides, these funds were not accounted for.

Further, a sum of UGX.15,241,000 receipted as cash collections were not traceable to the bank statements. There is a risk that these collections were spent at source without the board authority.

Cash collections are inherently risky since it can be spent at source without board authority. The cash collections can also be prone to misappropriation. In the meantime further investigation on the utilization of these funds should be undertaken.

Management explained that the former Accountant who received the cash has since been transferred and is currently working with Ministry of Finance, Planning and Economic Development. Currently all transactions collections are done through the Bank of Uganda account.

I advised management to avoid revenue cash collections by making prompt banking and also account for all the above cash collections. In the meantime, further investigation on the utilization of these funds should be undertaken.
b) **Unexplained payments**

A review of the bank statements revealed that a total of UGX.292,300,000 was withdrawn from the bank without any explanations as to the nature and purpose of payments as there were no bank narrations. The payments were withdrawn in two separate transactions. (UGX.200,000,000 and UGX.92,300,000). I was therefore unable to ascertain the nature and authenticity of the payment. There is a risk of loss of these funds.

Management explained that the former ES could not be traced to explain the anomaly since the transitions involved were done during his period as ES.

I advised management to follow up the matter further with a view to establishing how the funds were utilized. Otherwise recovery measures should be instituted.

### 10.6 Inspection of Custodian Board Properties in Jinja

There are 3 categories of properties under DAPCB as per the entity asset register as indicated in the table below.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Category</th>
<th>Number of properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rented properties</td>
<td>131</td>
</tr>
<tr>
<td>2</td>
<td>Valued properties due for sale</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Properties pending inspection and valuation</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>139</strong></td>
</tr>
</tbody>
</table>

I inspected 138 properties in Jinja on 2nd May 2016 under the ‘rented’ and ‘Properties pending inspection and valuation’ category and the following was observed.

### a) Valuation of compensations and sales

Section 13 ‘Valuation of properties of the expropriated Act cap 83’ requires that in the implementation of this Act, the Minister shall, in matters of valuations, be guided by the board of valuers established under section 2 of the Properties and Businesses (Acquisition) Decree, 1975.

It was noted that all the 138 properties inspected in Jinja were not revalued to establish the current market values since the previous rent currently being paid have been overtaken by time and events. For instance tenants are still paying rent worth
UGX.150,000 on the main street of Jinja one of the most viable commercial area an indication that rent was being charged at lower than the market value.

To pay rent based on old valuation could result into loss of revenue. Ideally, rental values are subject to frequent changes (appreciation) in the current market.

Management explained that the revaluation of rental properties has been delayed by the lack of resources/ necessary logistics, such as vehicles and funds to cover other requirements. Some of the properties have depreciated in value and thus condemned by the controlling authorities.

I urged management to take up this matter and have all the rentable properties revalued to avoid further revenue losses.

b) **Appointment of valuers**

Section 13 ‘Valuation of properties of the expropriated Act cap 83’ requires that in the implementation of this Act, the Minister shall, in matters of valuations, be guided by the board of valuers established under section 2 of the Properties and Businesses (Acquisition) Decree, 1975. The board of valuers shall determine the reserve price for the property or business.

It was observed that DAPCB does not have a board of valuers from which the Minister can base his decision to value properties. As such, valuation of properties was done by valuers who were not appointed as per the law. According to the asset register, six (6) properties had been valued pending sale and eleven (11) properties are pending inspection before valuation in Busoga region alone.

A review of documentation and inspection of properties in Jinja revealed that plot 13 Kawunye lane was valued by A.S Gabiraari on 10/12/2008 at a reserve price of UGX.65,000,000. Property on plot 2, 4 and 6 Kennedy road was valued by a government valuer at reserve price of UGX.100,000,000 in 1992 and in 2014, the same property was valued by another valuer at a reserve price of UGX.85,000,000.
There is a risk that these properties could be offered for sale at unrealistic value resulting into loss of revenue.

The Ag.ES explained that the Chairman of the Board of Valuers was appointed in 2011, but has never been facilitated due to lack of funding.
I advised management to ensure that all properties due for sale are subjected to valuation in line with the law.

c) **Arrears management and Non-Payment of Rent**
Section 8(1) of the Assets of the Departed Asians Act requires the board to keep books of accounts and proper records relating to them.
It was noted that the board did not have a complete and comprehensive list of all DAPCB tenants property ledgers, demand notices to defying tenants and a follow up mechanism on the outstanding demand notices.
In addition, the Board did not have any arrears management policy, procedures or system in place for arrears management.

As a result, arrears totalling to UGX.1,089,000,000 had accumulated in rental properties in Jinja alone due to non-payment of rent by sitting tenants since 2010. There is a risk of loss of such needed revenue from these government properties.

Management explained that lack of manpower and logistics has hampered operations of the Board. In the past the DAPCB had a finance manager, a legal manager and an accountant for this purpose amongst others. Despite the meagre resources, the entity will endeavour to reconcile and recover the rent payable.

I advised the board to establish an up to date position to enable proper winding up of the board activities.

d) **Duplicated allocations of government properties**
A review of rental property files and physical inspection in Jinja municipal council revealed that the Custodian Board double allocated properties on plots 13 Kawunye
lane, Plot 20 Kirinya Rd, Plot 4 Owen road, Plot 31, 33 & 35 Nile Crescent Rd, Plot 2, 4 and 6 Kennedy road to different tenants before cancellation of the previous tenancy. Ideally, a property cannot be allocated to more than one person at a specific time unless when the rental period for the first allocated person has expired. There is a risk that Custodian Board may lose revenue through non-payment of rent and being sued for allocating an already allocated property which may lead to payment of fines and penalties.

Management explained that previous allocations were cancelled before new allocations were made. It is also common to find illegal allocations by a former employee of the Board who has been dismissed.

I advised the board to review all the allocations to ensure that there is no duplicate allocation and also eliminate illegal allocation by former dismissed staff.

e) Irregular repossession of properties
Section 3 (2) of the Expropriated properties Act stipulates that nothing in this Act shall be construed as empowering the Minister to transfer property or business to a former owner unless the Minister is satisfied that the former owner shall physically return to Uganda, repossess and effectively manage the property or business.

Section 9 of Expropriated Properties also stipulates that where a former owner of any property or business does not apply for repossession within the period specified under section 4, the Minister may make an order that the property or business be retained by Government, or be sold or disposed of in such manner as may be stipulated in the regulations made under this Act; except that in the case of a registered business or enterprise, the Minister may, on being satisfied that the minority interests in the business or enterprise may be unduly prejudiced by an order made under this section, give such other directions as he or she deems fit.
According to the gazette dated 13th May 1993, notice number 88 of 1993, the minister of finance shall continue to receive applications up to the 30th day of October 1993. A number of properties were repossessed outside the stipulated time.

It was noted that 42 properties were irregularly repossessed as evidenced by the investigation reports from police CIID due to wrong application procedures because the applicants failed to attach powers of attorney and out of date repossessions.

The report further indicated that most of the properties which were managed and owned by Gandesha were fraudulently repossessed due to lack of evidence that the former owners returned to Uganda. The investigative report dated 11th October 2013 therefore recommended all properties revert to government since they were wrongly repossessed. There is a risk of repossession by the wrong people hence loss of assets by the government.

Management explained that this was one of the cases where they requested police to investigate doubtful cases of repossession although such actions sometimes attract protracted litigation.

I advised the board to review these repossessions to ensure they are in line with the respective procedures and regulations.

f) Properties in court/properties with unresolved issues

During the verification exercise conducted in Jinja in the Month of April, it was noted that several cases of DAPCB properties were in court as a result of double allocations, lack of clarity in ownership, trespass by Custodian Board, forged land titles and expired leases among others. These include Plot 2, 4 and 6 Kennedy road, Plot 17 Madhivani Rd, Plot 8 Owen road, Plot 4 Owen road, Plot 36, 38, 40 & 42 Nile Crescent, Plot 3A Iganga road, Plot 35 Lubas Rd, Plot 3 martins Rd, Plot 11 martins Rd and Plot 31, 33 & 35 Nile Crescent Rd. There is a risk of possible lability to government if judgement is not made in favour of Custodian Board.
Management explained that recently, a Commissioner for Tax Policy was appointed to assist the Board with such cases.

I advised management to follow up the matter and have cases cleared.

**g) Properties sold outside the procedures**
The statutory instrument of the Laws of Uganda 2000 Vol XVII section 11 (1) requires that for a person to purchase a government property or business, this property or business shall be valued by such valuers as the Minister of Finance may appoint, the property or business shall be sold by competitive tender and the board of valuers shall determine the reserve price of the property or business.

It was noted during verification of government properties in Jinja that a property on plot 43 Rippon Gardens was sold without fulfilling the above conditions. The review of this file revealed that the property was not advertised at the time of sale and was not supported with the Minister’s approval letter. I could not establish how the government asset was sold.

Management explained that this property was sold by private treaty after authorization by the Board of Directors.

I advised the Ag. ES to provide the Board authority for the decision to sale by private treaty but this information was not provided.

**h) Abandoned properties**
During inspection, it was noted that four (4) properties were abandoned. All these properties were in poor condition, vandalized, dilapidated and not occupied as indicated in the table below. There is a risk that the government properties may be misappropriated without the knowledge of DAPCB.

<table>
<thead>
<tr>
<th>Plot No.</th>
<th>Location</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
<td>Wilson Avenue</td>
<td>Poor condition and vandalized, dilapidated without widows and not occupied. The gate was found permanently closed to get information</td>
</tr>
<tr>
<td>6</td>
<td>Weather road</td>
<td>Property is owned by Ngano Millers. The property is not in good</td>
</tr>
</tbody>
</table>
condition, the compound is a garden to known persons.

<table>
<thead>
<tr>
<th>16</th>
<th>Narambhai West</th>
<th>No evidence of repossession certificates, transfer of titles, allocations etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Martins Road</td>
<td>The audit team noted the property does exist with no one occupying it and the case is in court hence no rent is being received to date.</td>
</tr>
</tbody>
</table>

Management explained that this matter is being followed-up.

I urged management to continue following up on the assets with a view of ensuring they are not lost.

i) **Properties without files**
DAPCB management is required to maintain a full record of all DAPCB assets for proper tracking of assets repossessed, sold, rented, valuations, inspections and reporting. However a review of the entity documentation and inspections carried out in Jinja revealed that six (6) properties did not have the relevant property files as indicated in the table below. As a result, I could not establish the ownership, stage of repossession and status of these assets.

<table>
<thead>
<tr>
<th>Properties without property files</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plot 36 Wilson Avenue</td>
</tr>
<tr>
<td>Plot 42 Wilson Avenue</td>
</tr>
<tr>
<td>Plot 4/6 Kaderbhoy Road</td>
</tr>
<tr>
<td>Plot 7/9 Kaderbhoy Road</td>
</tr>
<tr>
<td>Plot 8 Main Street</td>
</tr>
<tr>
<td>Plot 23 Hajji Tamachi Road</td>
</tr>
</tbody>
</table>

Management explained that some of these files got misplaced but temporary files will be opened and missing information will be retrieved from other sources.

I advised management to follow up on the assets with a view of ensuring that they are not lost.
j) **Failure to acquire property information from Jinja Municipal Council**

Section 81 (2) of the Local Government Act 1997 requires each Local Government to draw up a comprehensive list of all its internal revenue sources and maintain data on total potential collectable revenues.

During the verification exercise of government properties in Jinja MC, I requested the Chief Financial Officer (CFO) to provide the detailed list of all properties under council jurisdiction. However, this information was not availed despite several reminders to the responsible officer. This limited my ability to reconcile the properties under council to the information from DAPCB. I could not establish how the lease renewals of DAPCB properties were made by Municipal authorities. I was also unable to assess and evaluate the total ground rent arrears that had accumulated on these properties. There is a risk that DAPCB properties could easily be misappropriated.

I advised the Ag.ES to liaise with the Accounting Officer of the Jinja Municipal Council to provide the detailed list all DAPCB properties under his jurisdiction.

k) **Ground rent arrears on DAPCB properties**

According to section 81 (1) of the Local Government Act 1997, Local Government shall levy, charge and collect fees and taxes, including rates, royalties, stamp duties, personal graduated tax, and registration and licensing fees and the fees and taxes that are specified in the Fifth Schedule.

Interactions with the Jinja Municipal Council (MC) management indicated that the MC has over years charged ground rent on DAPCB properties. Also interviews with the DAPCB property occupants revealed that some tenants who were charged ground rent were not willing to pay since they were already paying rent to Custodian Board. This action has resulted into accumulation of ground rent arrears on all DAPCB properties. The Jinja MC has indicated that with the accumulation of arrears, DAPCB properties are under risk of being taken over by the Municipality. Because of the limitation above (para 5.10), I could not verify the total number of properties on which ground rent arrears had
accumulated, for how long these had been accumulated and the how much had been charged per each property to necessitate me verify the DAPCB arrears.

The Ag. ES promised to write to the Accounting Officer of the Jinja Municipal Council to provide a detailed list of all ground rent arrears.

I urged DAPCB management to expedite the process and have the matter resolved.

I) **Properties earlier managed by GANDESHA and Company**

I reviewed the CIID report Ref: CIID/98/VOLVII/6 and noted 30 properties which were fraudulently sold and rights transferred to private individuals by a one S.N GANDESHA while the properties were still under the management of DAPCB. The report further revealed that at the beginning of 2013, S.N GANDESHA and company closed unceremoniously without notifying the tenants.

However, in May 2013, after the closure of S.N GANDESHA and Company, other property managers i.e. BAJ property management and Property Angels started claiming to have taken over the management of the property left behind by S.N GANDESHA and company.

The circumstances under which these property managers were engaged could not be established.

A review of DAPCB asset register revealed that 28 properties were classified as repossessed indicating that they are no longer government properties which is contrary to CIID report. There is a risk that these DAPCB properties were lost.

Management explained that Police investigations are still ongoing and many properties have been recovered and taken over by DAPCB.

I advised DAPCB management to ensure that at the end of the investigations, those properties recovered should be properly documented as government property.
m) **Other Properties under investigation by Jinja CIID**

In January 2003, the Executive Secretary requested the RDC Jinja to liaise with Police and investigate the purported fraudulent ownership of the 6 Plots in Jinja Town (39 Lubas Road, 16 Bell Avenue West, 4 Bell Avenue West, 42 Iganga Road, 13 Oboja Road and 19 Main Street). A review of CIID report ref: CID/98/VOL VII/33 dated 27/7/2013 revealed that investigations were carried out on only plot 39 Lubas Road.

The investigation was based on the allegation by sitting tenants that S.N GANDESHA and Company was not the rightful owners of the property and were collecting rent illegally and yet the property was belonged to DAPCB. Police discovered that although Mr. INDAR SINGH GILL who was acting on behalf of BALBINDER SINGH GILL, VIKRA INDAR SINGH GILL, RANBIR GILL and AMRITA GILL PUNJA applied for repossession, the applicant did not submit Memorandum and Articles of Association, a certificate of Title Deeds plus a certified copy of the certificate of Incorporation to the DAPCB. As such, the certificate of repossession was not issued to the applicant. In conclusion, the CIID recommended that the property is still under the management of DAPCB.

An inspection of this property revealed that the property 39A & B Lubas road was allocated to Victoria Nile and Luze Robert respectively by Bernard S. Tumwesigire effective 1/12/2012. I verified the rental payment receipts (UGX:300,000 per month) up to December 2015 for plot 39A. But for plot 39B, no evidence of receipt payment was availed for audit review.

Further, I carried out an inspection of the properties that were not investigated by the CIID and noted that the tenants were not paying rent on some of the properties on the basis that the properties had been sold, some properties had tenants who were previously paying rent to GANDEHSA and are currently paying rent to Property Angles and DPACB is not collecting rent from these properties yet some of the properties are classified as repossessed assets under the DAPCB register. There is a risk that the properties could have been sold or wrongly repossessed.
The Ag.ES promised to avail the police investigation report for the other five plots for proper categorization of these properties and get assurance that government property is not lost.

Management action on the matter is awaited.

11.0 **Microfinance Support Centre (MSC)**

11.1 **MSC for the Thirteen Month Period Ended 31st July 2015**

a) **Inadequate monitoring, follow up and recovery of loans written off**

I noted weaknesses in monitoring, follow up and recovery of delinquent loans as evidenced by low recovery rates from previously written off loan accounts. Of the written-off loans and advances amounting to UGX.6.198 billion in the financial year 2012/2013, only UGX.405 million has been recovered as of 31 July 2015. This represents a recovery rate of about 6.5% as a percentage of total write-offs as indicated in the table below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UGX’000</td>
<td>UGX’000</td>
<td>UGX’000</td>
<td>UGX’000</td>
<td>UGX’000</td>
</tr>
<tr>
<td>Write-offs</td>
<td>6,197,730</td>
<td>-</td>
<td>8,091,110</td>
<td>-</td>
<td>14,288,840</td>
</tr>
<tr>
<td>Recoveries</td>
<td>33,808</td>
<td>174,489</td>
<td>145,867</td>
<td>50,346</td>
<td>404,510</td>
</tr>
<tr>
<td>%-age of recoveries from 2012/2013 write-offs to date</td>
<td><em>6.5%</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The company wrote-off loan accounts in the year ended 30 June 2015 amounting to UGX.8.091 billion. This is a financial loss that may result in company’s failure to meet its strategic objectives.

Management explained that in February 2015 a Debt Collection Unit was established to minimize the rate of default in addition to following up all delinquent and written off loans.

Besides, in July 2015, management contracted Debt Collectors to continuously follow debts with the assistance of zonal staff. Management is also in the process of ascertaining the collectable loans out of the written off loans so that performance is in future is measured against collectable loans.
I advised management to continue strengthening the monitoring and recovery function of loans written off by also engaging external lawyers and use of bailiffs with a view of reducing the outstanding loan amount.

b) **Low level of disbursements**

I noted that some loan products exhibited insignificant growth as detailed in the table below.

<table>
<thead>
<tr>
<th>Loan Product</th>
<th>2014/2015 Disbursements</th>
<th>2013/2014 Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Value</td>
</tr>
<tr>
<td>Environmental loans</td>
<td>3</td>
<td>200,000</td>
</tr>
<tr>
<td>Teachers’ SACCO loans</td>
<td>17</td>
<td>1,105,000</td>
</tr>
</tbody>
</table>

Out of the UGX.9.3 billion available for Teachers’ SACCO loans, the company only disbursed UGX.1.1 billion during the year. This may adversely affect stakeholders’ expectations and hence the company’s failure to fulfil its obligations.

Management promised to intensify the marketing and sensitisation of the environmental loan to the public. The low disbursements on the teachers fund were mainly attributed to the negative pronouncements by UNATU advising the SACCOs not to access the funds from MSCL.

Besides, management started by offering capacity building support to the groups before disbursement; hence causing some delay.

I advised management to set a target weighting for all its credit categories to ensure that it is meeting its objective and mission.

11.2 **MSC for the Year Ended 30th June 2016**

a) **Areas of Non-Compliance with the Teachers’ SACCO Contract Provisions**

I noted the following with the Teachers’ SACCO product:

(i) Low absorption rates. Table I below refers.
(ii) Other non-compliance with contract provisions of fund management services for the teachers’ SACCOS and lack of evidence of resolution of correspondences from the Ministry. Table II refers.

Total receipts versus total loan disbursements as at 30 June 2016

<table>
<thead>
<tr>
<th>Table I</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receipts to date:</td>
<td></td>
</tr>
<tr>
<td>Ministry quarterly releases</td>
<td>9,317,424,000</td>
</tr>
<tr>
<td>Share of interest (9%)</td>
<td>121,079,000</td>
</tr>
<tr>
<td></td>
<td>9,438,503,000</td>
</tr>
<tr>
<td>Total loan disbursements to date</td>
<td>1,805,000,000</td>
</tr>
<tr>
<td></td>
<td>7,633,503,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table II</th>
<th>Requirement</th>
<th>Status as at 30 June 2016</th>
<th>Management comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCC 30.1 of the contract and 3(d) of terms of reference to the said contract</td>
<td>The Fund Manager is required to submit quarterly reports on performance of the Teachers’ SACCO fund to the Ministry of Education, Science, Technology and Sports (MoESTS) and Ministry of Finance, Planning and Economic Development.</td>
<td>Quarterly reports were not submitted to the Ministry for the financial year 2015/2016.</td>
<td>MSC has since submitted the required reports. However, MoESTS frustrated the contract and required a review and the terms have since then not been reviewed. MoESTS breached the contract as they stopped disbursing the funds.</td>
</tr>
<tr>
<td>Section 4 of the financial proposal</td>
<td>For ease of accountability and monitoring, a separate bank account to handle this fund will be maintained at MSC head office and collection accounts at Zonal Offices.</td>
<td>No separate bank account and collection accounts were maintained at head office and zones respectively by MSC for the teachers’ SACCO fund.</td>
<td>MSC maintains a separate account in the system which has enabled MSC to accurately track, monitor and report on the teachers’ fund account. The fund has been audited for the last two years and found accurate. MSC found it costly to maintain 13 separate accounts because the management fee earned on the fund is very little.</td>
</tr>
<tr>
<td>Section 2.1 of the guidelines for management of the teachers' SACCO fund 2014</td>
<td>Interest rate charged by MSC to the SACCO will be 11% annually (calculated on declining balance method).</td>
<td>Mukono and Kayunga Teachers SACCO was charged an interest rate of 13%.</td>
<td>The clients in question accessed a regular loan product of MSC rather than the teachers SACCO fund. The loan was accessed the said loan before the launch of the teachers fund.</td>
</tr>
<tr>
<td>Section 2.2 of the financial proposal and section “g” of the terms of</td>
<td>In turn, the SACCOs will retain the funds to the teachers’ members at an interest rate not exceeding 15% per annum (calculated</td>
<td>Section provisions not enforced by MSC. South Buganda Teachers’ SACCO Masaka for example,</td>
<td>MSC has written to the SACCOs calling their attention to charging interest rates not exceeding 15% per annum. MSC</td>
</tr>
</tbody>
</table>
The Ministry may feel compelled to invoke GCC 14.1 (f) to terminate the entire contract due to such contract breaches by the company.

In response, management explained that the first tranche of the teachers fund was received on 23 June 2014, at the time, not all teachers’ SACCOs had the capacity to utilise the funds and only disbursed to the few SACCOs that had the capacity to manage the fund. MSC has since then built the capacity of a number of teachers’ SACCOs which shall improve the absorption of the fund.

I advised management ensure that such cases of non-compliance are resolved and ensure full compliance with the General Conditions of Contract.

<table>
<thead>
<tr>
<th>Section</th>
<th>Requirement</th>
<th>Status as at 30 June 2016</th>
<th>Management comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>reference</td>
<td>on declining balance method which works out to an interest rate of 1.25% per month.</td>
<td>charges 24% annually for commercial loans and 18% annually for agricultural loans.</td>
<td>encourages membership of the SACCOs to demand for lower interest rates.</td>
</tr>
<tr>
<td>Communication from the PS of Ministry of Education, Science, Technology and Sports (MoESTS)</td>
<td>In a letter dated 7 December 2015, the PS of MoESTS directed MSC to: sign an addendum to the contract before 11 December 2015 and transfer UGX. 5.7 billion funds to the Uganda Teachers Savings and Co-operative Union (UTSCU) as agreed in the meeting on 3 December 2015 and the communication alluded to H.E the President’s directive to transfer the management of the Teachers’ SACCO funds from MSC to UTSCU.</td>
<td>MSC has not implemented these directives to date and continued disbursing loans on the basis that there are still a number of unresolved issues arising out of the proposed transaction. Subsequent to the letter, loans of UGX. 330 million were disbursed.</td>
<td>MSC was guided by the opinion of the Solicitor General in implementing the Presidential directive alluded to by the PS of MoESTS. It guided that MSC should continue with the funds already received from the MoESTS (i.e Shs 9.3 Bln) while the balance of Shs 15.7 Bn is passed on to the relevant teachers Institution.</td>
</tr>
</tbody>
</table>
12.0 **Competitiveness and Enterprise Development Project (CEDP)**

**Component 2-5**

12.1 **Budget performance**

a) **Expenditure versus budget**

I noted that planned activities were fully executed and their expenditure were within the budget, showing minor positive variances which were due to estimates in USD made at higher exchange rates than the exchange rates eventually used for effecting payments.

However, there were two budget lines/activities that had material variances as shown below;

(i) **Transport equipment** – variance of UGX.517,569,670

This was due to planned activities not undertaken, namely the procurement of trip vehicles and buses.

(ii) **Office accommodation** – variance of UGX.630,000,000

This was due to the planned construction of the URSB office which was not undertaken due to delayed procurement process.

I advised project management to ensure project activities are executed as planned.

13.0 **Project for Financial Inclusion In Rural Areas (PROFIRA) for the Eighteen Months Period Ended 30th June 2016**

13.1 **Payment of taxes using IFAD funds**

According to section B, subsection 7 of the financing agreement, the borrower (GoU) shall provide counterpart financing to cover for taxes and duties. However, I noted that PMU paid Local Hotel Tax (LHT) amounting to UGX 498,320 using IFAD funds.

This is in contravention of the financing agreement and as such the payment is considered ineligible expenditure.
Management explained that the money would be refunded to IFAD from Counterpart funds.

I advised management to refrain from payment of local taxes using IFAD funds.

14.0 **Department of Ethics and Integrity**

14.1 **High maintenance costs**

Maintenance costs incurred by the entity during the year amounted to UGX.323,214,195 as compared to the prior year figure of UGX.153,189,062. The increase of UGX.170,025,133 represents 111%, which I considered significant in a period of one year.

Currently the Directorate has a fleet of 17 motor Vehicles, two of which are grounded (as per the Board of Survey report) with some having been procured way back in 2007 which makes the entity fleet very old. Details in table below;

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>User</th>
<th>Purchase Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>UG 1217C</td>
<td>Mitsubishi Pajero S/Wagon</td>
<td>DD/MIS</td>
<td>25/06/2007</td>
</tr>
<tr>
<td>UG 1723C</td>
<td>Mitsubishi Pajero S/Wagon</td>
<td>SIA</td>
<td>08/12/2008</td>
</tr>
<tr>
<td>UG 1829C</td>
<td>Toyota Hilux D/Cabin</td>
<td>pool</td>
<td>13/05/2009</td>
</tr>
<tr>
<td>UG 1830C</td>
<td>Mitsubishi Pajero S/Wagon</td>
<td>SEC/EI</td>
<td>13/05/2009</td>
</tr>
</tbody>
</table>

Increased repair costs is an indication of an impaired fleet of vehicles which require replacement. This state of the vehicles hampers the operational activities of the Directorate which in turn impacts on the achievement of its objectives.

Management acknowledged that the vehicles of the Directorate are of advanced age requiring sizable amount of funds for maintenance. However, in the next two financial years, most of the vehicles considered to be weighing heavily on maintenance costs will have been boarded off and replaced accordingly.

I advised the Accounting Officer to source for resources from relevant authorities with a view of acquiring a new fleet of vehicles. Management could consider adopting a phased approach in the procurement process.
14.2 **Advances to personal accounts**

Treasury Accounting Instructions (TAI) part I (227-229) requires all payments to be made by the Accounting Officers directly to service providers and where it is not convenient, an imprest holder should be appointed by the Accounting Officer with the approval of the Accountant General to carry out such payments.

It was noted that funds amounting to UGX.164,556,654 were advanced to personal accounts of staff to make onward payments for supplies, consultancies, workshops and seminars as well as allowances to colleagues for field trips. However, there was no evidence to show that the allowances received on behalf of other staff were indeed passed on to them as no acknowledgements were provided for verification.

Because of advancing funds to personal accounts, a sum of UGX.11,661,487 due as WHT from suppliers was not deducted and remitted to URA as required by section 119 of the Income Tax Act.

Although Management explained that the Directorate conducts workshops in the countryside whose target audience include the local people who are not ascertainable in advance and their bank details are not immediately available, I advised management to ensure that the staff responsible is an approved imprest holder.
WORKS AND TRANSPORT SECTOR

15.0 Ministry of Works and Transport

15.1 Unbudgeted for domestic arrears paid

A total of UGX.10,198,863,463 was paid to several companies for settlement of arrears incurred in the previous financial years without any budget provision by Treasury on the domestic arrears budget item 321605.

This was contrary to paragraph 188 Part 1 of the Treasury Accounting Instructions 2003 that requires an officer authorized to incur expenditure to ensure that no payments due in any financial year remain unpaid at the end of that year.

There was also no evidence that supplementary funding was obtained by the Accounting Officer of the Ministry to settle the domestic arrears.

Under the circumstances, the payments for settlement of domestic arrears were not appropriately charged and there is a risk that funds which were released for other activities planned by the Ministry were diverted to settle these arrears.

In response, the Accounting Officer confirmed the payments in respect of Interim Certificates and invoices, but explained that these funds were requested for during the 3rd quarter, as part of the unreleased funds.

I advised the Accounting Officer to ensure adherence to the commitment control system to limit accumulation of domestic arrears and where arrears exist there should be budgetary provisions to avoid diversion of funds.

15.2 Diversion of funds from MELTEC fees account to EACAA

DANIDA and GOU set aside a reserve fund with both partners contributing to the program for the MELTEC equipment renewal. MELTEC intended to use part of the funds to erect a new hostel block with self-contained rooms and it was one of the critical success factors that were highlighted in the MELTEC five year Business plan (2014 - 2019) as a means of self-sustenance.
I noted during the year under review that the Centre was directed by the Permanent Secretary of the Ministry to utilise the resources which had been set aside for MELTEC equipment for procurement of a twin Engine Aircraft for the East African Civil Aviation Academy (EACAA). Subsequently, UGX.3,385,500,000 was transferred from MELTEC training centre fees account to EACAA.

Further, I noted that the Development partners raised issues relating to the diversion of UGX.3,385,500,000 from their contribution given that it was used contrary to the funding agreement.

Diversion of donor funds meant for the benefit of MELTEC may adversely affect performance of its functions and affects the relations between GOU and the development partners.

The Accounting Officer explained that the funds were indeed utilised for purchase of a Twin Engine plane to address a pressing need at the Flying School as many pilot trainees could not graduate without experience of flying a twin engine plane. He stated that several actions had been taken to compensate MELTC, that is; in July 2016, UGX.927m was availed to MELTC to meet its Capital Investment needs through an internal budget re-allocation and in future, capital needs of MELTC will be catered for in the annual budgeting process starting with FY 2017/18.

I await the Accounting Officer’s action to refund these funds from the subsequent budget.

15.3 Irregular advance payment for construction of security infrastructure needs, ablution unit and resuscitation centre building at the Catholic Shrine Namugongo

The Ministry of Tourism, Wildlife and Antiquities signed a Memorandum of Understanding (MOU) with Ministry of Works and Transport for construction of the above facilities in anticipation of the Pope’s visit on 13/8/2015.
However, due to the limited time, the MoWT decided to undertake a direct procurement of a construction company since it was already on site.

A review of the procurement revealed that the evaluation was undertaken and an award recommended at the evaluated bid of UGX.2,886,078,069 subject to negotiation which was subsequently entered into and the contract price was awarded at UGX.2,305,041,027.

However, contrary to section 44 (2) and (3) of the PPDA (Contracts) regulations, 2014 that requires an advance payment security to be availed by the provider, management advanced UGX.2,000,000,000 on 29/9/2015 a day before the award and three days before display of best evaluated bidder notice and a month before contract signing without any advance guarantee.

Further, it was noted that the consultant later submitted an interim certificate (advance payment) on 11/11/2015 for the sum of UGX.461,008,205 as per contract requirement with a bank guarantee for the same amount one and half months after the advance had been affected.

The Accounting Officer explained that the right contractual procedure were retrospectively followed such as clearance from the Solicitor General, obtaining advance payment guarantees and performance security guarantees based on the contract.

On verification of the management response, no advance guarantees or performance security guarantees were availed apart from the guarantee of UGX.461,008,205. However, work was substantially completed.

I advised the Accounting Officer to ensure adherence to the law to avoid risk of loss of fund incase of non performance.
15.4 **Irregular night subsistence allowances**

The Ministry paid quarterly consolidated allowances to all staff for the year under review to a tune of UGX.2,763,730,500 under various categories i.e. subsistence night, dinner and lunch allowances.

However, I noted that UGX.1,992,825,000 was paid to staff in form of night subsistence days irregularly as the payments were an automatic quarterly earning and were not supported by any requisitions for travels outside the stations contrary to section E (E –b) of the Government standing orders that entitles officers to payment of night allowance only when he/she stays away for a night or more from his duty station on official duty.

There were no activity reports for work schedules undertaken outside the station and thus the payments were not backed with any administrative circulars/standing order instructions approved by the Ministry of Public Service. Details are as below;

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>549,915,000</td>
</tr>
<tr>
<td>2</td>
<td>547,500,000</td>
</tr>
<tr>
<td>3</td>
<td>363,000,000</td>
</tr>
<tr>
<td>4</td>
<td>532,410,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,992,825,000</td>
</tr>
</tbody>
</table>

Irregular payments impact on performance of budgeted outputs as funds are diverted to meet the expenditure.

The Accounting Officer explained that he had a moral duty and responsibility to ensure that the programmes and plans of the Ministry are delivered and to be able to do so, he had to provide this modest allowance to compliment the low pay to enable staff come to office and work while awaiting government response to improve the pay of public officers.

I advised the Accounting Officer to pay only authorised entitlements or seek approval of the Ministry of Public Service for any other form of allowances to incentivize staff.
15.5 The Transport Licencing Board (TLB)

a) Decline in number of licensed vehicles

A review of the TLB performance report revealed that there was an increase in revenues earned of 200% from UGX 1,167,132,000 in 2014/2015 to UGX 3,524,542,000, in the year 2015/2016.

Further, there was a drop in the number of vehicles licensed. Out of the budgeted number of 20,000 licenses to be issued in the year 2015/16, a total of 7985 PSVs, PMOs and OTVs were issued, 430 for motorcycles and 54 for inland water transport vessels making a total number of 8469 licenses issued representing 42% budget performance. The figures for 2015/16 do not compare favourably to last year’s figures of 21,216 vehicles licensed representing a 60% decline.

There is a risk that clients could have evaded payment of licences and without due inspections this could post a danger to the travelling public.

The Accounting Officer attributed the decline to amendment of the Income Tax Act that required applicants for various licences to pay an advance tax as prescribed by the Act and the increment of licence fees by the Finance Act.

Management further explained that at the time of budgeting, the number of 20,000 licenses to be issued was based on a fee of UGX 50,000 when it was unknown to the Ministry that the fees would be significantly increased.

The Accounting Officer also explained that the Ministry would soon introduce an automated system of PSV licensing which is expected to reduce cases of forgery of licences and improve compliance.

I advised the Accounting Officer to look into the matter in liaison with the concerned authorities for a lasting solution.
b) **Lack of Enforcement Unit**

The main functions of TLB as set out in section 63 of the Traffic and Road safety Act, 1998 Act are to regulate the use of public service vehicles, private omnibuses and goods vehicles throughout Uganda.

A review of the Transport licensing Board (TLB) operations of inspection, licensing and collection of the Non Tax revenue throughout the country both on land and water was noted to be inadequate due to limited capacity in terms of personnel and financial resources.

As a result the board failed to enforce the revenue (NTR) collection on all vehicles and water vessels and motorists which could lead to use of fake driving permits and licenses and loss of NTR to government.

In response, the Accounting Officer explained that the Board had no enforcement unit but relied on the Uganda Police Force (Directorate of Traffic and Road Safety) to ensure compliance with its requirements.

In a bid to improve the monitoring capacity of both the Board for compliance with NTR collections and licenses and the Council for improvement in road safety, the Ministry had proposed an expansion of the structure of both Transport Licensing Board and National Road Safety Council which was approved by Cabinet.

I await the outcome of management’s efforts in recruiting the approved staff for better road safety and revenue collection.

c) **Limited upcountry offices**

In 2003, the Ministry took a decision and opened regional offices in Mbale, Fort portal, and Mbarara fulfilling government's policy of decentralizing services. These offices are staffed with two officers at each station to carry out licensing and inspection of vehicles.

A review of the operations revealed that these regional offices were far away from the people to be served, for example, Mbale office serves the Eastern region and the North while Mbarara serves the western region and the south, and Fort portal serves the North western region and the western regions.
The wide spread distances at the regional level affect service delivery to the public which leads to low numbers of vehicles licensed and consequently the Board’s objectives may not be achieved.

The Accounting Officer explained that there was limited staffing level which limits effectiveness of upcountry offices. However the Ministry had increased the staff establishment of the technical staff at the Board which was approved by Cabinet. Further, the Ministry signed a contract for the periodic inspection of all vehicles with a private sector provider – SGS where the provider will establish regional vehicle inspection centres in Gulu, Mbarara and Mbale and will also procure a number of mobile inspection centres to bring services closer to the people.

I await the results of the Accounting Officers efforts towards improving vehicle licensing and inspection.

**d) Inadequate collection of revenue from marine vessels**

Transport Licensing Board has a mandate under section 2 of the Inland Water Transport Control Act (1939) to inspect and license vessels/ships operating on Uganda’s inland water ways. Review of the Ministry policy statement under vote function 040105 (water and Rail Transport programmes coordinated and monitored) revealed that the Ministry planned to inspect 500 non-conventional water vessels for safety and issue inspection certificates for licensing purposes.

However a review of the NTR revenue collections revealed that only 54 out of the targeted 500 water vessels were licensed during the year which is far below expectations by 90%.

There were also challenges in internet connectivity on the various remote landing sites and lack of banking facilities at the landing sites thus affecting revenue collection. This makes it a risky activity due to lack of security facilities thus adversely affecting NTR collections.
In response, the Accounting Officer explained that as a mitigation measure, the Ministry had got approval from Cabinet for establishment of a new department of maritime administration where it is expected it will enhance inspection and licensing of Inland Water Vessels and take over this function from TLB. The Ministry was also working on drafting a new bill for ensuring compliance to safety standards by inland water vessels.

I await the results of the Accounting Officer’s efforts.

15.6 Audit of Pension

a) Payments to unverified pensioners

According to Circular dated 10th February, 2016 Ref HRM 132/01 from Ministry of Finance Planning and Economic Development, all Accounting Officers were required to verify claimants of pension before payment. However, review of a sample of pension files and the pension payroll for the year revealed that the Ministry paid UGX 53,737,108 to forty seven (47) pensioners without verification.

There is a risk that payments may have been made to non-existent pensioners hence a loss of Government funds.

Management explained that following the decentralization of pensions, the Ministry could not immediately verify the pensioners because the pension payrolls for July and August were sent in August 2016 without the attendant pension records to facilitate immediate verification.

Management further stated that they undertook immediate steps to ensure a clean pension payroll by accessing photocopies of pension files from Ministry of Public Service as guided and verification was ongoing to ensure a clean pension payroll.

I advise the Accounting Officer to expedite the verification process in order to eliminate un-identified pensioners from the pension payroll.
b) **Payment to pensioners without life certificates**

Section 18 of the pensions Act Cap.286 requires payment of lifetime gratuity to retired public officers. However, the entitlement ceases upon death provided the said pensioner has enjoyed pension for an aggregate period of 15 years. Where the pensioner lives beyond 75 years he is required to present an annual life certificate as a pre-requisite for continued payment.

A review of a sample of pension files and the pension payroll revealed that UGX.5,084,961 was paid to six (6) pensioners who had died and were above the age of 75 years at the time of death. Their dependents were therefore not entitled to receive pension. As such Government incurred a loss.

In response, the Accounting Officer explained that following the verification exercise the target pensioners submitted life certificates as required, those without were frozen, while cases of deceased pensioners that had exceeded the pensionable period of 15 years were deleted from the payroll.

I advised the Accounting Officer to expedite the clean up of the pensioners payroll to ensure that loss of government funds to non-existent pensioners ceases.

c) **Creation of pension arrears**

Paragraph 4.3.5 of the guidelines on Wage Bill, Payroll and Pension Management, 2015 requires processing of monthly payroll to follow the active payroll cycle to ensure that benefits are paid by 28th of every month.

Contrary to the above requirements, a review of the pension payroll revealed that payment of pension was inconsistent, with omissions in some months. This resulted into creation of pension arrears of UGX.51,354,557 to 23 pensioners.

The Accounting Officer attributed the inconsistency to deletions and additions on the pension payroll arising from the verification exercise of various MDAs where MoWT pensioners were migrated to other ministries, but after verification by the ministries, the pensioners were migrated to MoWT and vice versa.
I advised the Accounting Officer to continue with the efforts of verifying the ministry pensioners to ensure that only genuine pensioners are paid.

d) **Overpayment of pension**
Para 3.1.11 of the Guidelines on Wage Bill, Payroll and Pension Management, 2015 requires that all data capture and approvals shall be conducted by the 10th of every month and responsible officers to effect corrections not later than 14th of every month. However, a review of a sample of pension payments revealed that UGX.19,998,086 was paid to eleven (11) pensioners over and above their entitlements.

According to management, over payment of pension was as a result of system errors that affected all MDAs, which was communicated to all MDAs by PS/MoPS in her letter referenced COM 96/153/01 of 11th January 2016. Management further explained that the error had since been rectified and recoveries from those affected would commence in November 2016.

I advised the Accounting Officer to ensure that pension is accurately computed to avoid inconsistencies and losses. Further, I await the outcome of management’s efforts in regard to recoveries relating to the over payments.

e) **Inadequate documentation on pension files**
A review of a sample of pension files revealed that 14 files did not have requisite documentation, particularly forms Annex 1 and Annex 2 and National ID Number contrary to Paragraph 3.1.4 of the guidelines on Wage Bill, Payroll and Pension Management, 2015 that required Accounting Officers to update their payroll records. Accounting Officers were further required to furnish the MoPS with a report by December 2015.

I was therefore unable to confirm whether the benefits were accurately computed and paid to bona fide pensioners. There is a risk that benefits may be paid using wrong rates or to non-existent pensioners.
In response, the Accounting Officer explained that the Ministry was continuously conducting verification to identify bona-fide pensioners and to update pensioners’ files with all the required records. He noted that by October 2016, 844 pensioners had been verified and payments to unverified pensioners were frozen with effect from August 2016, while the unverified pensioners would be returned to MoPS at the end of October 2016.

I await the results of the Accounting Officer’s efforts to clean up the pension payroll.

f) **Varians in monthly pension payments**

Following the decentralization of the pension management, the Accounting Officer is required to verify, budget and manage pension payment. Analysis of the monthly pension payroll revealed unexplained variances in payments and the number of pensioners worth 6.724bn as detailed in the table below;

<table>
<thead>
<tr>
<th>Month</th>
<th>No of pensioners</th>
<th>Amount paid (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JULY</td>
<td>778</td>
<td>259,550,365</td>
</tr>
<tr>
<td>AUG</td>
<td>778</td>
<td>0</td>
</tr>
<tr>
<td>SEPT</td>
<td>814</td>
<td>0</td>
</tr>
<tr>
<td>OCT</td>
<td>853</td>
<td>309,191,166</td>
</tr>
<tr>
<td>NOV</td>
<td>886</td>
<td>0</td>
</tr>
<tr>
<td>DEC</td>
<td>886</td>
<td>394,079,850</td>
</tr>
<tr>
<td>JAN</td>
<td>825</td>
<td>1,185,102,129</td>
</tr>
<tr>
<td>FEB</td>
<td>829</td>
<td>1,390,706,815</td>
</tr>
<tr>
<td>MAR</td>
<td>833</td>
<td>2,159,616,284</td>
</tr>
<tr>
<td>APR</td>
<td>831</td>
<td>422,132,777</td>
</tr>
<tr>
<td>MAY</td>
<td>832</td>
<td>302,066,448</td>
</tr>
<tr>
<td>JUN</td>
<td>833</td>
<td>302,073,903</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,724,519,737</strong></td>
<td></td>
</tr>
</tbody>
</table>

These inconsistencies may lead to over payments or creation of arrears.

In response, the Accounting Officer explained that the variances arose out of the verification exercise and subsequent migration of pensioners on to the Ministry payroll and the deletion of those that did not belong to the Ministry.

He further stated that, in the month of July, August and November 2015, there were no pension payments due to insufficient pension funds, until the Ministry secured supplementary funding in December 2015 and effected the outstanding pension.
I advise the Accounting Officer to continue cleaning up the pension payroll to ensure that only genuine pensioners are paid.

15.7 **East African Civil Aviation Academy (EACAA)**

a) **Uncollected revenue**

It was observed that the academy did not collect fees amounting to US$.369,645.75 from twenty seven (27) students sponsored by state house and Uganda Peoples Defense Forces contrary to section 21(1) of the Public Finance Management Act that entrusts the Accounting Officer with the responsibility of planning and managing the entity activities in the policy statement of the vote. Details are as in the table below;

<table>
<thead>
<tr>
<th>Name of firm</th>
<th>Budgeted revenues U$</th>
<th>Collected fees U$</th>
<th>Balance dollars Us</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda peoples Defence air forces : 4 students</td>
<td>321,310</td>
<td>149,705.34</td>
<td>171,604.66</td>
</tr>
<tr>
<td>State house sponsored students : 23 students</td>
<td>402,260</td>
<td>204,218.91</td>
<td>198,041.09</td>
</tr>
<tr>
<td></td>
<td>723,570</td>
<td>353,924.25</td>
<td>369,645.75</td>
</tr>
</tbody>
</table>

Non-collection of revenue adversely affects the schools performance as planned programmes may not be achieved timely. Further, the school creditors may accumulate due to lack of adequate cash flows to finance them, which may lead to litigation expenses.

In response, the Accounting Officer explained that State House had paid UGX.159,460,000 in October 2016 and reconciliation was underway to establish the balance due and that UPDAF had not paid anything despite the continuous reminders.

I advised the Accounting Officer to continuously liaise with the agencies for prompt payment of their dues.

b) **Irregular collection of revenue and expenditure at source**

The Academy budgeted and received non tax revenue (NTR) of UGX.3,252,895,038 and utilized UGX.3,006,834,079 as expenditure at source contrary to Section 29 (1) of the PFMA, 2015 that requires that no revenue shall be collected or received by a vote, state
enterprise or public corporation, except where such is authorized by an Act of Parliament.

I noted that the academy did not have Parliamentary authority to collect revenue because it is treated as a department under the MoWT.

I found this irregular since the MoWT had only appropriated GOU funding without any appropriation in aid (AIA). Expenditure at source leads to unauthorised expenditures by the Academy and tantamount to flouting of budgetary procedures.

In response, the Accounting Officer explained that they were in the process of submitting a cabinet paper to grant the Academy autonomy but the decision had not been made by the time of audit.

He added that the Academy was legally the property of East African Community however the Government of Uganda had substantially invested in the Academy.

I advised the Accounting Officer to expeditiously handle the formalisation of the school status and request for authority of Parliament to retain the revenue.

c) **Lack of Stand by Generator at the Academy**

An inspection of the school revealed that the academy lacked a stand by generator despite regular disruption of power affecting the performance of the simulator that is used to train pilot students on the ground before carrying out actual flight lessons.

It should be noted that the students are full time and residents at the Academy and therefore power black outs highly hamper their training and general welfare.

In response, the Accounting Officer explained that the standby generator was budgeted for in the financial year 2016/2017 and the procurement process was ongoing with delivery of the new generator expected in Quarter three of the Financial Year.

I await the outcome of management’s efforts in that regard.
d) **Lack of lighting system for the school runway**

Aircraft runways should as a standard have lighting systems that guide pilots during landings especially at night and foggy weather. During the inspection of the flying school it was observed that the runways lacked a lighting system rendering it unusable during the night and foggy weather.

Lack of a lighting system has forced the academy to take students to Entebbe for the night training which consequently involves costs of catering for allowances, transport and the airport fees at Entebbe airport that adversely affect the academy cash flows.

In response, the Accounting Officer explained that the management and maintenance of the Soroti airport runway was the responsibility of Civil Aviation Authority and not the Academy’s.

I advised the Accounting Officer to engage the Civil Aviation Authority to maintain the runway, in order to free funds used on Entebbe expenses for operations.

e) **Unpaid compensation to Uganda Technical College Elgon**

On the 3rd of April 2014 the Ministry on behalf of MELTC signed a Memorandum of Understanding with the Ministry of Education and Sports on behalf of Uganda Technical College (UTC) - Elgon for grant of possession of the Orion building and the enclosed area of about 1.835 acres that comprised of the newly renovated old building (Orion Block), the new wash rooms, dining, and kitchen, a computer laboratory used by district Engineers, a double storeyed hostel block for senior trainees with recreational facilities, laundry room and the gravity water scheme that supplies MELTC with water.

Audit review noted that the compensation price of UGX.3,307,000,000 was payable over two financial years of 2013/2014 and 2014/2015 at a 50% split, however, during the review it was noted that by the close of the memorandum period only UGX.1,653,500,000 had been released to the college and UGX.1,653,500,000 remained outstanding as opening balance for the year 2015/16. Subsequently only UGX.158,018,641 was paid to UTC in the year under review leaving unsettled debt of UGX.1,495,481,359.
Failure to compensate the college in time violated the agreed terms as specified in the Memorandum of Understanding and there is a possibility that the centre could get embroiled in disputes for not honouring its obligations.

In response, the Accounting Officer explained that a further sum of UGX.300m was paid in August 2016, adding that the outstanding balance was UGX.1,195,481,359. The Accounting Officer pledged to make good the outstanding payments during the FY 2016/17.

I advised the Accounting Officer to prioritise payment of the compensation balance.

15.8 Engineering Audit of a Selected Sample of Road and Bridge Contracts implemented by MoWT

During the financial year 2015/16, MoWT implemented 51 public works projects whose contracts amounted to UGX. 213,083,855,950. The OAG undertook technical audits on a sample of eight (8) projects worth UGX. 31,996,013,590 representing 15% of the total value of the projects.

The specific objectives of the technical audit were to:

i. To evaluate the existence and effectiveness of internal controls, which are needed for the application of sound engineering principles and practices

ii. To obtain reasonable assurance, that the constructed and rehabilitated/maintained roads and bridges, during the stages of planning, design, construction and maintenance, were actually done with reasonable quality, and in accordance with sound engineering principles, practice, technical management policies and specifications.

The projects consisted of four road construction/rehabilitation and maintenance projects, one river dredging and realignment project and three interconnectivity projects consisting of two bridges and one swamp crossing. The two bridge projects in Northern Uganda were jointly funded by the Islamic Development Bank (IDB) and Government of Uganda (GoU); four projects consisting of several gravel roads spread across all the
regions of the country were executed under Force Account by MoWT’s District Road Rehabilitation Unit (DRRU) using GoU funding; the dredging and realignment of river Namanve in Central Uganda and the construction of Saaka swamp crossing in eastern Uganda were funded by GoU and implemented using the Force on Account mechanism.

The list of projects audited is presented below:

<table>
<thead>
<tr>
<th>S/No</th>
<th>Project</th>
<th>Contractor</th>
<th>Contract Amount [UGX ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>14 IDB funded bridges -Lot 1 (Balla, Abalang-3,</td>
<td>Armpass Technical Services</td>
<td>7,173,486,300</td>
</tr>
<tr>
<td></td>
<td>Agali and Enget)</td>
<td>Ltd</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>14 IDB funded bridges -Lot 2 (Nyawa and Kochi-2)</td>
<td>Terrain Services Ltd</td>
<td>7,129,593,700</td>
</tr>
<tr>
<td>3</td>
<td>Construction of Saaka Swamp Crossing - phase 2</td>
<td>Force Account</td>
<td>4,478,654,710</td>
</tr>
<tr>
<td>4</td>
<td>DRRU – West: Rehabilitation of District roads (87km) in Mbarara, Ntungamo &amp; Buhweju</td>
<td>Force Account</td>
<td>2,117,689,430</td>
</tr>
<tr>
<td>5</td>
<td>DRRU – East: Rehabilitation of District roads in Mbale &amp; Kapchorwa</td>
<td>Force Account</td>
<td>2,834,961,775</td>
</tr>
<tr>
<td>6</td>
<td>DRRU – North: Rehabilitation of District roads in Gulu &amp; Amuru &amp; Low Cost Seal works</td>
<td>Force Account</td>
<td>2,661,627,675</td>
</tr>
<tr>
<td>7</td>
<td>DRRU – Central: Rehabilitation of District roads in Luwero</td>
<td>Force Account</td>
<td>1,670,000,000</td>
</tr>
<tr>
<td>8</td>
<td>Dredging and Realignment of River Namanve</td>
<td>Force Account</td>
<td>3,930,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total Value of Works</strong></td>
<td></td>
<td><strong>31,996,013,590</strong></td>
</tr>
</tbody>
</table>

Below is a summary of key audit findings. Details including the management responses and recommendations can be obtained in the detailed report which was issued separately and forms an integral part of this report.

**Summary of Key audit findings**

a) **Inadequate or Missing Designs and Planning**

It was observed that the workplans submitted;

(i) Did not contain construction drawings (DRRU – West: Rehabilitation of Selected District Roads in Mbarara, Ntungamo, Ibanda and Buhweju Districts).

(ii) Lacked criteria for prioritisation and selection for roads to be implemented (DRRU projects).
(iii) Lacked detailed method statements to be adopted for rehabilitation works. The classes of the roads are not mentioned in the work plans (DRRU – North: Rehabilitation of Selected District Roads in Gulu and Amuru).

(iv) Had combined quantities for more than one road and as such, it was difficult to determine the actual quantities planned for a particular road. This affected the audit trail since auditors could not easily carry out quantity verification for individual road projects (DRRU – North: Rehabilitation of Selected District Roads in Gulu and Amuru).

(v) Showed inadequate scoping of works in some cases. For example, a review of the BoQ revealed that the item for demolition of the existing bridge was not included in the original scope of works at Nyawa, Kochi-2 and Enget bridges. The design of Enget Bridge did not make a provision for handrails. In addition, items for river training, gender mainstreaming, environmental management, HIV testing and management were not included in the BoQs.

(vi) Showed inadequate investigations and quantity estimations during contract preparation. A review of Force Account projects established that for Lot 1 Force Account Mechanism; the quantities were poorly estimated and were later varied to high quantities above 25%. A case in point is when item 36.01 (a) of Common Excavations to Spoil increased from 300m$^3$ to 3,744m$^3$ (1,148%) for Balla; 300m$^3$ to 4,032m$^3$ (1,244%) for Abalang 3; 300m$^3$ to 8,580m$^3$ (2,760%) for Agali; and 1000m$^3$ to 2,016m$^3$ (101.6%) for Enget Bridge. Investigations were not carried out for swamps and low points; and there were no designs for the masonry arch bridges in Force Account projects.

b) **Poor Documentation and Record Keeping**

It was observed that document retrieval and delivery from MoWT was a challenge. For example,

(i) Procurement files did not have procurement plans, evaluation reports, and some PP forms such as PP form 20;
(ii) Tally sheets for supply and haulage of gravel did not capture the name and location of the borrow pit, and the volume of gravel per trip delivered by the respective trucks. Furthermore, the tally sheets were not endorsed by the Unit Manager (DRRU – West: Rehabilitation of Selected District Roads in Mbarara, Ntungamo, Ibanda and Buhweju Districts).

(iii) Some of the payment vouchers and Goods Received Notes were missing on files (DRRU – North: Rehabilitation of Selected District Roads in Gulu and Amuru).

c) **Inconsistencies in Contract Documents**
The numbering of the bills of quantities (BoQs) in many instances did not correspond with the numbering of the General Specifications. For example, for Nyawa and Kochi-2 bridge projects:

(i) Clause 1403 of the special technical specifications (SPTS) concerning the provision & equipping of senior staff house type 1 for the Engineer was misrepresented in the corresponding BOQ pay item as 14.01 instead of 14.03;

(ii) Clause 1407 of the special technical specifications (SPTS) concerning the provision of a 4WD Station wagon vehicle type A for the Engineer was misrepresented in the corresponding BOQ pay item as 14.05 instead of 14.07;

(iii) Clause 1406 of the special technical specifications (SPTS) concerning the provision & equipping of site cabins/offices for the Engineer was misrepresented in the corresponding BOQ pay item as 14.04 instead of 14.06.

d) **Non-adherence to Contract Conditions**
The following was noted:

(i) Late response by the Client (MoWT) to submissions from contractors.

(ii) MoWT did not provide the required facilitation to the Consultant.
e) **Non Adherence to Instructions from the Consultant**
It was observed that contractor for Lot 1 was complacent and on several counts never adhered to instructions from the supervising consultant or the client. It was reported that contrary to the contract obligations, the contractor failed to provide survey equipment; rejected instructions to stop works when the alignment of the centreline of the footing was off by 1000mm and the wing walls were off plumb; and failed to test materials for the month of April 2015. Such rejections compromise the expected quality of works to be undertaken.

f) **Overstretched Equipment on Multiple Sites**
It was noted that equipment especially on Force Account was stretched and in some cases works stalled on Projects in Mbale, Namanve and Luwero because equipment was being transferred to Lake Bisina from Mbale district, and from Luwero to Namanve respectively.

g) **Supervision and Contracts Management**
There was weak supervision of all the 8 contracts audited. Except for the IDB funded projects, all other projects were being supervised by MoWT in-house staff yet these had limited facilitation to supervise and manage such contracts.

h) **Quality of works**
(i) **Inaccurate setting out and misalignment of works**
The contractor for the Enget Bridge misaligned the bridge abutment on the Aloi side by 1000mm, failed on plumb, and rejected all instructions to change the alignment.

(ii) **Substandard works**
The following was observed:

- (vii) Honeycombed concrete on Enget Bridge and Saaka swamp.
- (viii) Poor quality concrete finishes on Enget Bridge and Saaka swamp.
- (ix) Inadequate compaction of road pavements, especially in the swamp and stream crossings (Saaka, Agali, Balla, Gulu High).
(iii) **Premature failure of works**

The works in Amuru including all culverts and gabions on the stream at Km 3+364 on Kololo – Lakang – Akee Road were washed out.

(iv) **Lack of road furniture**

All projects lacked or did not have adequate road furniture. There were no traffic signs on all roads, and cat eyes had not been installed on the guard rails of the bridges.

i) **Delayed Commencements and Completion of Works**

All the development projects and the Force Account Projects audited were not completed within the initial planned duration. This was attributed to one or a combination of factors, namely;

(i) Lot 1: delays in issuing advance payment to the contractor. The contractor was awarded extension of time and completed within the extended time.

(ii) Lot 2: delays in payment of advance, delays in payment of IPCs, delays in approving requests and instructions. These factors resulted into Extensions of Time (EoT) awarded to the contractor. The contractor subsequently claimed for UGX.153,435,970 as interest due to delayed payment of IPCs 1,2 and 3.

(iii) The Force Account projects were delayed due to migration of equipment, diversion of funds and prioritization of other projects. Funds for the dredging and realignment of River Namanve were diverted to works on Okokorio landing site on Lake Bisina. Funds meant for works on Saaka swamp crossing were diverted to emergency works on Bufulubi – Kyando road in Mayuge District while some of the equipment in the DRRU units of Luwero and Mbale was transferred to Namanve and Lake Bisinia.

j) **Irregular payments**

It was noted that in a number of contracts, payments were made in excess of the quantities used; funds were not accounted for, while in other contracts, funds were diverted to other projects. In addition, cases of double payments were also noted. Details of the irregular payments are explained below;
(i) **Overpayment**
It was observed that in 7 of the 8 sampled projects, quantities certified and paid were in excess of the actual quantities used on the respective projects as follows:
- DRRU - West: UGX 2,312,092
- DRRU - North: UGX 5,573,100
- DRRU - East: UGX 1,698,190
- DRRU - Central: UGX 462,000
- Saaka swamp: UGX 38,921,100 (delivery of less gravel UGX.1,825,100 and overpayment from quantity verification UGX.37,096,000)
- Lot 1 – UGX 98,638,802
- Lot 2 – UGX 643,808

(ii) **Diverted Funds**
Funds were diverted to other projects as indicated:
- Namanve: UGX 79,950,000 diverted to Lake Bisina
- Saaka swamp: UGX 7,173,000 diverted to emergency works on Bufulubi-Kyando road in Mayuge district.

(iii) **Unaccounted for payments**
Audit noted that 6,800 litres of bitumen equivalent to UGX.28,974,800 could not be accounted for by the DRRU – North at the time of audit inspection (24\textsuperscript{th} to 26\textsuperscript{th} October, 2016).

(iv) **Double payments**
It was noted that under DRRU-North, the requests for payment of gravel included an overlap in the range of chainages (road distances) used for calculation of the gravel supplied. This led to a double payment of 405m\textsuperscript{3} of gravel equivalent to UGX.2,025,000.
JUSTICE, LAW AND ORDER SECTOR

16.0 Ministry of Justice and Constitutional Affairs

16.1 Escalating contingent liabilities for Court awards and compensations

UGX.4,330,041,624,839 was recorded as contingent liabilities in cases against Government as at 30\textsuperscript{th} June 2015. This position has now escalated to UGX.5,510,583,811,126 during the current year under review, by 27%.

The trend of rising contingent liabilities on court awards and compensations over the last four years is summarized on table below;

<table>
<thead>
<tr>
<th>No</th>
<th>Financial Year to</th>
<th>Contingent liabilities UGX.</th>
<th>%Percentage increase from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30th June 2013</td>
<td>541,554,003,100</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>30th June 2014</td>
<td>4,295,304,082,625</td>
<td>693%</td>
</tr>
<tr>
<td>3</td>
<td>30th June 2015</td>
<td>4,330,041,624,839</td>
<td>0.8%</td>
</tr>
<tr>
<td>4</td>
<td>30th June 2016</td>
<td>5,510,583,811,126</td>
<td>27%</td>
</tr>
</tbody>
</table>

The contingent liabilities comprise of cases that have been filed against government pending hearing, cases before courts under hearing and cases in which Government has appealed against the court ruling. The contingent liabilities are determined from estimated amounts of claims against government by litigants and the amounts are used to determine the fees chargeable before the case is heard and the calibre of Attorney General’s staff to whom the file is to be allocated.

Under the circumstances and magnitude, there is a risk that the contingent liabilities may jeopardize government operations in case the liabilities crystalize.

The Accounting Officer noted the increasing trend of the liabilities and explained that government had put in place a policy to decentralize court awards to MDAs. The Ministry shall sensitize the MDAs on the implications of paying for court awards arising from their omissions/commissions. This is expected to go a long way to make them more responsible and accountable.

I await the outcome of management efforts.
16.2 **Outstanding Court Awards, Compensations and other liabilities**

The Ministry had outstanding amounts in Court awards, compensations and other liabilities totaling to UGX. 684,752,969,473 as at 30th June 2016. The bulk of the liabilities comprised of unsettled court awards and compensations which amounted to UGX.680.83 billion, while the other liabilities amounted to UGX.3.92 billion.

The outstanding amount in Court awards and compensations has been accumulating over the last five financial years.

The table below shows the outstanding amounts in Court awards and compensations at the end of each year for the last five financial years:

<table>
<thead>
<tr>
<th>No</th>
<th>Financial Year to</th>
<th>Outstanding Amount UGX.</th>
<th>%Percentage increase from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30th June 2012</td>
<td>54,009,997,832</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>30th June 2013</td>
<td>164,163,101,576</td>
<td>100%</td>
</tr>
<tr>
<td>3</td>
<td>30th June 2014</td>
<td>253,000,000,000</td>
<td>57%</td>
</tr>
<tr>
<td>4</td>
<td>30th June 2015</td>
<td>442,161,234,933</td>
<td>75%</td>
</tr>
<tr>
<td>5</td>
<td>30th June 2016</td>
<td>680,830,522,791</td>
<td>54%</td>
</tr>
</tbody>
</table>

The delayed payment of these liabilities leads to penalties in interest and other related charges.

The Accounting Officer agreed with the observation and explained that government has made a decision to have the affected MDAs pay their own liabilities with effect from 1st July 2016. The MoJCA will be responsible for arrears that accrued in the prior years.

The Accounting Officer also indicated that it was important for the MoFPED and Parliament to ensure that this policy is implemented, and that sufficient funds are appropriated to enable the Ministry clear the arrears.

I advised the Accounting Officer to liaise with relevant authorities to ensure that the financial obligations against Government are settled on a timely basis.

In the meantime I await the outcome of the effort of the MDAs to minimise court awards.
16.3 **Accumulated interest on delayed settlements of court awards and Compensations**

According to Section 26 (2) of the Civil Procedure Act cap 71, court may in a decree order interest at such rate as the court deems reasonable to be paid on the principal sum adjudged from the date of the suit. The Court Awards and Compensations Committee acts as an administrative arm to advise the Attorney General on which files should be considered for payment and the criteria for considering the payment of claimants is as follows; First in first out, high interest rates, small claims groups, human rights cases, cases with on-going mandamus proceedings and other deserving cases for instance medical emergencies, orphans among others.

I noted that in several court cases ruled against Government by decision of court or by consent of the Attorney General, court awarded interest ranging from 2%, 6%-25% and even up to 40% in some instances.

I further observed that as a result of government’s failure to pay these court awards on time, the awards have accumulated interest over time and in some instances the interest has exceeded the principle award.

A review of a sample of files revealed cases that had not been paid or considered for payment for close to 10 years after the award was done. I examined details of sampled files with outstanding accumulated interest totaling UGX.175,376,776,109.

Some examples of the cases with high accumulated interest include;

- **a)** File No. MA/192/2002 under the names of Stephen B. Rwehura and 1096 others for a case registered in 1995, with a court judgement amount of UGX.13,164,000,000 at 6% interest rate had accumulated interest of UGX.17,497,904,400.

- **b)** File No. HCCS/1/12/2004 in a case involving Southern Range Nyanza Ltd with a judgement amount of UGX.8,760,756,112 at interest rate of 2% and interest had accumulated to UGX.46,453,167,813.
c) File number C/545/2002 under the names of Mubangizi Patrick with court judgement amount of UGX.552,800,000 with interest rate of 25% had accrued interest of UGX.541,283,300.

The rate at which the Government is settling the debts makes it difficult to clear the outstanding amounts on court awards.

The Accounting Officer explained that this was due to inadequate funding by MOFPED. He further, explained that the Ministry shall continue lobbying for additional funds to settle all outstanding arrears.

I advised the Accounting Officer to liaise with the relevant authorities to ensure that adequate planning is done to avail funds to amortize payments for cases with high interest rates.

16.4 Discrepancies in outstanding amounts at MOJCA and Treasury Operations (TOP)

I noted that the settlement of claimants arising out of court awards is being done simultaneously by both the Ministry of Justice and the MOFPED/Treasury Operations (TOP) under mandamus orders. However, in some cases; the same claims have been partly paid by both MOJCA and the Treasury.

I also noted delayed reconciliation of these payments and in some instances there were reconciliation issues at the Treasury and the Ministry of Justice which could not be harmonized since the payables ledgers are only maintained at MOJCA.

A review of a sample of files and payables schedules revealed discrepancy in the total amounts outstanding for some claimants at the Ministry of Justice and Constitutional Affairs and the one reported by TOP for the same claimants. Whereas TOP indicated total amount payable as UGX.261,109,101,578; MOJCA reflected UGX.86,331,220,017 resulting into a discrepancy of UGX.174,777,881,561. The table below refers:
<table>
<thead>
<tr>
<th>Name</th>
<th>Amount TOP (UGX)</th>
<th>Amount MOJCA (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yovan Bwambale &amp; 913 others V AGHCCS No 660 of 2002</td>
<td>10,215,000,000</td>
<td>20,357,596,640</td>
</tr>
<tr>
<td>Lozio Masika Beatrice &amp; 288 others from West Bukonzo Kasese District; HCCS 10 of 2009</td>
<td>2,525,540,000</td>
<td>3,152,512,384</td>
</tr>
<tr>
<td>COMDEL FOREX Bureau V Attorney General; HCCS 497 of 2012</td>
<td>223,306,000</td>
<td>0</td>
</tr>
<tr>
<td>Okello Remizo, Alaka Beno &amp; Others V AG, HCCS No 31 of 2014</td>
<td>6,212,871,780</td>
<td>7,419,610,890</td>
</tr>
<tr>
<td>The Kamuswaga of Kooki V AG and ST; HCMA 810 of 2015 arising out of HCCS 608 of 2014</td>
<td>159,032,813,410</td>
<td>48,122,260,103</td>
</tr>
<tr>
<td>Mwebeiha Amatos V AG; HCMA 882 of 2015 arising out of HCCS 382 of 2015</td>
<td>74,173,538,788</td>
<td>7,279,240,000</td>
</tr>
<tr>
<td>Dr. MAJ (RTD) Anthony Jallon Okullu V AG; HCCS No 383 of 2012</td>
<td>8,726,031,600</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>261,109,101,578</strong></td>
<td><strong>86,331,220,017</strong></td>
</tr>
</tbody>
</table>

I also observed that in the schedules of cases pending negotiations, TOP reported an amount of UGX.69,534,088,048, yet amounts declared by MOJCA shows UGX.73,963,143,233 resulting into discrepancy of UGX.4,429,055,185 on sampled cases.

The table below refers:

<table>
<thead>
<tr>
<th>Name</th>
<th>Amount TOP (UGX)</th>
<th>Amount MOJCA (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kasoozi Lawrence &amp; 4 Others</td>
<td>2,554,733,174</td>
<td>2,895,078,344</td>
</tr>
<tr>
<td>Intex Construction Ltd V AG; Arbitral Award CAD/ARB No 14/2008</td>
<td>35,430,170,271</td>
<td>50,474,996,443</td>
</tr>
<tr>
<td>Adonia Tumusiime and Others V AG; HCMA 32 of 2012</td>
<td>19,590,523,200</td>
<td>7,456,090,118</td>
</tr>
<tr>
<td>Modia Investments U Ltd V PSST and AG; EMA 2590 of 2014 arising from EMA 1297 of 2014 arising from HCCS 210 of 2009</td>
<td>525,649,548</td>
<td>653,602,828</td>
</tr>
<tr>
<td>Sound Ranchers Ltd V Attorney General; HCCS 150 of 2015</td>
<td>8,228,011,855</td>
<td>7,996,375,500</td>
</tr>
<tr>
<td>Picfare Industries Ltd V Uganda Land Commission; HCCS No 542 of 2015</td>
<td>3,205,000,000</td>
<td>4,487,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>69,534,088,048</strong></td>
<td><strong>73,963,143,233</strong></td>
</tr>
</tbody>
</table>

The schedule availed by the TOP was last updated on 14th October 2016 while that of MOJCA was last updated on 30th June 2016.

I was therefore unable to confirm the actual outstanding court awards and compensation liabilities. Besides I could not ascertain whether the correct payments were made or accounts properly disclosed as arrears.
The Accounting Officer explained that the files are for cases which are pending negotiations between MOFPED and the beneficiaries. MOJCA saw it prudent to accrue interest on these cases since negotiations have not even commenced. The discrepancy in figures of these cases is the accumulated interest accrued by MOJCA.

I advised the Accounting Officer to ensure that the outstanding court awards and compensation liabilities are justified and verifiable to avoid inconsistencies.

16.5 Absence of a Policy Framework on the compensation of persons for property lost due to rebel activity

Examination of the Ministry documents indicated that there are several compensation claims arising out of different rebel and insurgent activities around Uganda in the past.

I noted that the Acholi, West Nile Sub region, Teso and Lango war claims are currently among the ones pending and contributing highly to the contingent liability of the GOU. The table below indicates the potential contingent liability of UGX.3,564,000,000,000 for some of the known cases currently pending:

<table>
<thead>
<tr>
<th>Name</th>
<th>Cause of Action</th>
<th>Amount UGX.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adyera Nobert</td>
<td>Non-payment of compensation in respect of animals looted by the NRA in Acholi Sub region (This is currently under verification as per the Presidential directive)</td>
<td>79,000,000,000</td>
</tr>
<tr>
<td>Eotu Jeresome</td>
<td>Non-payment of compensation in respect of animals looted by the NRA in Teso Sub region</td>
<td>350,000,000,000</td>
</tr>
<tr>
<td>Deylon Johnson</td>
<td>Non-payment of compensation in respect of animals looted by the NRA in Lango Sub region</td>
<td>1,200,000,000,000</td>
</tr>
<tr>
<td>2nd Lango War Claims</td>
<td>Non-payment of compensation in respect of animals looted by the NRA in Lango Sub region</td>
<td>600,000,000,000</td>
</tr>
<tr>
<td>West Nile Claim</td>
<td>Non-payment of compensation in respect of animals looted by the NRA in West Nile Sub region (notice of Intention to sue)</td>
<td>35,000,000,000</td>
</tr>
<tr>
<td>2nd Teso War Claims</td>
<td>Non-payment of compensation in respect of animals looted by the NRA in Teso Sub region (Soroti High Court)</td>
<td>1,300,000,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>3,564,000,000,000</strong></td>
</tr>
</tbody>
</table>

I further observed that in a letter dated 1st August 2003, the Minister of Internal Affairs was instructed by the Prime Minister, to develop a policy framework by 1st September 2003 to govern the management of compensation of properties destroyed by rebel activity.
I have not been availed with the copy of the said policy and therefore, I was not able to establish the policy guiding the acceptance, consideration and payment of the different claims in this category by Government. In absence of a Policy Framework, it becomes difficult to determine the eligible communities for compensation.

Although the Accounting Officer explained that the draft policy framework for compensations was available for verification, it was not availed to that effect. The Accounting Officer further indicated that the cases listed were concluded in Courts of Law and therefore not subject to the Policy Framework on compensations.

I advised the Accounting Officer to liaise with the relevant authorities to expedite and formulate guidelines that shall set out controls and manage any concerns that arise out of these claims.

16.6 Implementation of activities

It was also noted that out of UGX.78,676,011,249 received only UGX.71,893,435,219 was spent, representing 91.3% of the total receipts for the period resulting into unspent balance of UGX.6,782,576,030 that was returned to the Uganda Consolidated Fund Account (UCF).

The Accounting Officer explained that the funds could not be utilized because the TOTAL Arbitration proceedings were suspended to allow for amicable settlement of the case. Secondly, the funds for recovery of costs awarded to the Government in the Heritage Arbitration case could not be utilized because the procurement process for external legal counsel could not be concluded before the end of the financial year and funds for pensions amounting to UGX.1.2 billion were erroneously sent to the Ministry and letters were written to MOFPED to that effect.

I advised the Accounting Officer to ensure that all planned activities are implemented on time.
17.0 **Justice Law and Order Sector (JLOS) SWAP Development**

17.1 **JLOS Secretariat and General Observations**

a) **Budget performance**

a) **Underfunding of JLOS Institutions**

A comparison of the approved JLOS work plan and budget for the 2015/16 with funds released for the financial year revealed underfunding of the JLOS SWAP programme implementing agencies. The 13 institutions registered a budget shortfall of UGX.14.047bn. The table below shows the extent of underfunding of the implementing institutions:

<table>
<thead>
<tr>
<th>No</th>
<th>Institution</th>
<th>Budget (UGX)</th>
<th>Release (UGX)</th>
<th>Shortfall (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Secretariat-donor</td>
<td>7,381,133,000</td>
<td>4,395,184,355</td>
<td>2,985,948,645</td>
</tr>
<tr>
<td>2</td>
<td>Directorate of Public Prosecution</td>
<td>3,400,850,000</td>
<td>1,909,831,000</td>
<td>1,491,019,000</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Gender</td>
<td>809,980,000</td>
<td>566,772,379</td>
<td>243,207,621</td>
</tr>
<tr>
<td>4</td>
<td>Judicial Service Commission</td>
<td>646,620,000</td>
<td>505,420,000</td>
<td>141,200,000</td>
</tr>
<tr>
<td>5</td>
<td>Courts of Judicature</td>
<td>8,241,000,000</td>
<td>6,137,012,592</td>
<td>2,103,987,408</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Local Government</td>
<td>361,460,000</td>
<td>240,837,960</td>
<td>120,622,040</td>
</tr>
<tr>
<td>7</td>
<td>Directorate of National Citizenship and Immigration Control</td>
<td>1,325,550,000</td>
<td>306,395,980</td>
<td>1,019,154,020</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Police Force</td>
<td>4,276,135,000</td>
<td>2,235,607,650</td>
<td>2,040,527,350</td>
</tr>
<tr>
<td>9</td>
<td>Uganda Prisons Service</td>
<td>6,973,990,000</td>
<td>3,777,052,500</td>
<td>3,196,937,500</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Human Rights Commission</td>
<td>1,128,046,000</td>
<td>1,088,045,740</td>
<td>40,000,260</td>
</tr>
<tr>
<td>11</td>
<td>Ministry of Internal Affairs</td>
<td>2,377,732,500</td>
<td>2,010,338,000</td>
<td>367,394,500</td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Justice and Constitutional Affairs</td>
<td>2,396,996,000</td>
<td>2,109,291,371</td>
<td>287,704,629</td>
</tr>
<tr>
<td>13</td>
<td>Administrator General – Public Trustee</td>
<td>368,900,000</td>
<td>358,890,000</td>
<td>10,010,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>39,688,392,500</strong></td>
<td><strong>25,640,679,527</strong></td>
<td><strong>14,047,712,973</strong></td>
</tr>
</tbody>
</table>

The underfunding impacts negatively on the implementation of planned activities under the programme.

Management agreed with the observation and explained that the funding gap affected all the sector institutions across board.

I encouraged the Accounting Officer to continue liaising with the relevant stakeholders to ensure adequate funding for implementation of planned activities.
b) **Lack of Computerized Project Management and Information System (PMIS)**

According to the approved work plan for the year, one of the priorities in SIP III was “**Strengthening records and information management**” using the Project Management Information System (PMIS) which would offer computer support to Project Management procedures and Data Management.

A review of the available records revealed that the computerized information management system has not been put in place as evidenced by the financial information of JLOS Programme that is still running manually in all institutions including the Secretariat itself.

Lack of a computerized PMIS negatively impacts on the smooth management of Programme information in all vital aspects such as; scope, programme records organization and management, quality, cost, time and activity scheduling. Besides, manual systems are susceptible to risks like errors in data entry, reduction in sharing of information, lack of security and data recovery issues.

Management explained that they have been operating a “medium level” automated accounts management system whose primary function is to capture data relating to both credits (payments) and debits (receipts) and production of reports based on this captured data.

Management further indicated that the Secretariat with effect from the financial year 2016/17 is working on upgrading the system into an integrated platform catering for all data types and processes. The upgraded system will be built with added security features, advanced data recovery tools and integration with document management systems at the JLOS Secretariat.

I advised the Accounting Officer to consult with the Accountant General with a view of ensuring a faster upgrading of its system into an integrated platform for all its data and process.
17.2 Ministry of Internal Affairs

a) Activities not in the work plan

A review of implemented activities against the JLOS work plan revealed that the Ministry spent UGX.22,543,820 on travel outside the planned activities. Details are below:

<table>
<thead>
<tr>
<th>Invoice No.</th>
<th>Payment date</th>
<th>Description/ Purpose</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JL007/10</td>
<td>02/10/2015</td>
<td>For the travel of the Ministers to Nairobi</td>
<td>17,841,120</td>
</tr>
<tr>
<td>JL0059/10</td>
<td>07/10/2015</td>
<td>For the travel to Sweden</td>
<td>4,702,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>22,543,820</strong></td>
</tr>
</tbody>
</table>

Implementation of un-planned activities implied that the funds were diverted to non-priority activities.

Management regretted spending outside the work plan. They explained that these were urgent travel for the 2015 peace and security cluster meeting in Nairobi Kenya and by then the Ministry had no funds.

I advised the Accounting Officer to always seek for authority where reallocation of funds is required. Meanwhile UGX.22,543,820 should be refunded.

17.3 Ministry of Local Government (MoLG)

a) Gaps in the functional Local Council court structure – expiry of Local Council I and II term

Although substantial funding for training of Local council 111 courts as well as monitoring their performance was made from JLOS SWAP to enhance access to JLOS services, the legal structure of the local council courts still remains a challenge.

According to the JLOS performance report, the term of service for the village and parish local councils expired and the delays in elections of these local councils have generally affected the operations and performance of these courts. Therefore full access to JLOS services is hindered by the gap in the local council court structure.
Management explained that following a Supreme Court decision that required elections to be conducted under a multi-party setting at village level and parish level, Government made amendments to the Local Governments Act, Cap 243 and the Ministry is engaging with all stakeholders to facilitate the process of ensuring that elections are held at village and parish levels.

I advised the Accounting Officer to liaise with responsible entities with a view of fast tracking the local council elections so as to establish the LC courts and ensure the courts are operationalized.

17.4 Uganda Human Rights Commission (UHRC)

a) Delayed commencement of construction of Gulu Human Rights regional office

A review of the programme documents and correspondences revealed that the Commission was allocated a building site by Gulu Municipality to construct a regional office and subsequently JLOS agreed to fund the project. A contract was entered into between the Commission and a contractor on 1st June 2016 for a sum of UGX.839,423,564. The site was then handed over to the contractor on 25th June 2016. The duration of the contract was agreed six months from the day the site is handed over (25th December 2016).

After the constructor had fenced the area to commence the construction, the project manager in a letter dated 9th August 2016, instructed the constructor to halt activity as adjustments had to be made to the plan.

Subsequently, the contractor in a letter dated 27th September 2016 issued an early warning notice to claim for time and costs in accordance with Clause 32 of the general conditions and by clause 44.1 (compensation events).

There is no evidence of the Commission’s stand on this matter.
The construction was expected to be completed by 25th December 2016. However at time of writing this report (31st December 2016) there was no evidence that construction work had commenced on the site. Below are Photos taken during field inspection of the site:

Proposed site for Uganda Human Rights Regional Office at Gulu Surrounded with iron sheets

Above overgrown bush inside

Delays will attract loss of time and money through costs variations and may also attract litigation costs if the cause of halting the constructor is not effectively investigated and managed internally.

Management explained that the Commission initially planned to have a storied office block for the Gulu Regional Office and structural plans for the same were developed and submitted to JLOS for approval.
The Bills of Quantities for the storied building were much higher than the funds availed by JLOS and this prompted the institution to redesign the structural drawings.

Management further explained that there was a need to address unanticipated structural designs and environmental impact requirements by Gulu Municipal Council. The revised structural designs/drawings were for a bungalow but when management submitted these structural drawings to Gulu Municipal Council, the Council rejected them because that particular area is designated and reserved for storeyed buildings and as such they have now submitted the plans for the storeyed building.

I advised the Accounting Officer to continue liaising with the Municipal Council to obtain concurrence and clearance on an agreeable standard structure in accordance the gazetting of the Municipal Council.

Meanwhile, the contractors concern must be addressed timely to avoid litigation costs.

18.0 Ministry of Internal Affairs

18.1 Payables

A review of the statement of the financial position revealed that Management had disclosed outstanding payables amounting to UGX.2,446,792,088 at the close of the financial year under review.

I noted that payables had increased from UGX.1,347,504,072 in financial year 2013/2014 to UGX.2,446,792,088 in the financial year under review.

Further, a review of payables ledgers and schedules revealed that payables amounting to UGX.1,754,120,222 were outstanding in the ledgers for quite a long time without being cleared. The table below refers;

<table>
<thead>
<tr>
<th>Description</th>
<th>Outstanding 30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs</td>
<td>227,040,156</td>
</tr>
<tr>
<td>Electricity</td>
<td>39,362,948</td>
</tr>
<tr>
<td>Others</td>
<td>34,880,051</td>
</tr>
<tr>
<td>Grants payable (RECSA)</td>
<td>1,452,837,067</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>1,754,120,222</strong></td>
</tr>
</tbody>
</table>
The entity risks being sued for non-payments which could lead to penalties and interests on unpaid balances.

Management explained that the accumulation of the arrears was attributed to non-release of funds by MoFPED in respect of Amnesty Commission and contribute to International Organization (RECSA). UGX.34,880,051 was a result of system error and management is consulting Accountant General over the matter.

I advised the management to prioritize paying the long overdue commitments.

18.2 **Operating without approved Strategic development plan**

A development plan constitutes an action based approach to implementation of an entity’s policies, plans and desired actions in line with the national and sectoral strategic directions. However, I noted that the Ministry had operated for the last four financial years without a strategic development plan.

In circumstances, there was a risk of lack of strategic direction as the activities implemented during the year were not appropriately guided. Further, monitoring and evaluation of the entity performance for a period could not be adequately assessed.

Management explained that the draft is in place and has been submitted to National Planning Authority (NPA) for reconciliation with Vision 2040 before necessary approvals are undertaken.

I await management action in this regard.

18.3 **Government Analytical Laboratory**

An inspection carried on the Directorate of Government Analytical Laboratory revealed the following;

a) **Case backlog**

It was noted that out of 8,765 cases registered in the financial year 2015/2016, only 4,439 (50.6%) cases were concluded and dispatched leaving 4,326 (49.4%) still pending.
Delay in concluding investigations further delays administration of justice, congests prisons as suspects’ stay long on remand and escalate costs for feeding suspects.

Management explained that they have engaged the committee of parliament on defence and Internal Affairs to enhance the budget of the directorate to clear case back log among other things.

I await outcome of Management efforts.

b) **Old Scientific Equipment**

It was observed that the Directorate of Government Analytical Laboratory has old scientific equipment like Liquid Chromatography Mass Tandem Spectrometer (LC/MS/MS) for forensic investigations. According to the management, the equipment is more than 15 years which could not effectively manage increasing levels of sophistication in crime and emerging issues in the oil and gas sector, terrorism, bio-terrorism and poisons. It was further established that the DGAL equipment is due for upgrade as well as replacement of obsolete equipment with modern ones.

Due to lack of modern laboratory equipment, some samples are taken outside the country for laboratory testing which is very expensive. Lack of a modern lab equipment could result in wrong results and hence wrong court sentences.

Management responded that they have engaged the relevant authorities to provide more funding for the procurement of a modern equipment for the Directorate.

I await the outcome of Management efforts.

c) **Inadequate court attendance**

During audit inspection it was ascertained that there was inadequate court attendance by the Directorate. The Directorate responded to only 27 Court summons (37.5%) out of 72 court summons received from central and upcountry areas.
Management explained that the poor court attendance was due to budgetary constraints. However with the budget enhancement, court attendance has greatly improved.

I encouraged management to continue ensuring presence in courts when required.

d) **Lack of laboratory consumables**
I noted that the Directorate received UGX.123,812,300 from the Government of Uganda and UGX.300,000,000 from JLOS as funds allocated for procurement of laboratory reagent consumables and servicing/calibration of the DNA analyzer and GC-MS equipment. My assessment was that this funding was inadequate and has resulted into accumulated case backlog.

The Directorate has been receiving witness summons for urgent serious cases which have not been investigated due to lack of reagents. This has led to the continued growth of case backlog/samples. The current case backlog as of 30th July 2016 was at 3993 forensic cases (2639 Toxicology, Forensic DNA samples 1131, Ballistics 130, and Questioned Documents 98).

This has in many instances caused Government to lose cases due to lack of evidence from the forensic experts to guide prosecution.

Management explained that Lack of available chemicals and reagents to undertake timely investigations of forensic and scientific cases has a direct effect on the time suspects are held on remand in prisons and the time taken by Courts to complete a case.

Inadequate funds to procure chemicals also lead to increased turnaround time and delayed administration of justice. Management has engaged the responsible offices to increase funding to no avail.

I advised the management to continue engaging government with a view of procuring the required chemicals and reagents.
e) **Furnishing and Equipping of Mbarara regional Lab**

Mbarara Regional Laboratory building was completed and due for handover. The photograph shows the current state of the completed building;

![Image of Mbarara Regional Laboratory building](image)

However during the audit inspection it was observed that the laboratory is not furnished to ready it for analysis of cases. Implying that the objectives of constructing the laboratory are not yet achieved.

Management has through various efforts engaged relevant authorities to enhance the budget and there is indication that the budget for the Directorate will be favorably enhanced.

I advised management to closely follow up the matter with the MoFPED in order to secure additional resources to operationalise the laboratory.

19.0 **Uganda Police Force**

19.1 **Payments to pensioners without life certificates**

Section 18 of the pensions Act Cap.286 requires payment of lifetime gratuity to retired public officers. However the entitlement ceases upon death provided the said pensioner has enjoyed pension for an aggregate period of 15 years. Where the pensioner lives beyond 75 years, he/she is required to present an annual life certificate as a pre-requisite for continued payment.
A review indicated that 24 pension files worth UGX 296,229,323 were processed without verifying pensioners’ life certificates to confirm that indeed they are alive and eligible for the payments. In the absence of proper justification, the payments were ineligible and may lead to loss of funds.

Management explained that lack of life certificate has been a general problem which they are trying to follow up with MoPS.

I advised the Accounting officer to obtain a reconciliation of pensioners that are alive and ensure that only eligible pensioners are paid.

20.0 Uganda Prisons Service

20.1 Payments to Pensioners without Life Certificates

Section 18 of the pensions Act Cap.286 requires payment of lifetime gratuity to retired public officers. However, the entitlement ceases upon death provided the said pensioner has enjoyed pension for an aggregate period of 15 years. Where the pensioner lives beyond 75 years, he is required to present an annual life certificate as a pre-requisite for continued payment.

A review indicated that 13 pension files worth UGX.111,207,431 were processed without verifying pensioners life certificates to confirm that indeed they are alive and eligible for the payments. I was not provided with an explanation justifying the payment. The table below refers:

<table>
<thead>
<tr>
<th>S/N</th>
<th>Payee</th>
<th>Supplier No.</th>
<th>Amount (Ugx)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sooma Christopher</td>
<td>182971</td>
<td>1,669,172</td>
</tr>
<tr>
<td></td>
<td>Edanyu George Wilson</td>
<td>187425</td>
<td>13,792,476</td>
</tr>
<tr>
<td></td>
<td>Atto Sebbi Mohammed</td>
<td>168003</td>
<td>30,019,431</td>
</tr>
<tr>
<td></td>
<td>Kangu Charles</td>
<td>184865</td>
<td>3,359,320</td>
</tr>
<tr>
<td></td>
<td>Uma Yakobo</td>
<td>171755</td>
<td>3,598,190</td>
</tr>
<tr>
<td></td>
<td>Obbo Yowa</td>
<td>186785</td>
<td>4,927,109</td>
</tr>
<tr>
<td></td>
<td>Odeke Johnps/Ap/192</td>
<td>214464</td>
<td>2,564,221</td>
</tr>
<tr>
<td></td>
<td>Okurut Virgil .A</td>
<td>181460</td>
<td>37,733,971</td>
</tr>
<tr>
<td></td>
<td>Tasyoma Foster M</td>
<td>174822</td>
<td>1,637,086</td>
</tr>
<tr>
<td></td>
<td>Abulo Phoebe</td>
<td>174987</td>
<td>3,926,340</td>
</tr>
</tbody>
</table>
In absence of proper justification, the payments were ineligible and may lead to loss of funds.

I advised the Accounting Officer to ensure that only eligible pensioners are paid. Meanwhile UGX.111,207,431 should be recovered from the beneficiaries.

### 20.2 Accumulated pension arrears

Paragraph 4.3.5 of the guidelines on Wage Bill, Payroll and Pension Management, 2015 requires processing of monthly payroll to follow the active payroll cycle to ensure that benefits are paid by 28th of every month.

On the contrary, a review of commentary on the financial statements by the head of accounts and the schedule of arrears revealed that UPS had accumulated pension arrears totaling UGX.890,905,074 as at 30th June 2016. It was further observed that even with the pending arrears, management did not spend UGX.530,000,000 being a component for gratuity and pension as at the close of the financial year.

According to Commissioner General of Prisons’ communication to the Permanent Secretary/ Secretary to the Treasury ref FIN65/193/01 dated 21st July 2016, the arrears were made up of the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding FY 2014/15 gratuity &amp; arrears lacking supplier number</td>
<td>275,400,944</td>
</tr>
<tr>
<td>FY 2015/16 gratuity cancelled due to lack of supplier number</td>
<td>376,395,025</td>
</tr>
<tr>
<td>Past FYs arrears processed as at 30/06/2016</td>
<td>47,479,949</td>
</tr>
<tr>
<td>Other verified payments as at 30/06/2016</td>
<td>191,629,156</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>890,905,074</strong></td>
</tr>
</tbody>
</table>

The non-payment of pension in time could have been due to laxity by management to verify and update the pensioners’ files to have all necessary documentation on file. There is a risk of accumulating more arrears thus denying genuine pensioners of their entitlements.
I advised the Accounting Officer to ensure that UPS pensioners’ files are updated regularly and bonafide pensioners paid timely to allow them enjoy their benefits during retirement.

20.3 **Inadequate documentation on pension files**

Paragraph 3.1.4 of the guidelines on Wage Bill, Payroll and Pension Management, 2015 requires Accounting Officers to up-date their payroll records.

On the contrary, a review of pension files revealed that management paid pension to the tune of UGX.168,169,296 to several pensioners although the respective individual files did not have documents like Pension Form NS 7, form NS 14 for computation of benefits, Form 25B acceptance of retirement by the Public Officer and National Identity card number and individual claimants signing off against their names on Forms Annex 1 and Annex 2, and Bank account details, among others. The table below refers:

<table>
<thead>
<tr>
<th>Invoice No.</th>
<th>EFT No.</th>
<th>Amount</th>
<th>Date</th>
<th>Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>217470-18APR16</td>
<td>8869861</td>
<td>2,024,341</td>
<td>5/3/2016</td>
<td>ODOI JOHN8045</td>
</tr>
<tr>
<td>94560-18JUN16</td>
<td>9772585</td>
<td>52,098,620</td>
<td>6/23/2016</td>
<td>Wafula Wanyama James</td>
</tr>
<tr>
<td>PGR 57/06/16</td>
<td>9791324</td>
<td>86,889,634</td>
<td>6/24/2016</td>
<td>Tinkamanyire F K</td>
</tr>
<tr>
<td>182971-28AUG15</td>
<td>7387667</td>
<td>1,669,172</td>
<td>12/15/2015</td>
<td>Sooma Christopher</td>
</tr>
<tr>
<td>174987-19OCT15</td>
<td>7365959</td>
<td>3,569,400</td>
<td>12/11/2015</td>
<td>Abulo Phoebe</td>
</tr>
<tr>
<td>171755-28AUG15</td>
<td>7388408</td>
<td>3,598,190</td>
<td>12/15/2015</td>
<td>Uma Yakobo</td>
</tr>
<tr>
<td>180987-12DEC15</td>
<td>7686105</td>
<td>6,341,467</td>
<td>12/23/2015</td>
<td>Obur Kenneth Lakela</td>
</tr>
<tr>
<td>216535-21JAN16</td>
<td>8389777</td>
<td>4,785,649</td>
<td>3/16/2016</td>
<td>Odeke George Williamtrd51333</td>
</tr>
<tr>
<td>214464-25SEP15</td>
<td>7388379</td>
<td>2,564,221</td>
<td>12/15/2015</td>
<td>Odeke Johnps/Ap/192</td>
</tr>
<tr>
<td>172169-12DEC15</td>
<td>7685886</td>
<td>1,421,244</td>
<td>12/23/2015</td>
<td>Wamukhiyi Nuwa</td>
</tr>
</tbody>
</table>

There is a risk of paying for non-existent pensioners.
Management attributed failure to present the relevant documentation due to MoPS releasing files that were incomplete.

The Accounting Officer is advised to ensure that all pension files are updated with the requisite documentation, before payments are made to beneficiary pensioners.
21.0 Judiciary Department

21.1 Pension Liability

The Uganda Public Service Standing Orders 2010, paragraph L-b(5) requires that a Public Officer shall, on retirement, receive such pension as is commensurate with his or her rank, salary and length of service; and in accordance with the appropriate law.

Verification revealed that Judiciary had a pension liability of UGX.1,836,215,726 at the close of the financial year. Delayed payment of pension to beneficiaries deprives them of their right to a timely pension benefit and could lead to unnecessary litigation costs.

Management attributed this was attributed to a mix up of data and files during the transition from the centralized pension payroll to the decentralized system.

I advised management to liaise with Ministry of Public Service to streamline the process of settling pensions with a view of expediting payment of pension liabilities.

21.2 Under-declaration of Sundry Creditors

The Public Finance Management Act 2015 section 21(2) requires that a vote shall not take any credit from any local company or body unless it has no unpaid domestic arrears from a debt in a previous financial year; and it has capacity to pay for the expenditure from the approved estimates as appropriated by Parliament for that financial year.

Verification of the financial statements revealed outstanding total creditors amounting to UGX.8,018,546,692. However, according to the creditors ledger for the period, a sum of UGX.9,533,271,859 was captured as outstanding. This resulted into unexplained commitments of UGX. 1,514,725,167. The variance was not explained. Details of the payables are in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent (various land lords)</td>
<td>7,576,305,239</td>
<td>7,576,305,239</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles Repairs (various companies) 2014-</td>
<td>328,480,884</td>
<td>328,480,884</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>2016</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>---------------------------</td>
<td>-----------------------</td>
<td>------</td>
<td>---------------</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles Repairs</td>
<td>1,154,962,213</td>
<td>0</td>
<td>1,154,962,213</td>
<td></td>
</tr>
<tr>
<td>(various companies) 2015-2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Bills</td>
<td>32,154,719</td>
<td>32,154,719</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Electricity Bills</td>
<td>81,605,850</td>
<td>81,605,850</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ICT Pending Invoices</td>
<td>359,762,954</td>
<td>0</td>
<td>359,762,954</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,533,271,859</strong></td>
<td><strong>8,018,546,692</strong></td>
<td><strong>1,514,725,167</strong></td>
<td></td>
</tr>
</tbody>
</table>

Management attributed this to delayed verification of the bills by Internal Audit and indicated that the outstanding arrears shall be paid off in the current financial year as advised by the Permanent Secretary/ Ministry of Finance Planning and Economic Development in a circular regarding management of domestic arrears.

I await management action on this matter.

21.3 **Expired tenancy agreements**

A review of expenditure on rent revealed that a total of UGX.2,622,500,314 was paid to various landlords who provided office space for the Supreme Court, Anti-Corruption Court, Chief Magistrate Courts and Magistrate Courts in different parts of the country.

However it was observed that the tenancy agreements upon which the payments were determined had expired and no evidence was provided for the renewal process by the Uganda Land Commission. These payments were therefore considered irregular.

The Accounting Officer explained that renewal of tenancies for Government rented structures is handled by the Uganda Land Commission (ULC). At the expiry of the Judiciary tenancies, the ULC was notified but, the process of renewal delayed. The Judiciary continued occupying these premises and paid rent at the rates of the old tenancy agreement. Although some of the tenancy agreements have been renewed, others have not. Management has requested the Commission to expedite the process.

I advised the Accounting Officer to expedite the renewal of the tenancy agreements to avoid disagreements with land lords and resultant litigation.
21.4 **Bail and Security Deposit funds**

a) **Failure to maintain appropriate records for deposits**

The approved guidelines for management of cash bail and security deposits dated 17th November, 2015 paragraph A3 require that bail records must be maintained to enable accurate reporting of bail refunds. These records must be updated on a regular basis and made available to different stakeholders including Inspectors and Auditors.

Although the management of security and court bail funds has improved because of existence of guidelines, examination of the documents presented on both accounts revealed that management did not maintain all records required by the guidelines and further the guidelines were lacking in certain areas. The findings include;

(i) Lack of register for persons depositing the money to track record of how much was deposited, who deposited, and when the deposit was made and against which court order in order to enable aggregating of how much was brought forward, received during the year and the outstanding deposit balance carried forward.

(ii) Lack of adequate information to enable the person identify to whom money was refunded. For instance, a photocopy of the National Identification Number (NIN), passport or driving permit. Apart from availing a general receipt by the claimant and banking records from the accountant, there were no other details.

(iii) The guidelines are silent on unclaimed bail money and the time frame for refunds.

(iv) The guidelines are also silent on investing unspent balances on the fixed deposits Accounts.

The Accounting Officer explained that currently management maintains a register of payments through URA system. The registers for money collected at source are maintained by various courts as required by the guidelines.

Management acknowledged the observation and has now embarked on maintaining a database of all funds collected effective 2016/17.

I advised Accounting Officer to review the guidelines to address the gaps identified.
b) **Mismanagement of Cash Bail deposits**

The guidelines for management of cash bail and security deposits dated 17th November, 2015 paragraph A5d and e requires the Cashier to bank all cash collected within 5 days after collection and to transfer all funds banked to the Secretary to Judiciary account in Bank Of Uganda, on a monthly basis using the electronic funds transfer system or purchase a draft.

Examination of expenditure vouchers for the financial year under review, revealed that a sum of UGX.5,852,500 from the bail account was paid to a staff and the Chief Magistrate Jinja for onward remittance to the respective claimants. However, the funds were embezzled by the Officers at the station, with no recovery. Details in the table below refer:

<table>
<thead>
<tr>
<th>Date</th>
<th>Payee</th>
<th>Amount (UGX)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/7/2015</td>
<td>Chief Mag. Jinja Court</td>
<td>2,950,000</td>
<td>Nyago Julius Dauson, the former cashier, received the money as evidenced by copies of acknowledgement amounting to UGX.7,400,000 of which only UGX.4,450,000 was banked and UGX.2,950,000 misappropriated by the cashier. This was for Jinja Civil suit no. 55/2011 Tenywa Ahamad VS Agesa Joseph. Although the money was paid from the Bail A/c it is supposed to be recovered from the interdicted cashier who embezzled it.</td>
</tr>
<tr>
<td>27/1/2016</td>
<td>Chief Mag. Jinja Court</td>
<td>1,902,500</td>
<td>Mr. Akeru Davis, a cashier at the Chief Magistrates' Court Jinja received money on 26/6/2013 in the course of his employment from Charles Barungi, to pass it on to MTN (U) but embezzled the same. The money was paid to MTN from bail deposit a/c, however it has not yet been recovered from the cashier who stole it.</td>
</tr>
<tr>
<td>22/4/2016</td>
<td>Wacoo Fred</td>
<td>1,000,000</td>
<td>Engineer Wacoo Fred was charged in Nebbi Court vide criminal case no. NEB00CR00060/2002. He was granted bail of UGX 1,000,000 which Mr. Omodo Nyanga, the former Chief Magistrate of Nebbi misappropriated. Although the money was paid from bail deposit a/c it has not yet been recovered from the Magistrate.</td>
</tr>
</tbody>
</table>

There is a risk of continued use of other people’s cash bail deposits to pay the claimants whose money was misappropriated by the Judicial Officers resulting into shortages of cash bail funds.
The Accounting Officer explained that disciplinary action was taken against the concerned officers and has put measures to recover the funds.

I advised the Accounting Officer to expedite recovery of these funds.

c) **Inappropriate Payments from cash bail deposit a/c**

Examination of expenditure vouchers for the period under review revealed that a total of UGX.13,000,000 was paid to claimants, after the accused appealed to the High Court against the sentence and the Judge reversed the decision of the lower court and directed that the money paid by the accused be refunded.

Subsequently, the Secretary to Treasury advised management to reallocate the money within the budget and make the refund to avoid the lengthy process of supplementary budget.

However, the claimants were irregularly refunded from the cash bail deposit account instead of the Consolidated Fund Account. For details the table below refers:

<table>
<thead>
<tr>
<th>Date</th>
<th>Payee</th>
<th>Amount</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/3/2014</td>
<td>Payee A</td>
<td>6,000,000</td>
<td>The matter was of criminal nature where the accused (EMIN BARO) was sentenced by the Chief Magistrate's Court Nakawa to a fine of UGX.6,000,000. The accused appealed to the High Court against the sentence and the Judge reversed the decision of the lower court and directed that the money paid by the accused be refunded. However, the funds were of revenue nature and were transferred to the Consolidated Account in BoU.</td>
</tr>
<tr>
<td>19/11/2014</td>
<td>Payee B</td>
<td>6,000,000</td>
<td>This was a court order to refund court fine deposit on appeal of an earlier conviction. This was not a bail refund although paid from bail a/c.</td>
</tr>
<tr>
<td>23/6/2015</td>
<td>Payee C</td>
<td>500,000</td>
<td>The cash bail deposit in the criminal case no. 0296/2013 was wrongly deposited onto the MoJCA account. The funds were refunded from bail account.</td>
</tr>
<tr>
<td>23/6/2015</td>
<td>Payee D</td>
<td>500,000</td>
<td>The cash bail deposits in the criminal case no. 0296/2013 were wrongly deposited onto the MoJCA Account. The funds were refunded from bail account.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>13,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

The practice may deny genuine claimants of the amounts due to them.
The Accounting Officer noted the anomaly and explained that a letter was written to Ministry of Finance Planning and Economic Development requesting for a re-allocation of the said funds to the chargeable item-fines and penalties, to enable recovery of the bail money.

I advised the Accounting Officer to recover the irregularly paid out funds and deposit it to the relevant account.

22.0 **Directorate of Public Prosecutions**

22.1 **Analysis of Directorate case backlogs**

Article 120 of the Constitution of the Republic of Uganda created the office of the Directorate of Public Prosecutions. The constitutional mandate of the Director of Public Prosecutions is to prosecute criminal cases in any court in Uganda, except the Court Martial.

Analysis of the cases performance report at the Directorate for the financial years 2014-2015 and 2015-2016 indicated that there are 34 types of criminal cases being handled by the Directorate of Public Prosecution. Outstanding cases in the financial year ended 30th June 2015 were 400,377.

During the year 2015-2016, a number of newly recorded cases were highlighted as 130,472 and number of cases completed (inform of convicted, acquitted, withdrawn, dismissed or closed files) totaled to 134,887 with a closing balance at 395,962.

The table below refers:

<table>
<thead>
<tr>
<th>Cases brought forward at start of the year</th>
<th>New Cases Registered during the year</th>
<th>Total Number of cases in the year</th>
<th>Number of cleared cases during the year</th>
<th>Outstanding cases at close of the year</th>
<th>Percentage Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>400,377</td>
<td>130,472</td>
<td>530,849</td>
<td>134,887</td>
<td>395,962</td>
<td>25%</td>
</tr>
</tbody>
</table>
There is high rate of case registration by the Directorate, and the disposal of the cases has not been robust thus creating case backlogs.

The Accounting Officer explained that the Directorate has designed means of reducing the case backlogs including working in conjunction with the Judiciary’s plea bargain system, special court sessions and more staff recruitment.

I advise the Accounting Officer to expedite the reduction of case backlogs with these initiatives.

22.2 Supply of the Prosecution Case Management Information System (PROCAMIS) – delayed implementation

The Directorate had conceived good intention of computerizing the management of case prosecution. The objectives of procuring the PROCAMIS were as follows:

a) To improve case output through the use of computer-based systems to assist the recording of cases details and to track progress on each case and to trigger reminders when actions fall due;

b) Easier recording and collecting of information pertaining to cases, and hence better use of clerical and professional resources;

c) Rapid transfer of case details from Law enforcement, through the use of computer communications systems; and

d) The PROCAMIS to be rolled over in all DPP Offices country-wide.

Management embarked on the procurement process and the contract was awarded a contract to an IT specialist for the supply of prosecution case Management Information Systems on 28th November 2014 at a cost of US$.2,247,800.

During the previous year 2014-2015 a total of UGX.3,959,697,902 representing 50% had been paid to the suppliers. In the year under review a sum of UGX.3,473,477,412 was spent on this project.
It was however noted that although one of the main objectives was to roll out PROCAMIS to all DPP offices, I found out that only four offices namely; Buganda Road, Mukono, Entebbe, Kololo were covered and operational out of 119 stations giving a coverage of only 3.4% two years from time of idea conception. The expenditure already incurred has been noted not to be commensurate with the implementation pace.

I further noted that installation had been done in the offices of Mubende, Mpigi, Makindye, Mwanga II, Jinja and Iganga however, the system was not yet operational due to lack of internet connectivity.

Further delays in the implementation and roll out of PROCAMIS may affect the timely achievement of the project objectives.

The Accounting Officer explained that the Directorate could only manage to connect and roll-out the system to 4 field offices and could not roll-out to 7 field offices due to external factors specifically NITA-U failure to provide internet and lease-line service coverage of the field offices.

I advised the Accounting Officer to liaise with NITA-U to provide internet service with a view of expediting the process of installing and rolling out the PROCAMIS to all DPP Offices.

23.0 Directorate of Citizenship and Immigration Control

23.1 DCIC activities not performed

The entity received UGX.142,385,981,379 of its approved budget estimates of UGX.146,317,118,150 (97.3%) leading to a shortfall of UGX.3,931,136,771.

A review of the policy statement and related documentation revealed that some planned activities for the year were not carried out by the entity. Five (5) planned activities with a budget of UGX.19,071,934,937 remained outstanding by the end of the financial year:
<table>
<thead>
<tr>
<th>Output</th>
<th>Details of the output</th>
<th>Status of the completion</th>
<th>Reasons for not completing.</th>
<th>Budgeted Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Gulu Regional passport center to be constructed</td>
<td>Gulu Regional passport center was not carried out</td>
<td>Management had proposed to buy a complete office block for Gulu Regional Passport Office instead of constructing however, the procurement Process dragged on and was not concluded.</td>
<td>400,000,000</td>
<td></td>
</tr>
<tr>
<td>2 Construction of Immigration Offices in Namanve</td>
<td>Construction of Immigration Offices in Namanve did not take place</td>
<td>No reasons reported.</td>
<td>850,592,500</td>
<td></td>
</tr>
<tr>
<td>3 Personalization and Data center in Entebbe to be</td>
<td>Entebbe Personalization Center not fully completed;</td>
<td>Work on completion of the Entebbe Data and Personalization center could only continue after the late clearance of outstanding rent arrears due to UPPC.</td>
<td>1,242,638,816</td>
<td></td>
</tr>
<tr>
<td>4 Disaster recovery equipment to be procured and</td>
<td>Disaster recovery equipment not procured.</td>
<td>Halt of the process of approval of contract by the Solicitor General</td>
<td>16,478,703,621</td>
<td></td>
</tr>
<tr>
<td>5 Procurement of land for Gulu Regional Passport Office</td>
<td>Procurement of land not completed.</td>
<td>Halt of the process of approval of contract by the Solicitor General</td>
<td>100,000,000</td>
<td></td>
</tr>
</tbody>
</table>

In circumstances where planned activities are not performed, the achievement of the entity's mandate and objectives is hampered.

Management explained that non-implementation of the activities was occasioned by delays in the procurement process, un-cleared rent to the Printing and Publishing Corporation, failure to survey the entity land and delays in regard to contract clearance by Solicitor General.

I advised the management to always follow up the entity approved work plans and budgets with a view of ensuring implementation of the planned activities.
23.2 **Rent payments to Civil Aviation Authority (CAA) without valid contract agreement and rental ledgers**

A review of schedule of outstanding commitments revealed that CAA is a creditor to DCIC with an outstanding amount of UGX.699,980,125. A review of rent files revealed the following anomalies;

**a) Lack of tenancy agreement**

On 26\(^{th}\) May 2016, the Director of Citizenship and Immigration Control wrote to the Permanent Secretary, Ministry of Internal Affairs requesting to be availed with tenancy agreement between Ministry of Internal Affairs and CAA. The tenancy agreement was however not availed.

There is a risk that DCIC could be occupying premises of CAA irregularly.

Management in their response indicated that they are yet to receive a response from CAA.

I advised management to follow up the matter with CAA and have tenancy agreement in place.

**b) Payments of the rent without clear basis**

On 30\(^{th}\) March 2015, the CAA acknowledged payment of UGX.355,441,803 from DCIC for the rent and utilities. According to the communication, this payment was to cater part of outstanding rent. Since the entities had not entered into a tenancy agreement, I could not ascertain the basis at which the rent was determined and paid.

Further to that, I was not availed with the rent ledgers to ascertain the rent balances. Without ledgers and tenancy agreement, the rent paid could have been inflated.

Management explained that the payments were made based on demand notes submitted by CAA and payment records of the prior financial years, which assertion I could not be confirm.
c) **Doubtful rental arrears**

On 2\textsuperscript{nd} January 2015, CAA Director Finance, wrote to the Permanent Secretary, Ministry of Internal Affairs reminding him of the outstanding balance on rent, utilities and interest that had accrued. A response to the communication revealed an outstanding balance of UGX.1,256,043,515.

A review of the CAA tax invoice to Ministry of Internal Affairs, Immigration Department dated 13/07/2016, revealed that interest outstanding had accumulated to UGX.284,176,937.

In the schedule of outstanding commitments included in the entity financial statements, it was disclosed that at the beginning of the financial year 2015/2016 DCIC owed CAA outstanding rent arrears of UGX.699,980,125.

Although the entity continued to occupy the premises of CAA during the year, no rent charges for the financial year 2015/2016 were disclosed. Without ledgers and tenancy agreement, I could not confirm the actual outstanding rent and interest that had accrued.

Management explained that the figures submitted by CAA as outstanding obligation were overstated and promised to take up the matter with the Authority with a view of having the liability reconciled.

I advised Management to expeditiously follow up the matter before payments are effected.

### 23.3 Expired tenancy agreement of rent of Kololo Ceremonial Grounds

On 07/10/2013 Ministry of Defense (land lord) signed an agreement with the Ministry of Internal Affairs (on behalf of DCIC) to rent the premises to enable DCIC process National Identity Cards and the related activities under the National Security Information System Project at an agreed monthly payment of UGX.56 million for one year from 07/10/2013 to 07/10/2014.
Since the tenancy was for the period between 07/10/2013 to 07/10/2014, it would be expected that the tenancy would be renewed after expiry period. However, there was no evidence that the tenancy agreement was renewed after it expired yet the DCIC continued to occupy the premises and paying rent.

During the financial year 2015/2016 UGX.1,370,821,769 was paid as rent for the premises as per the details below:

<table>
<thead>
<tr>
<th>Voucher number</th>
<th>Payment Date</th>
<th>EFT</th>
<th>Account No</th>
<th>Account Name</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5625376</td>
<td>28/06/2016</td>
<td>9496058</td>
<td>00004032840000</td>
<td>Defense Forces Fund</td>
<td>922,821,769</td>
</tr>
<tr>
<td>5625376</td>
<td>28/06/2016</td>
<td>9496058</td>
<td>00004032840000</td>
<td>Defense Forces Fund</td>
<td>448,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>1,370,821,769</strong></td>
</tr>
</tbody>
</table>

DCIC may be occupying the Ministry of Defense premises irregularly. The supporting documents to the payment voucher did not show how the payment of UGX.1,370,821,769 was arrived at.

In their response, the management explained that the Directorate is in the process of renewing the tenancy agreement.

I await the outcome of the management commitment.
PUBLIC SECTOR MANAGEMENT

24.0 Ministry of Local Government

24.1 Diversion of GOU Counterpart Funding

UGX.6,609,144,399 was released to the Ministry as Government Counterpart funding to two (2) projects implemented by the Ministry during the year under review. Scrutiny of expenditure documents revealed that a total of UGX.3,575,018,614 was diverted to fund non-project related activities.

There was no evidence that the Accounting Officer sought for approval by way of a reallocation or a virement warrant as required under the Public Finance Management Act 2015. Summary of diverted counterpart funding is as below:

<table>
<thead>
<tr>
<th>Project Code</th>
<th>Release Amount (UGX)</th>
<th>Diversion (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAIIP II</td>
<td>2,927,000,000</td>
<td>1,490,644,589</td>
</tr>
<tr>
<td>MATIP 2</td>
<td>3,682,144,399</td>
<td>2,084,374,025</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,609,144,399</strong></td>
<td><strong>3,575,018,614</strong></td>
</tr>
</tbody>
</table>

Such a practice undermines the intentions of the appropriating Authority, results into under-performance on the part of the project and leads to misstatement of financial statements.

Management explained that the funds were used for clearing taxes for the motor vehicles procured by the Ministry for the district chairpersons.

I advised the Accounting officer to adhere to the Project funding agreements by seeking for approval from the relevant authorities prior to change of use of funds. The Accounting Officer was also advised to refund the diverted funds to the affected projects to allow implementation of project activities.
24.2 **Payments of Pension: Non-certified files for pensioners**

A review of 395 pension files in respect of pension payments worth UGX.2,368,247,838 during the year revealed that all file attachments were photocopies that had not been certified by the MoPS.

As a consequence, I could not rely on uncertified photocopied documents. Use of uncertified files poses a risk of wrong information being used to compute the pension.

Management explained that arrangements were made with MoPS to ensure that all the photocopied files are certified.

I wait the outcome of management’s efforts to have the pension file documents certified.

25.0 **Community Agricultural Infrastructure Improvement Programme – Project II (CAIIP II)**

25.1 **Budget performance-Low absorption capacity**

The approved Project expenditure estimates for the financial year 2015/16 amounted to UGX.42.027bn and a sum of UGX.37.503bn was released for spending during the year. Further, a sum of UGX.23.938bn had been brought forward from the previous year, representing the total funds available for spending as UGX.61.441bn. However, only UGX.34.059bn was spent during the year, implying an absorption capacity of only 55%. Low absorption is likely to attract commitment fees charged on undrawn amounts and also negatively affects implementation of planned activities.

Management explained that low absorption of funds was mainly due to delays in completion of the last batch of community access roads which formed the bulk of funding under the budget, as a result of heavy rains and difficult terrain.

A total of UGX.32.7bn out of a total budget of UGX.42.03bn, representing 78% of the budget, was earmarked for the rehabilitation of Batch B and C community access roads. The challenge has since been resolved and management expects all activities to be implemented by 31st December 2016.
I await the outcome of Management’s efforts to complete planned activities within the project timeframe.

26.0 Community Agricultural Infrastructure Improvement Programme – Project III (CAIIP III)

26.1 ADB LOAN No. 2100150024294

a) Budget performance – Under absorption
The approved project expenditure estimates for the financial year 2015/16 amounted to UGX.63,082,085,584 and a sum of UGX.74,889,066,975 was released for spending during the year. I noted that the project had a sum of UGX.12,853,364,484 brought forward from the previous year. The total funds therefore available for spending amounted to UGX.87,742,431,459.
However, only UGX.61,818,818,124 was spent during the year, representing an absorption capacity of only 70%. Low absorption is likely to attract commitment fees charged on undrawn amounts and also negatively affects implementation of planned activities.

Management explained that the slow progress in concluding works on rehabilitation of community roads and non-responsiveness of bidders to supply agro processing shelters. Funds could not be spent as anticipated.

I advised management to expedite the process of Project implementation to ensure that all planned activities are implemented within the set Project period for the achievement of Project objectives with a view of minimizing commitment fees.

b) Loan performance
According to the loan agreement, ADB was to contribute UA 40,000,000 (US$.60million) and Islamic Development Bank ID 5,210,000 (US$.8million) net of taxes towards the project activities for five years ending 31st December 2016. A review of the project progress report as at 30th June 2016, revealed that ADB had contributed UA.27million while IsDB had contributed UA 2.12million representing 67.7% and 42% of their Loan amount respectively. With this progress, the project is likely to extend beyond the planned period. Delays in loan disbursements coupled with extensions will increase administration costs thus affecting the project implementation activities.
Management explained that low performance was caused by prolonged heavy rains which led to slow progress on the rehabilitation of some community access roads and non-responsiveness of bidders. Management further explained that a no cost extension of the completion date to December 31, 2017 was granted majorly due to delays in the procurement process and the time wasted during the initial implementation.

I await the outcome of management’s efforts in completing the project activities within the extended period.

26.2 **IDB Loan No.UG0081**

a) **Budget Performance**

The approved Project expenditure estimates for the financial year 2015/16 amounted to UGX.13.299bn while a sum of UGX.9.611bn was released during the year. I also noted that UGX.0.105bn was brought forward from the previous year bringing the total funds available for spending during the year to UGX.9.717bn. However, UGX.9.395bn was spent during the year, representing of 97% absorption capacity.

I observed that IDB did not pay in line with the budget because the certificates for civil works had not been presented.

Management explained that the civil works consultant had only submitted invoices for payment amounting to 50% despite the fact that they had completed 75% of the work leading to a variance in budget performance. Management further explained that measures were being put in place for example intensifying supervision to ensure that works are completed on time.

I wait the outcome of Management’s efforts to improve budget absorption and project implementation.

b) **Loan performance**

According to the project loan agreement between the Ministry and IDB, the funders were to contribute a total of USD.8,000,000, net of taxes towards the project activities for five years ending 31st December 2016. A review of the project performance report as at 30th June 2016, revealed that the funders have only contributed USD.3,407,012, which represents 42% of the agreed amount. Delay in loan performance may lead to the project not achieving its intended activities by the end of December 2016.
Management explained that the loan performance was mainly affected by the delayed procurement processes for the supervising consultant. However, the disbursement rate is expected to increase in line with the progress on implementation of civil works.

I advised Management to expedite the process of Project implementation to ensure that all planned activities are implemented within the set period with a view of achieving the set Project objectives.

27.0 **Office of the Prime Minister**

27.1 **“Akasiimo” Gratuity Scheme**

In 2008 the Government of Uganda earmarked UGX.30 billion to be released over a period of three consecutive financial years to cater for a one-off payment to all Luwero Triangle Civilian War Veterans program called ‘Akasiimo’ who contributed towards the liberation war efforts in various ways under the NRM/NRA. The mandate of paying gratuity was put under the Luwero Triangle Ministry.

There were three categories of civilian veterans with different amounts to be paid; Historical members of NRC were to be paid UGX.10,000,000 each, leaders in the bush struggle were to get UGX.5,000,000 each while all other civilian veterans were to be paid UGX.1,500,000 each as one-off settlement. Verifications were done by the veteran leaders and approved by the National Verification Committee composed of senior war veterans. Approved lists are then forwarded to a local bank for payment, with a copy of the lists sent back to the relevant districts.

I reviewed the budget, all the transfers and the 1st to 27th schedules submitted to an account held in a local bank for payment to the beneficiaries and noted the following:

a) The veterans have continued to demand for compensation even after getting paid the Akasiimo. The Government is likely to continue spending money into the distant future with no end to the programme.

b) While the programme had initially earmarked UGX.30 billion to be released over a period of three consecutive years, it is now eight years and UGX.83 billion has been spent. The original estimate of the beneficiaries was 30,000 but 41,968 have been paid so far. It is also planned that during 2016/2017, additional 38,032 veterans will be paid UGX.75 billion bringing the total targeted claimants to 80,000 and total
payments to UGX.158 billion. This amount is likely to increase because the scheme has expanded to cover the entire country.

c) As at 19/5/2015 returns made by the entity showed that UGX.2,621,293,192 had not been claimed by the relevant beneficiaries even after the verification teams had approved their names for payment.

d) Neither the verification committee nor the Office of the Prime Minister has a conclusive database of the claimants who are pending to be paid eight (8) years after the onset of the scheme. Under the circumstances, cases of duplication and inclusion of non-entitled beneficiaries could not be ruled out.

Management explained that with the current level of funding, the payment of Akasiimo will be concluded in the financial year 2018/19. The number of 30,000 was an estimate based on family contribution rather than the individual contribution. It was later realized that this was not recognizing the contribution of some of the people who would have contributed in their own right for instance where the husband, wife and sons made individual contributions.

The scope of the assessment was therefore expanded to include individuals in the family in their own right rather than the family head.

Management further explained that at the time of payment by the local branches, some beneficiaries usually do not turn up for various reasons including death, absence among others.

The funds are kept open for access by the beneficiaries for a period of three months from the date of disbursement and thereafter, the unclaimed funds are declared by the bank to OPM for fresh allocation in the subsequent schedules.

I advised management to develop a plan to enable proper conclusion of the Akasimo scheme once and for all. Management should also develop a detailed and conclusive database of the claimants pending payment in order to reconcile the claimants for better planning.

27.2 Budget performance

Section 45 (3) of the Public Finance and Accountability Act 2015 states that an Accounting Officer shall enter into an annual budget performance contract with the
Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a financial year, submitted under section 13 (15). Budget estimates are based on outputs to be achieved for the financial year and during implementation, effort is required to be made to achieve the agreed objectives or targets of the entity within the availed resources.

Review of the budget performance for the year under review revealed that some targets were partially or not achieved despite release of funds to the vote functions.

Refer to the budget performance analysis table below;
<table>
<thead>
<tr>
<th>Vote function output</th>
<th>Item description</th>
<th>Planned outputs/ Quantity</th>
<th>Amount budgeted ('Bn')</th>
<th>Amount released ('Bn')</th>
<th>Actual output/ Quantity</th>
<th>Remarks</th>
<th>Management Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project 1006-Support to information and National Guidance</td>
<td>130175-Purchase of Motor Vehicles and other support transport equipment</td>
<td>Purchase of 6 double cabin vehicles</td>
<td>0.480</td>
<td>0.480</td>
<td>4 vehicles procured</td>
<td>Only four (4) vehicles were procured despite receiving all the funds</td>
<td>(1)There was reprioritization in order to acquire an official vehicle for the Hon, Minister of Information and National Guidance; and (2) The appreciation of the dollar against the shilling during the period. Thus, the reduction in the number of pick-ups purchased.</td>
</tr>
<tr>
<td>Project 0922-Humanitarian Assistance</td>
<td>130272-Government buildings and Administrative Infrastructure</td>
<td>Design of large relief stores Wall fence built in Namanve Construction of more permanent houses, two stance latrines in kiryandongo</td>
<td>2.726</td>
<td>2.529</td>
<td>Wall built, plastering ongoing and contract for wall fence advertised</td>
<td>Despite receiving 92 % of the funds, wall fencing was not done</td>
<td>There were also other emerging priorities for instance; feeding and transportation of expellees from Sango Bay to Kyaka, emergency food relief for Karamoja, the Bundibugyo conflict extra.</td>
</tr>
<tr>
<td>Programme 06- Luwero Rwenzori Triangle</td>
<td>130306 Pacification and development</td>
<td>Two (2) tipper lorries to support hydra form block yards procured 4,000 bags of cement procured and distributed 4,000 iron sheets procured and distributed 2 hydraform block yards operationalized</td>
<td>0.980</td>
<td>0.980</td>
<td>-Two lorries procured -4,000 iron sheets procured</td>
<td>All funds were received but cement was not procured but rather funds were diverted to procurement of 2 double cabin pickups</td>
<td>Due to the delayed procurement process for the two Lorries, funds were reprioritized towards purchase of double cabin pick-up and part payment for construction works for Nalutuntu Health Centre iii.</td>
</tr>
<tr>
<td>1078-Karamoja integrated Development Programme</td>
<td>130372-Government buildings and administrative infrastructure</td>
<td>Five (5) dormitory blocks constructed for selected primary schools 8 kitchens constructed for schools 10,000 iron sheets procured and distributed 50 housing units constructed for grinding machines</td>
<td>2.780</td>
<td>2.780</td>
<td>-2 dormitories completed and one stance latrine at Lobalangit at Kacheri P/S -10,000 Iron sheets procured -48 housing units completed</td>
<td>100% of the funds budgeted was received but construction of 8 kitchen was not completed</td>
<td>Construction Works for the dormitory blocks are prioritized annually in phases. Funds released were used towards achieving the planned outputs.</td>
</tr>
</tbody>
</table>
As a consequence, service delivery is hampered and the appropriating authority’s objectives are not met as some of the activities were highly not performed as planned despite receiving funds.

I advised Management to ensure adequate supervision of the projects being undertaken.

28.0 Ministry of Public Service

28.1 Irregular Payment of Retention Allowance

Section A-a (15) (a) of the Public Service Standing Orders, 2010, requires that the responsible Permanent Secretary (PS) determines the terms and conditions of service and the structures of the Public Service in consultation with the Secretary to the Treasury (PS/ST), wherever proposals involve increased expenditure of Public funds. Section A-a (15) (f) of the same Orders also requires the responsible PS to prepare a manual containing a statement on the mandate, responsibilities, functions and organizational structure of every Ministry, Department or Local Government.

It was noted that the Civil Service College was established as a Directorate under the Ministry of Public Service; however, there was no specific approval regarding the remuneration of Ministry employees seconded to the college. The available correspondence was about unfunded priorities.

The Ministry went ahead and paid salary to these staff and a retention allowance which was ranging from two to four times the approved salary. In the year under review, a total of UGX.1,161,944,928 was paid as retention allowance to these staff. It was observed that this allowance is not provided for under the Public Service Standing Orders, 2010 and the criteria, rates and the rationale of paying the allowance were not clear, thereby leading to an improper charge on public funds.
The Accounting Officer stated that she has since made consultations with PS/ST in this regard adding that the allowance is provided for under the Public Service Pay Policy for Institutions and Government Agencies and the payment was also approved by the Minister responsible for Public Service per Section 27 of the Pay Policy which provides for payment of a market supplement determined through market survey. However, I was not provided with a specific approval by the Minister in regard to this retention allowance.

I advised the Accounting Office to consider consulting the Attorney General on the legality of this payment and implored the Ministry to explore other recognized methods of motivating staff.

28.2 **Weaknesses in Contract Management**

Uganda Government contracted two firms for the supply, installation, design, and implementation and commissioning of the Integrated Personnel and Payroll System (IPPS) for a contract price of USD.4,437,817 on 31st July 2009, broken down in phases as detailed below;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Item</th>
<th>Amount - USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Supply, Installation, Implementation and Commissioning of IPPS for Phase I</td>
<td>2,363,347</td>
</tr>
<tr>
<td>2.</td>
<td>Supply, Installation, Implementation, and Commissioning of IPPS for Phase II</td>
<td>648,889</td>
</tr>
<tr>
<td>3.</td>
<td>Recurrent Costs of the IPPS for Phase I</td>
<td>1,053,469</td>
</tr>
<tr>
<td>4.</td>
<td>Recurrent Costs of the IPPS for Phase II</td>
<td>372,112</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>4,437,817</strong></td>
</tr>
</tbody>
</table>

It was noted that Phase I IPPS business application support contract expired in October 2016 while Phase 2 expires in April, 2018. The key deliverables under phase one included having all the Human Resource, Payroll and Pension functionality operational in a live environment and with final user acceptance.

However, by the close of phase one, only one module out of the planned nine had attained full operational functionality. The rest of the modules were not implemented due to bugs detected by users; implying that final user acceptance
testing was not done properly. In addition, the issue of inter-operability between the IFMS and the IPPS is still a challenge and has led to major losses of funds at various entities resulting from the manual upload of salary data to the IFMS. It was noted that despite these shortfalls, the supplier was fully paid and commissioned to embark on phase two of the project.

The above matters point to weaknesses in contract management by the Ministry, which may ultimately impact on the attainment of all the envisaged objectives of the project.

The Accounting Officer explained that there were challenges encountered during contract management but currently, four modules are operational and the others are still undergoing reconfiguration by the vendor. I note however, that this reconfiguration should have been done under phase one of the contract.

I advised the Accounting Officer to strengthen the Ministry’s contract management practices so as to ensure fulfillment of contractual obligations and attainment of envisaged objectives.

### 28.3 Impending Decommissioning of the IPPS

According to communication from the PS/ST, Government of Uganda has a plan to decommission the IPPS system and replace it with a comprehensive Human Capital Management System that can be easily integrated with tier one. As noted above, the issue of inter-operability with the IFMS was supposed to be a key deliverable of the IPPS supplier.

It should be noted that after seven years of implementation, Government has invested USD.3,985,475 in the IPPS system, achieved full operation of only four out of the nine modules and failed to integrate the system with the IFMS system.

The performance appears dismal and it is apparent that value for money has not been fully attained. The impending decommissioning implies a waste of financial resources since the system is being shelved before full implementation despite its
huge cost to government. This can be attributed to poor feasibility studies and contract management.

The Accounting Officer stated that they have adopted a roadmap to decommission the IPPS and adopt the Human Capital Management software which has a seamless integration with the IFMS. This roadmap is expected to be finalized by April 2017.

I recommend a follow-up and proper documentation of the issues that led to such a dismal performance to avoid a repeat of the same while implementing IT systems in the future.

28.4 Inconsistency of Employee Records on the IPPS

Review of employee records within the IPPS revealed major errors in the data being maintained on the system. Errors existed in the category of service, age, years of employment. A case in point is the fact that out of 130,331 traditional civil servants, a total of 28,562 are indicated as still on probation. There are employees on the system who have worked for 96 years, while others are 120 years old but still in active service.

The above indicates that the data is inaccurate and may not be fit for migration into the proposed new system. For example, as a result of the above, a review of the November 2015 payroll revealed that a total of UGX.1,617,977,369 was paid to 1,592 employees who appear to have reached retirement, but still on the active payroll.

On top of having inaccurate data, the system controls are also weak, as such, employees would be deleted off the payroll and only reinstated upon submitting their true age.

The Accounting Officer stated that the Management of Payroll and Human Resource Information is a decentralized function of the Responsible Officers of the respective votes. However, she stated that the Ministry planned to undertake a
massive cleanup exercise of all payroll data through providing directives to other Accounting Officers and effecting deletions for non-responsive votes.

I have advised the Accounting Officer to expedite the process of validation to ensure that clean data is available at the time of migration.

28.5 **Double Payment of Death Gratuity**

Section 19 (b) of the Pensions Act CAP 286, provides for payment of death gratuity of an officer who dies while holding a pensionable office. This shall be an amount computed and shall be the greater of either gratuity of an amount not exceeding triple his/her annual pensionable emoluments or his/her commuted pension gratuity if any.

Following decentralization of the pension and gratuity payments, the Ministry processed 284 death gratuity files through the IPPS and forwarded them to the respective Votes for subsequent payment. Payrolls worth UGX 4,921,961,176 were sent out to 82 votes for payment of death gratuity; however, due to a system weakness, the lines were all duplicated.

As a result, some votes paid the beneficiaries twice leading to a financial loss at the vote level. In a letter dated 4th July 2016, the Permanent Secretary, Ministry of Public Service requested the affected votes for a review of all payments and recovery of funds where double payments were made. At the time of writing the report (December 2016), the status of the overpayments was as below;

<table>
<thead>
<tr>
<th>SN</th>
<th>Status</th>
<th>Beneficiaries</th>
<th>Amount - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Confirmed Not paid</td>
<td>61</td>
<td>1,032,401,486</td>
</tr>
<tr>
<td>2</td>
<td>Confirmed Paid but recovered</td>
<td>4</td>
<td>87,179,085</td>
</tr>
<tr>
<td>3</td>
<td>Confirmed Paid but not yet recovered</td>
<td>2</td>
<td>446,996,076</td>
</tr>
<tr>
<td>4</td>
<td>Unknown</td>
<td>202</td>
<td>3,355,384,529</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>4,921,961,176</strong></td>
</tr>
</tbody>
</table>

Table showing status of overpayments

174
The above anomaly resulted from a weakness within the IPPS system, however, 5 months later, this weakness has not been resolved by the service provider.

In response, the accounting officer explained that the Ministry has referred all unresponsive cases to the Inspector General of Government and has since instituted measures of reviewing the interface file before sending it to the Votes.

Furthermore, discussions are ongoing with the service provider regarding the misunderstanding that the problem has to be fixed at a cost as this was entirely a configuration problem which was part of the Systems Requirements Study.

I advised the Accounting Officer to follow up the issue and to provide further guidance to Accounting Officers regarding the handling of recovered funds.

28.6 **Missing Gratuity Payment File**

UGX.42,038,479 was paid as gratuity to a Ministry of Public Service pensioner in June 2016; however, I was not provided with a pension file relating to this payment. Under the circumstances, I cannot confirm whether the payment was rightfully made.

The Accounting Officer stated that the record is currently active on the payroll implying the Vote has already undertaken verification. However; given that the file could not be traced, the assertion was not found satisfactory.

I advised the Accounting Officer to ensure that the ministry enhances its filing system to ease tracking of pension files going forward. In addition, the issue should be followed up to rule out any wrongdoing.

28.7 **Irregular Employment of Pensioners on Contract Terms**

Section A-i (1), of the Uganda Public Service Standing Orders 2010 states that Government does not employ pensioners but can only do so if: the post to be filled requires special skills; and that the only suitable candidate available for the post is the pensioner.
Contrary to the above, the Ministry employed seven (7) pensioners on contract terms with no evidence to show that the posts they filled required special skills and that they were the only suitable candidates available for the posts. It was noted that the posts in question were for typists, drivers, and one nurse, which did not necessarily fit with the requirements under the standing orders.

The Accounting Officer stated that six officers mentioned have since left the ministry and the one remaining is set to leave by February 2017 upon the expiry of her contract. She further stated that all the seven had officially been given these contracts.

I informed the accounting officer that this action constitutes non-compliance with the standing orders by the very ministry mandated to compile and enforce them across the public service. In addition, the anomaly reflects major weaknesses in the system which could allow such instances to obtain approval.

I advised the Accounting Officer to ensure compliance with regulations going forward.

28.8 Pensioners Disowned by Votes

Following the decentralization, the Ministry forwarded the initial payrolls to the respective votes for payment of salary or pension upon verification. It was observed that upon validation, 105 Votes disowned a total of 2,158 pensioners that had been forwarded by the Ministry for payment. All disowned pensioners were deleted from the payroll.

Given that the Ministry previously managed the pension payroll, the act of deleting disowned pensioners was not sufficient as some of these pensioners had been paid huge amounts of money while still under the ministry.

In response, the Accounting Officer attributed this to misrouting of records due to the way pensioners’ records were maintained in the Legacy system which was
migrated to IPPS but there is ongoing routing and re-routing of records adding that some of the disowned records have already been claimed by other Votes.

The Accounting Officer is advised to follow up the issue by tracing backwards for events relating to disowned pensioners with a view of confirming how they accessed the payroll and how much had been paid to them with an intention of identifying who could have been responsible for this malpractice.

28.9 **Comparison of IPPS data with National ID Data**

Among the recommendations of the comprehensive audit of the Government payroll undertaken by this Office in 2014, the need to have a comprehensive clean-up of IPPS data in consultation with other data sets was proposed. Subsequently, the Ministry of Public Service forwarded biometric details (fingerprints) captured during the national Payroll validation exercise to the National Information Registration Authority (NIRA) for comparison with biometric details independently captured for National ID registration.

This exercise initiated by the Ministry, revealed 1,629 cases in which the facial image and fingerprints of employees were matching but other details like names and date of birth were grossly different. This is an indicator of identity theft and creates suspicion on the authenticity of the documents used by these personnel to acquire employment in the Civil Service.

The Ministry of Public Service has so far taken very strong measures to weed out these employees from the payroll and ultimately from the civil service.

The Accounting Officer stated that all residual cases have in September 2016, been deleted off the payroll and been forwarded to the IGG for further investigation.

I commend the Ministry for the steps so far taken and urge the Accounting Officer to follow up the issue to its conclusion.
SECURITY SECTOR

29.0 Ministry of Defence

29.1 Cash and cash balances

Included in the statement of financial position is cash and cash equivalents amounting to UGX.696,748,338. This amount represents various EFT payments which were made at the end of the financial year but bounced after 30th June 2016. I was not availed with documentation that the unpaid cash was receipted in the consolidated fund as required by the PFMA specifically on unspent balances. According to Note 17 of the accounts, the entity disclosed a nil return to the Consolidated Fund from the expenditure account.

The Accounting Officer explained that the cash and cash equivalents figure of UGX.696,748,338 was for EFT payments processed in June 2016 but bounced in early July 2016 due to incorrect bank account details of the beneficiaries which were subsequently voided on the system.

I advised the Accounting Officer to fast-track the processing of these funds and ensure that the funds are credited to the consolidated fund as required.

29.2 Un-supported procurements

a) Procurement of fuel using cash

On 11th July 2015 the Ministry paid cash amounting to UGX.389,150,350 to an account in a local bank in the names of a supplier to procure 100,000 litres of fuel (PMS & AGO). There was no justification why the Ministry paid cash instead of paying directly through EFT to the supplier. Besides, there was no evidence to confirm delivery of 100,000 litres of fuel. I was also not provided with documentation to enable me confirm that the fuel was delivered at the Ministry premises.

In response, the Accounting Officer stated that the Ministry required fuel to undertake urgent operations. The other suppliers in the same category were not willing to provide this fuel on credit as the Ministry’s indebtedness had surpassed
the credit limit. The only option was to make a deposit on the supplier account to necessitate delivery of 100,000 litres of fuel.

I advised the Accounting Officer to ensure that the procurement is done through EFT and to desist from use of cash given that it is prone to abuse. I further advised her to reconcile the position of fuel deliveries to provide documentation to confirm that all the above fuel was received at the Ministry.

b) **Cash procurement of fuel from a local petrol supplier without supporting documents**

   It was observed that UGX.453,813,231 was paid out in cash on 8th October 2015 to urgently procure fuel and lubricants on grounds that the supplier had failed to supply fuel due to accumulated unpaid debts. The requisition indicated that UGX.391,391,520 was for bulk fuel while UGX.36,895,650 was for fuel through use of smart cards.

   I was also not provided with documentation to enable me confirm that the fuel was delivered at the Ministry premises. The only available photocopy relating to the loading schedule of this fuel was stamped received by the supplier on 2nd October 2015, a date earlier than when cash was paid out.

   I advised the Accounting Officer to provide documentation to confirm that all the above fuel was received at the Ministry.

c) **Procurement of tyres for election operations**

   The Ministry paid UGX.823,383,100 for supply of tyres for operations on 27/05/2016. However a review of available support documentation revealed the following;

   (i) A requisition for supply of different types of tyres was made on 29/1/2016 to procure tyres from security budget of UGX.1,000,000,000.

   (ii) There was no signed contract for the supply of tyres worth UGX.823,383,100.

   (iii) One call–off order was issued on 21/1/2016 to supply tyres worth USD.214,716 and another on 18/11/2014, to supply tyres worth UGX.544,565,058 before the requisition was made (29/1/2016).
Further, scrutiny of the supporting documents revealed that these tyres were not supplied as the Ministry used tax invoices and delivery notes worth UGX.788,286,591 from the financial year 2013/2014 as evidence of accountability. There is risk that the items were not delivered as intended.

In response the Accounting Officer stated that at the time of undertaking procurement for election security tyres, the Ministry owed the supplier UGX.2.2bn. When the new call off order was issued for the supply of tyres for election security activities and the company refused to honour it. A decision was taken to pay UGX.823,383,100 as part payment of the old bills dating as far back as FY 2013 using the election security tyres allocation of UGX.1bn to enable the company deliver the tyres.

I advised the Accounting Officer to reconcile the indebtedness with the supplier and provide the actual status of what is owned to the company and avail supporting documents for verification. In the meantime the Accounting Officer should adhere to the commitment control system.

d) Payment for bivouac tents and ponchos
It was noted that UGX.1,073,700,198 equivalent to USD.318,640.4 was paid to a supplier purportedly to supply bivouac tents and ponchos.

A review of the available supporting documents revealed that the Ministry issued a call off order on 21/01/2016 to the supplier for the supply of 4,986 Bivouac/two man tent and 4,986 ponchos at a total sum of US$.318,605. The items were to be supplied to Magamaga General Depot by 26/01/2016. However, it was noted that by 12/04/2016 no items had been delivered. The Ministry acknowledged non-delivery of the items in the letter from Chief of Logistics (CLE) on 12/04/2016 but requested that the supplier be paid on ground that they had supplied similar items before and had not been paid. No clear explanation was given for issuing a new call off order for items which were not needed. The materials were not delivered despite paying the supplier.
Management stated that at the time of issuing a call-of-order for supplies on the election security budget, outstanding debt obligation to the supplier was US$.6,578,323.40 and there were no funds to offset the debt. The supplier refused to honour the call-off-order due to non-payment of the outstanding debt. A decision was made to pay UGX.1.07bn as part payment of the debt using the election security clothing budget allocation.

I advised the Accounting Officer to reconcile the indebtedness with the suppliers and avoid over commitment of resources beyond the budget allocations. Meanwhile the funds should be accounted for.

e) **Supply of furniture to Kaweweta**

It was noted that a supplier was paid a total of UGX.731,826,711 VAT inclusive for supply of furniture to the newly constructed buildings of Kaweweta on vide voucher 01/11/2015 dated 03/09/15. However a review of the supporting documents revealed the following:

(i) There was no signed contract between MOD and the supplier to supply furniture to Kaweweta.

(ii) There were no procurement files available in MOD relating to the supply of furniture for the newly constructed buildings at Kaweweta.

(iii) This payment was not supported with delivery notes and tax invoices specifying the amount of furniture delivered to Kaweweta.

(iv) My inspection carried out at Kaweweta revealed that the newly constructed buildings had no such furniture delivered.

It was therefore not possible to confirm delivery of furniture without documentation.

The Accounting Officer stated that this furniture was all delivered and is available in the Commandants house and the administration block and promised to avail all documents relating to delivery of this furniture for verification.

The documentation is awaited.
f) **Procurement of former UEB properties**

It was noted that UGX.502,500,000 was transferred to Construction of Barracks (MOD) Account in October 2015 for onward transfer to Uganda Registration Service Bureau (URSB) to partly settle an outstanding debt relating to the houses MOD had procured from Uganda Electricity Board in liquidation.

I was not availed with the sales agreements and the ledger against which the payments were being effected to enable me confirm the condition of the sale, location of the buildings, value at the time of sale, Government Valuers valuation, amount so far paid and the outstanding balance to-date. Documents availed to me indicated that the lease for the properties acquired had expired.

There was no evidence that indeed the lease had been renewed as I was not availed with the land titles of the acquired properties. The Ministry is at risk of paying for property without valid documentation.

In response, the Accounting Officer explained that the property is located at Plots 02- 07 Nalufenya close, formerly an Estate of Uganda Electricity Board (UEB) in liquidation. During the liquidation process of UEB, an advert for the 16 Houses that comprised the UEB Estate at Nalufeya was made by the Government Official Receiver/Liquidator. The Ministry bidded for the Houses and offered UGX.2,074,000,000. Upon receipt of the bid acceptance by the Government Receiver/Liquidator, MODVA paid 10% of the offer price totalling to UGX.207,400,000 leaving a balance of UGX.1,866,600,000.

By close of FY 2015/16 the balance had been reduced to UGX.171m and this balance is being processed this financial year to finalise the payments and have the lease extended and land transfers made to MODVA.

I advised the Accounting Officer to ensure that the lease is renewed and transferred in the names of the Ministry.
29.3 Unaccounted for NTR collections

A review of the statement of financial performance on page 9 and note 7 of the accounts revealed the entity collected Non Tax Revenue to a tune of UGX.608,316,663. However, this amount was not supported with receipts. In the absence of the receipts, I could not confirm the accuracy and completeness of NTR collected.

Although the Accounting Officer explained that the NTR collected amounting to UGX.608,316,665 was from hire of land to telecom companies and sale of bid documents and that the supporting documents were availed, at the time of writing this report, the supporting documentation had not been availed.

I advised the Accounting Officer to ensure that NTR is supported by source and banking receipts. These should be availed for my verification.

29.4 Anomalies in the Procurement Procedures

During the audit, the Ministry carried out a number of procurements, however in certain instances the procurement procedures were not complied with as summarized in the table below;

<table>
<thead>
<tr>
<th>Contract number and Amount</th>
<th>Description of the contract</th>
<th>Issues raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The contract was to supply Dry Ratio of USD692,200 equivalent to UGX.2,481,734,175 by Merge (U) Ltd.</td>
<td>Supply of dry ratio to UPDF</td>
</tr>
<tr>
<td></td>
<td>Supply of dry ratio to UPDF</td>
<td>• Supply of the items was made between 23/10/2014 and 10/12/2014 but the bid document to supply the said items was made on 30/12/2014.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The contract was awarded on 10/06/2015 six month after delivery.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The contract was signed on 25/06/2015.</td>
</tr>
<tr>
<td>2</td>
<td>Procurement of cooking pots UGX.129,880,000</td>
<td>Procurement of cooking pots for Training School and colleges from Big Lots (U) Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The contract was awarded on 05/15/2015, two month after</td>
</tr>
</tbody>
</table>
I explained to the Accounting Officer that undertaking procurements in the manner described above is in contravention of the PPDA Act. Multiple retrospective procurements undermine the principles laid down in the law and value for money may not have been achieved from these procurements.

The Accounting Officer attributed these anomalies to the unique nature of the Ministry which requires emergency action and further indicated that the funding problem affects the smooth operations in the Ministry. She promised to work within the provision of PPDA Act in the future.
I advised her to use the emergency procedures provided for under the Act for any procurements of an emergency nature.

29.5 Payment of rent arrears

It was noted that a total of UGX.145,800,000 was paid to the Registered Trustees of Patidar Samaj as rent arrears for rent at Namirembe Road. The rent payments were to cover the period January 1990 to January 2001.

A review of the supporting documents showed that the Ministry had budgeted to pay rent arrears in which the Registered Trustees were to be paid an outstanding rent of UGX.145,800,000 as of 30th June 2015.

The following findings were noted;

(i) The building in question was repossessed on 23/05/1997 by Registered Trustees of Patider Sarmaj implying that rent was only due from the date of repossession in 2001, but instead the Ministry paid rent from September 1992 to 2001. This tantamount to nugatory expenditure.

(ii) All tenancy agreements were signed after the period of occupancy.

(iii) There were no documents from the Registered Trustee demanding the unpaid rent from the due date to the date of payment. It is not clear how the Ministry decided to pay without any demand notes.

In response, the Accounting Officer stated that payment of the accumulated rent arrears was based on the letter authorising repossession by the Minister which was dated 03/09/1992.

I advised the Accounting Officer to consult further with the Attorney General on the appropriateness of the rent paid and whether the agreement entered into is binding.

29.6 Payment to a local hospital

It was noted that a total of UGX.1,748,483,707 was paid to a local hospital for settlement of Medical bills for various officers and men who were referred to the hospital for treatment.
A review of the supporting documents indicated that the officers are referred to the Hospital by completing a medical form.

The following were noted;

(i) The Hospital has a form with a provision for the patient to sign on referral and after treatment. The forms were not filled by the patients and the hospital, a practice I find wanting because it can be abused.

(ii) The referring authority appears not to have control over the bills from the hospital. All bills are sent direct to the Accounting Officer without any input from the referring authority.

(iii) It was not clear why most of the referrals are made to the local hospital (which is twice expensive) instead of Mulago Hospital.

There is a risk that without the Ministry’s control on medical bills from this hospital, the bills will escalate and failure to clear them on time could lead to litigation costs.

Management explained that all referrals were made in accordance with guidelines that were approved under Circular No.1 of 2015.

I advised the Accounting Officer to sensitise staff about the available guidelines and institute controls between the hospital and the Ministry.

29.7 Outstanding UMEME bills
It was noted that during the year the Ministry of Defence paid a total of UGX.9,059,578,883 to UMEME for the electricity consumed by various units. I was not availed with the detailed billing schedule from UMEME for all the accounts paid for by the Ministry for the year to confirm whether all the billings were paid.

The Ministry had no reconciled outstanding bills at the year-end despite the fact that they exist. There is a risk that the reconciliation problems which had been solved in financial year 2013/2014 when a joint team between the Ministry and UMEME was set up may reoccur.
In response the Accounting Officer stated that the outstanding electricity arrears as at 30\textsuperscript{th} June 2016 was UGX.34,218,106,986 and this position was captured under domestic arrears stock as disclosed in the financial statements.

I however reviewed the domestic arrears list which indicated to the contrary. UMeme disclosed UGX.19,162,252,416 arrear which bills were up to the month of March 2016.

I advised the Accounting Officer to reconcile the figures and ensure that the correct amounts are properly disclosed.

\textbf{29.8 \textit{Land matters}}

\textbf{29.8.1 Pending court cases on Ministry of Defence land}

The Ministry of Defence owns different pieces of land especially in Kampala but a number of individuals have lodged claims with courts of law challenging the ownership of the said plots as per the table below.

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Plot</th>
<th>Location</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Plot M198 FRU 439 Falio 24</td>
<td>Upper Mbuya</td>
<td>4.845 ha</td>
</tr>
<tr>
<td>2.</td>
<td>Lower Mbuya</td>
<td>Lower Mbuya</td>
<td>7.9 acres</td>
</tr>
<tr>
<td>3.</td>
<td>Plot 404, 405, 406 block 9 Kyadondo</td>
<td>Former Kiseka Hospital</td>
<td>10.465 acres</td>
</tr>
</tbody>
</table>

I was not availed with the current position and action taken by the Ministry to dispose of these cases.

In response the Accounting Officer stated that the Ministry is making a follow up. The latest follow up with the Inspector General of Police on 30\textsuperscript{th} July 2016 on Upper Mbuya land indicated that the matter is still being handled by the Director of Criminal Investigations (DCIID) who is yet to submit the report to the IGP. As for Lower Mbuya, the Ministry contested the allocation of Ministry land by Uganda Land Commission and UPDF is still occupying the land in question. Meanwhile, Uganda Land Commission aware of the proceedings in the Court of Appeal on former Kiseka Hospital has again allocated the land to a private company by the registered name of YETU UGANDA LIMITED. The Ministry is yet to decide the next course of action.
I advised the Accounting Officer to be vigilant and ensure that all land for the Ministry is closely monitored.

29.8.2 Plot 32 Summit View Kololo
Ministry of Defence owns plot 32 summit view Kololo measuring 0.459 ha and has been occupying it for some time. However, the lease expired and the Ministry embarked on a process of renewing the lease.

I noted that under unclear circumstances an individual has also lodged a claim on the same piece of land claiming that the land was allocated to him. There is a risk that if the Ministry does not act quickly, the land may be allocated to other people leading to litigation costs.

In response, the Accounting Officer confirmed that the property was claimed by an Individual who claims to have purchased it from another party. MODVA /UPDF is in full occupation of this land at Summit View Barracks. Kampala District Land Registry has been asked to effect the transfer of the land and have it registered under ULC with the current user being Ministry of Defence and Veteran Affairs.

I advised the Accounting Officer to follow up the issue with the Land Registry to have the title in place.

29.9 Inspection Report
29.9.1 Kabamba
Audit inspection carried out on 22nd September 2016 revealed the following;

a) Repairs on the administration block and classrooms
The Administrative block together with the classrooms repairs were contracted to a local contractor in the financial year 2011 to 2013 at a cost of UGX.25,036,867,250. This was a turn-key project implying that all the works were to be done by the contractor. The following were observed;

(i) The same works are being undertaken at the Ministry’s expense. All tiles earlier fixed were being replaced with new ones. I was yet to establish how much was spent on procurement and fixing the tiles as per the BOQs.
(ii) It was further observed that the defects were all identified during the defects liability period. It is not clear why the Ministry was spending money on renovation of a project before being put to its use.

(iii) The roof of the Administrative block is still leaking despite the fact it was re-done recently.

The Accounting Officer explained that since the contractor handed over the buildings, there has been persistent re-occurrence of defects such as leaking roofs and peeling off of floor tiles. Although the contractor made attempts to rectify these defects, the same defects still persisted. Efforts to have the contractor make good of the defects failed.

Consequently, given the nature of defects and the magnitude, the Ministry withheld retention funds and decided to correct the defects using own labour. I explained to the Accounting Officer that this was against the principle of managing defects under the defects liability period.

I advised the Accounting Officer to consider recovering the repair costs from the contractor and institute measures to black list this by PPDA.

b) Kabamba Parade Ground

The construction of the parade ground was started in 2010 but was abandoned on the way before completion. I was not availed with approved designs for the parade ground to ascertain the scope of the works done and the amounts so far paid.

My inspection revealed that the parade ground is incomplete and works have been abandoned. The following were observed during inspection.

(i) More than 40 drums of tarmac were found abandoned on site.

(ii) All the works done will need to be redone because the works were substandard.
(iii) There was no pavilion, no toilets, no changing dress rooms and no access roads. The works did not befit the purpose of the parade ground.

(iv) I am yet to establish how much had been budgeted and paid for these works with a view of establishing the loss to government.

In response, the Accounting Officer stated that the Ministry was constructing a parade ground of 14,825 square metres at a cost of UGX.2,348,466,000, and so far UGX.236,846,265 has been paid. Works stalled because of lack of funds. The Ministry was planning to resume works in 2017/2018 financial year.

I have advised the Accounting Officer to allocate adequate funds for this project to avoid loss of money so far spent.

c) Incomplete works on gas and firewood kitchen
It was noted that the gas and firewood kitchen at Kabamba was not completed and it is not in use. No detailed BOQs were availed to estimate the scope of works done.

d) Dining hall and main hall not in use
The dining hall and main hall with a capacity to sit 700 people are not in use.

Management explained that the Main hall and dining halls are not in use due to absence of furniture. The procurement of furniture for the halls is underway.

I await full utilisation of the facilities.

e) Abandoned Tractor
I noted that a tractor which was meant to slash the compound of Kabamba, Kalama and school of Combat Engineering and general clearing of the Kabamba complex has been abandoned and is now grounded. It requires minor repairs to make it operational.
I was not availed with the details of the tractor to ascertain the reason for not repairing it.

29.9.2 Kalama (AWTS)

a) Pit Latrine
Armoured Warfare Training School (AWTS) Kalama was found without any pit latrine in use. The School depends on water borne toilets and require major repairs on all of them. The school received only UGX.1,400,000 per month for barracks maintenance which is too little to maintain the school. There is a need to construct Pit latrines in the school to reduce on the pressure in case water is not pumped.

b) Women’s Dormitory
The School did not have a women’s dormitory. The administration has now divided one of the men’s dormitory into two to cater for a women’s dormitory and has put a temporary chain-link to limit the movement of ladies at night.

c) Abandoned water boowzer H4DF 061
The only water boowzer for the school has been grounded for 5 years now. The school has no funds for repair. The school needs the truck in case there is no water especially when the water pump which supplies the school is under repair. A team from EME central workshop Magamaga accessed the repairs needed in 2013 and no action has been taken to date.

29.9.3 School of Combat Engineering

a) Furniture of the school
The school was opened in 2013 without furniture. The existing furniture was borrowed from Kabamba and up to now no funds have been allocated for furniture of the school.

It is not clear why it has taken so long without allocating funds to acquire furniture for the school.
b) **Repairs needed**

The school has no funds allocated for maintenance; however I noted that some repairs are needed especially of the ceiling of the verandah corridor of the classroom block. The floor of the classrooms requires some renovations as it has developed cracks.

The Ministry is at risk of incurring high costs of renovations in future if no funds are allocated for maintenance.

c) **Pit Latrine**

It was noted that the school did not have any pit latrine and has no water tank reservoir. In case of power went off or the water pump breaks down, there will be a need to have a pit latrine.

### 29.9.4 Incomplete works at Kaweweta Recruit Training School

Ministry of Defence signed 5 different contracts with Ms J2E Corporation Ltd for the construction of strategic infrastructures for Kaweweta Recruit Training School. The total contract sum was UGX.67,311,523,073 and the Ministry has made cumulative payment of UGX.35,798,550,737 representing 53.2% of the total contract sum. Refer to table below;

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>Description of works</th>
<th>Contract Sum (UGX)</th>
<th>Amount Paid (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Phase one</td>
<td>Dining Hall, 2 dormitories, Offices, Commandants House, classrooms</td>
<td>2,298,157,282</td>
<td>2,298,157,282</td>
</tr>
<tr>
<td>2</td>
<td>Phase Two</td>
<td>kitchen, 12 dormitories, 12 classrooms, power reticulation, Saluting base, generator house</td>
<td>26,328,271,191</td>
<td>19,644,486,075</td>
</tr>
<tr>
<td>3</td>
<td>Phase Three</td>
<td>2 dining halls, 4 dormitories, 2 senior staff houses, Armoury, quartermaster, 8 laundry bays, 24 aqua privy toilets, accommodation blocks and mess for radar staff, quarter ground, internal roads and walkways, fencing, pavilion base</td>
<td>28,631,282,340</td>
<td>11,206,833,785</td>
</tr>
<tr>
<td>4</td>
<td>Parade Ground</td>
<td>preparatory works, parade ground, storm water drainage</td>
<td>3,588,152,260</td>
<td>2,649,073,494</td>
</tr>
<tr>
<td>5</td>
<td>Water supply</td>
<td>valley tank construction,</td>
<td>6,465,660,000</td>
<td>0</td>
</tr>
</tbody>
</table>
A review of the available documents indicated that total certified works amounted to UGX.41,943,301,376 of which UGX.35,798,550,737 has been paid leaving an outstanding balance UGX.6,144,750,639.

The outstanding amount was not disclosed in the entity financial statements. I was not availed with the project monitoring file for this project to evaluate the progress.

My inspection carried out on 20/09/2016 revealed that only the Administrative block and Commandant House plus the Armoury were complete, the rest of the contracts were incomplete. The site was abandoned since October 2015.

In response the Accounting Officer explained that the works were not abandoned but have stalled due to delays in payments. Negotiations are being made with the contractor to resume the project. She promised to avail all documents relating to this project and progress reports in January 2017.

I await this report to take appropriate action.

**29.9.5 Nakasongola Cantonment**

a. **Incomplete renovation of flats**
It was noted that the engineering brigade renovated a block of flats for students but works were not complete. There were no toilets and windows and yet the students are occupying them. There is a need to complete the works. Management stated that renovation works have started on these buildings and are to be completed in FY 17/18.
29.9.6 Lugazi

a) **Main Building/Administration Block**
An inspection revealed that the administration block was leaking and requires urgent repairs. The water gutters were falling off and the ceiling was all destroyed thus requiring complete re-roofing. This is a clear indicator that the building was of poor quality at the time of purchase.

In response the Accounting Officer stated that the falling gutters and defects on the ceiling would be replaced during routine maintenance when funds are available.

b) **The compound**
The tarmack on the compound was washed away by rain. The road is all gone and needs urgent repairs.
Management promised to undertake repairs on the compound and roads in financial year 2017/2018.

c) **Renovation of the Dining Hall**
Phase I of the renovation of the dining hall was completed and the workmanship is good, however, there is a need to release funds for Phase II to complete the renovation of the dining hall before the works of phase I start getting wasted.

Management promised to release funds to complete Phase II before December 2016.
I await the Accounting Officer on the release of funds.

d) **Renovation/Completion of the Dormitory Hall**
It was established that renovation on one of the dormitories was complete and is now in use. The works on the second dormitory was on-going. There is a need to ensure that funds are released on time to ensure that works are completed.

Management promised to release funds to complete the Dormitory before December 2016.
I await Accounting Officers release of funds to cantonment.
29.9.7 Entebbe Air Force

a) **Un lawful allocation of Uganda Air Force land**

It was noted that Wakiso District Land Board under unclear circumstance issued Land titles for the Ministry land located at plot 1, 2A 3 and 7 Bazalabuja line in Entebbe municipality. This land was taken over by the Ministry for security reasons under the HE’s directive and all private owners were duly compensated by government. The new private individuals with the titles issued by Wakiso District Land Board have now sued MOD demanding compensation. This act by Wakiso Land Board of allocating land vested under central government without consulting Uganda Land Commission is fraudulent.

Management explained that UPDAF has been in occupation of this land undisturbed since 1989. Until recently in 2015 the individuals claimed proprietorship of the land and demanded access to undertake development. Having been denied access, the individuals have since sued Government for trespass and the matter is being determined by the Courts of law.

I advised the Accounting Officer to fast track its land and ensure full ownership.

b) **Un lawful payment of rent to National Housing and Construction Company Ltd**

It was noted that the Ministry of Defence paid rent totalling to UGX.2.2bn to National Housing and Construction Company Ltd. Documents available indicated that the rent paid was in relation to accrued arrears for 15 houses at Bulime Road in Entebbe Municipality. These houses were taken over for security reasons in 1995 under the directive of H.E.

Documents further indicate that all land including properties located in the manoeuvring perimeter of the Air Force was taken over and individual owners of all the properties were compensated. All government institutions which had properties in the area including National Housing and Ministry of Works were settled at Ministry level. From that date all properties including land became Ministry of Defence properties. This land was subsequently surveyed and fenced by the Ministry.
Management explained that they made a payment to NHCC in this FY 2016/17 of UGX.2.2bn in respect of accumulated rent arrears for the 25 Housing Units occupied by UPDAF at Bulime in Entebbe. This was based on possession of titles.

I advised Accounting Officer to investigate the settlement which was made at Ministry level to establish the true owners of these houses.

30.0 Office of the President

30.1 High motor vehicle maintenance costs

It was noted that Resident District Commissioners and their deputies are required to oversee security and monitor implementation of government programs in the various Districts across the country. For their effective and efficient operations, they are required to be facilitated with mechanically sound vehicles.

However it was observed that out of 175 vehicles provided to the commissioners, only 31 (18%) are below the recommended five years official use, while 144 (82%) have been used for over five years.

This has led to frequent breakdowns due to age and rough terrains, translating into high maintenance costs. During the year under review, a sum of UGX.1.722bn was spent on maintenance of the entity vehicles with the RDCs vehicles taking a big part of it.

During the financial year 2015/2016 Office of the President procured only 10 double cabin pickups out of 144 due for replacement.

I observed that this is low and requires revisiting. The table below shows the number of vehicles that have been in use for over 5 years.

<table>
<thead>
<tr>
<th>Years covered</th>
<th>Number of vehicles</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above-8 years</td>
<td>11</td>
<td>7.7%</td>
</tr>
<tr>
<td>Above-7 years</td>
<td>26</td>
<td>18.3%</td>
</tr>
<tr>
<td>Above 5 years</td>
<td>107</td>
<td>74.3%</td>
</tr>
<tr>
<td>Total</td>
<td>144</td>
<td>100%</td>
</tr>
</tbody>
</table>
The Accounting officer attributed the high costs of vehicle maintenance to the aged fleet used by RDCs and DRDCs in the rugged rural terrain. The Office had on several occasions raised funding requests with the Ministry of Finance, Planning and Economic Development, but no positive response had been received.

I advised the Accounting Officer to continue engaging Ministry of Finance to allocate more funds to replace the ageing fleet.
AGRICULTURE SECTOR

31.0 Ministry of Agriculture, Animal Industry and Fisheries

31.1 Irregular borrowings from VODP2 Project
The Ministry borrowed UGX.487,134,733 from Vegetable Oil Development Program (VODP2) during the FY 2014/2015 to facilitate the Ministry activities. Out of this amount, UGX.335,187,474 was refunded to the project during the financial year leaving an outstanding balance of UGX.151,947,259. The borrowings adversely affect timely implementation of project activities as per the approved work plans and un-refunded funds may lead to ineligible transactions.

Management explained that borrowings from Government accounts were meant to facilitate Government emergency activities where GoU funding was delayed such as per diem for Ministerial meetings abroad to participate in World Food Security Sessions, pre loan field visits for Projects, Agro Sector Corporation discussions and studies for investments. Management also explained that the delays to refund was caused by inadequacy of GoU releases and that they have since refrained from internal borrowing and were committed to refund the balance by the end of third Quarter 2016/2017.

I await the efforts of the Accounting Officer in refunding project funds to enable implementation of planned activities.

31.2 Pension payments
Payment of 249 pensioners without required Life Certificates
Retired pensioners or their relatives/beneficiaries are ordinarily entitled to pension for a period of 15 years after the employee’s retirement. However, if the pensioner is still alive at 75 years, he/she is still entitled to a pension until the time of demise and the payments are made based on production of life certificates on an annual basis.
A review of a letter by the Permanent Secretary Ministry of Public Service reference GACCTS 002 dated 22nd March 2016, revealed that the Ministry payroll had 249 pensioners who had received pension for over 15 years and were still active on the payroll but did not have life certificates provided by the pensioners to warrant their continued payment. Whereas the Permanent Secretary Ministry of Public Service had stated that failure to submit life certificates by 30th April 2016 would lead to deletion of the pensioners, a review of the IPPS payroll availed for audit revealed that the pensioners continued to be paid till the end of the financial year. As a result, Government stands to lose funds for paying pensioners who have since passed on.

Management explained that verification of all pensioners decentralized to the Ministry was being handled by the Ministry staffs for the first time and the process of transferring and verifying pensioners’ files from Ministry of Public Service was tedious. Management also stated that several measures had been put in place to address this matter to include among other Internal Audit review of the pensioners’ files, suspension of payment to all pensioners that were flagged ‘red’ by the Auditors for lack of life certificates and running of radio announcements on 12 selected radio stations in all regions in Uganda, informing Pensioners who retired before 2002 to fill and submit updated life certificates by 30th October 2016.

I advised the Accounting Officer to halt payments to all pensioners without life certificates and also consider physical verifications since life certificates can easily be forged.

31.3 Overpayments and underpayment of pensions

Following the Ministry of Public Service correspondence reference ‘COM 96/153/01’ to Ministry of Agriculture Animal Industry and Fisheries (MAAIF) on the 11th January 2016, it was noted that MAAIF had several overpaid and under paid pensioners. Review of the pension payments for the affected officers during the year revealed overpayments (UGX 101,326,422) that are recoverable and
underpayments (UGX 22,829,748) that have resulted into arrears as detailed below;

a) **Overpayments**
As a result of revalidation of pension for financial year 2014/2015 in October 2014 and thereafter payment of arrears from July to October 2015 (3 months) together with the revalidated October 2014 pension, the arrears were consequently migrated and continued to be paid for 13 months yet they constituted a one off payment.

Review of the availed schedule of overpaid MAAIF staff and comparison with the payment file for the year 2015/16 revealed that a sum of UGX.101,326,422 was overpaid to forty two (42) staff for periods ranging from two to five months.

It should be noted that payments for the previous period i.e. October 2014 to June 2015 could not be computed due to lack of the payment file from Ministry of Public Service that handled the payments before decentralization. There is a likelihood that the overpaid figure will increase.

b) **Underpayment**
The underpayments were caused by non-revalidation of the monthly pension to the affected beneficiaries in financial year 2013/2014 and this went on for 29 months.

Review of the schedule and comparison with the MAAIF payment file for the year revealed that UGX.22,829,748 was incurred as arrears for 39 staff during the year for periods ranging from two to five months. It should be noted that arrears for the previous period (2 years) i.e. July 2013 to June 2015 could not be computed due to lack of the payment files from Ministry of public service that handled the payments before decentralization.

I informed management that Government is exposed to the risk of loss of funds in the event of non-recovery of overpayments to deceased pensioners and also litigation expenses in case of underpaid pensioners.
Management attributed the gaps to revalidation and migration exercise of pension files during the FY 2014/15 where some records got mixed up and caused these errors. Management further explained that they had written to the Ministry of Public service for guidance upon which recoveries and settlement of outstanding arrears will be effected.

I advised the Accounting Officer to draw the urgency of the issue to the attention of Ministry of Public Service so that the observed over and under payments are addressed.

32.0 National Agricultural Research Organisation (NARO)

32.1 Lack of land titles and land encroachment

Section 1.4.3 (iii) of the NARO Financial Manual 2011 entrusts the Director General with the responsibility of the day to day operations and administration of the Secretariat property and affairs of the organization among others. Audit inspection carried out in July and August 2016 at several Institutes revealed that some Institutes lacked land titles for several properties and some of the properties had been encroached on by squatters as detailed in the table below;

<table>
<thead>
<tr>
<th>Institute</th>
<th>S/N</th>
<th>Property</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Semi Arid Resources Research Institute (NaSARRI)</td>
<td>1</td>
<td>Serere-Institute Location</td>
<td>Land without title but not encroached on</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Kumi 12 Acres –Technology verification center</td>
<td>Land without title but encroached on</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Katakwi 13 Acres-Technology verification center</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Kaberamaido 27 Acres-Technology verification center</td>
<td>Land without title but not encroached on</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Bukedea -Technology verification center</td>
<td>Land without title but not encroached on</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Jinja (Nakabango) 52 Acres-Technology verification center</td>
<td>Land without title but not encroached on</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Amuria 26 Acres- Technology verification center</td>
<td>Land without title but encroached on</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Pallisa (Kibaale)- Technology verification center</td>
<td>Land without title but encroached on</td>
</tr>
<tr>
<td>Buginyanya Zonal Agricultural Research And Development Institute</td>
<td>1</td>
<td>The land where the Institute is situated at Buginyanya- Bulambuli District</td>
<td>Land without title but not encroached on</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>The land where the satellite station is situated</td>
<td>Land without title but encroached on</td>
</tr>
<tr>
<td>Location</td>
<td>Description</td>
<td>Status</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Tororo-Institute Location</td>
<td>Land without title but not encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lugala - Namayingo District (satellite station)</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nyakyensasa - Wakiso District (satellite station)</td>
<td>Land without title but not encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demonstration Farm measuring 399.38 Acres situated at Kawanda- Wakiso District</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ssenge Farm 750 acres situated in Mpingi District</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural Engineering and Appropriate Technology Research Center(AEATREC)- NAMALERE</td>
<td>Land without title but not encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nyabwishenya Research Facility in Kisoro District-220 acres</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KaZARDI- 294 acres</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karegyere- 332 acres</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kibimbili satellite station -365 acres</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kyanamira Fisher and Aquaculture- Land size not ascertained</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rwebitaba institute – 302 acres</td>
<td>Land without title but encroached on</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Encroachment of NARO land exposes the entity to a risk of losing land to undertake research activities in the future which could adversely affect service delivery. Further, lack of land titles may lead to unscrupulous individuals acquiring land. The institute may also be exposed to the risk of unnecessary land compensations to encroachers in future.

Management explained that they had written to Uganda Land Commission several times requesting for transfer of instruments of land occupied by NARO currently registered in the names of Uganda Land Commission with exclusive user rights for Agricultural research purposes, adding that they had made budgetary provisions of UGX.5.1 billion during FY 2017/18 for the purpose.

Besides, management explained that a memorandum of understanding between NARO and Ms Kigezi Highlands Ltd stipulating terms and conditions of the land usage and benefits accruing to NARO had been finalised pending signing.
I advised the Accounting Officer to ensure the issues of land titles for the institutes are followed up immediately to its logical conclusion. In the meantime, I await the outcome of Management's efforts in securing its land.

32.2 **UNRA outstanding compensation to MBAZARDI**

The institute budgeted to generate UGX.1,836,545,630 in form of NTR collections from Uganda National Roads Authority (UNRA) for compensation arising from the institutes land measuring 22.670 acres that was surveyed by UNRA in Kafunjo Cell for the construction of the northern bypass in Mbarara.

Review of the various correspondences at UNRA and NARO revealed the following:

**a) Non-payment of Compensation Funds**

It was noted that no compensation had been made as at the time of audit. A review of Management report revealed that UNRA later decided not to pay allegedly because the Government Valuer advised them not to compensate Government Agencies, a claim that is not backed by any communication from the Government Valuer who actually has since denied the allegation insisting it is not backed by any existing law.

**b) UNRA paid compensation to a third party for NARO land**

A review of the Management reports revealed that UNRA surveyed 22.670 acres and 3.2 acres for the road construction however, the 3.2 acres which also belong to the institute were surveyed in the names of an individual who was an encroacher. UNRA well knowing that the land in question belongs to Mbarara Zonal Agricultural Institute instead planned to compensate the individual with UGX.600,000,000, out of which UGX.360,000,000 was paid.

It was further noted that the claimant had encroached on the piece of the institute land in 1999, the matter went to court and the judgement was made in favour of the institute although the claimant refused to vacate the land and continued to erect permanent structures on the said land.
I noted that total compensation to NARO should have been UGX.2,436,455,630, including UGX.600,000,000 that was not included in the NTR budget by the institute since the said compensated land belongs to the institute.

c) Lack of Valuation Report
There was no valuation report from UNRA about the land in question and the institute was not involved in the valuation exercise. Audit could not confirm the UGX.1,867,182,000 claimed by management.

Further, analysis of the 3.2 acres compensation reveals that each acre was valued at UGX.187,500,000 and yet NARO's computation for the 22.670 acres which UNRA has not settled would on average be valued at UGX.82,363,564 per acre, this is despite the fact that the two pieces of land in question are in the same location with no planned developments.

There seems to be a very huge variance between the two pieces of land in terms of valuation which could cause under valuation on the NARO 22.67 acre land due for payment by UNRA.

Failure by management to recover outstanding receivables adversely affects timely implementation of planned activities and low valuation of acquired land disadvantages the institute as funds received may not be commensurate to the land that should have been compensated.

Management explained that they had engaged UNRA on the unpaid compensation and on the erroneous payment of UGX.360,000,000 (60%) to the individual and were yet to receive feedback from the Executive Director and/or Head of Litigation Uganda National Roads Authority (UNRA) on the errors and compensation due to NARO Institute.

I advised the Accounting Officer to undertake an investigation to ascertain the correct valuation of the land and also continue following up the matter with UNRA to ensure that the Land is recovered from the encroacher. In case there are plans to pay the individual the balance, then this should be stopped until after the investigation.
32.3 **Budget performance**

Section 21(1) of the Public Finance Management Act entrusts the accounting officer with the responsibility of planning and managing the entity activities as indicated in the policy statement of the vote based on the annual cash flow. Budget estimates are based on outputs to be achieved for the financial year and during implementation, efforts should be made to achieve the agreed objectives or targets of the entity within the availed resources. Review of the NARO performance revealed the following:

a) **Under- performance of Non-Tax Revenue**

NARO Collected Appropriation in Aid funds at the various institutes amounting to UGX 2,586,827,726 out of the budgeted amount of UGX 7,008,822,000. This was 37% performance level implying under collection of 63% of the anticipated revenue amounting to UGX 4,421,994,274.

I noted that included in the uncollected revenue are outstanding amounts for land compensations from UETCL and UNRA. Under performance affects the implementation of planned activities.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Planned Activity</th>
<th>Output</th>
<th>Not achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diary</td>
<td>Capacity building of 30 farmers built in</td>
<td>• 3 model farmer groups identified for technology demonstration.</td>
<td>• 27 farmers not built in forage production and conservation in mid-North zone.</td>
</tr>
<tr>
<td></td>
<td>forage production and conservation in mid-North zone</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>At least 4 MT of breeder seed produced; At least</td>
<td>• 3.24 MT of breeder and 26.65 MT Foundation seed for 12 released and pre released varieties produced</td>
<td>• 0.76 MT of breeder and 3.35 MT Foundation seed for 12 released and pre released varieties not produced</td>
</tr>
<tr>
<td></td>
<td>30MT of foundations seed produced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forestry</td>
<td>250 farmers and other key actors 205organiza with skills in seed collection, handling and propagation of priority agroforestry tree species in Masaka, Kasese, Otuke and Pallisa districts</td>
<td>• 85 tree farmers, 15 seed collectors and 70 tree nursery operators have been identified for training in Pallisa and Masaka districts</td>
<td>• 85 tree farmers not identified.</td>
</tr>
<tr>
<td>Fish</td>
<td>At least 200,000 Nile</td>
<td>• 25,000 mixed sex Nile</td>
<td>• 175,000 mixed</td>
</tr>
<tr>
<td>Crop</td>
<td>Produced/Availed</td>
<td>Produced/Availed</td>
<td>Produced/Availed</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>tilapia fingerlings</td>
<td>bred</td>
<td>tilapia seed produced yet to be availed to farmers in the zone</td>
<td>sex Nile tilapia seed produced yet to be availed to farmers in the zone not produced.</td>
</tr>
<tr>
<td></td>
<td>• 3,000 Nile tilapia seed availed to a fish farmer in Hoima municipality</td>
<td>• 26 Nile Tilapia Broodstock (average weight 300g) supplied to a farmer in Hoima Municipality.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 3,000 Nile tilapia seed produced and not yet to be availed to farmers in the zone not produced.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• At least 3000 quality foundation seed for tilapia, catfish and common carp fish species produced and disseminated to at least 200 farmers in SHAEZ</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Established drainage structures on the new valley tank and stocked it with 200 tilapia brood stock from Kazinga Channel for multiplication of quality foundation Fish fry to seed experiments and for dissemination to farmers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 2,700 seed for tilapia, catfish and common carp fish species not produced and disseminated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>• At least 35000 seedling of KR varieties of coffee generated</td>
<td>• 0.25 acres containing 700 seedlings of coffee (100 seedlings for each of KR1, KR2, KR3, KR4, KR5, KR6 and KR7) maintained 1030 seedling for KR1, KR2, KR3 and KR4 have been generated</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• At least 32,2700 seedling of KR varieties of coffee not generated</td>
<td></td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>• 200 bags of improved orange flesh s/potato vines availed to uptake pathways, Farmers knowledgeable in s/potato vine multiplication techniques</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 0.6ha of potato vine multiplication at Ikulwe; 70 bags of vines available at station; 25 bags availed to farmers in Mayuge, Kamuli and Namutumba districts.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 105 bags of improved orange flesh s/potato vine not multiplied.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I also informed management that failure to collect outstanding receivables leads to accumulation of arrears of revenue.

Management explained that they have engaged the responsible entities with a view of collecting the receivable.

I await the outcome of the management’s action.
32.4 **Rwебитабазарди - lack of Tea Research Laboratory and equipment - Fort Portal**

Rwебитаба Tea Research Centre was established in 1960 as a branch of Tea Research Institute of East Africa (TRIEA) and it was the main tea breeding station for TRIEA before collapse of East African Community in 1977.

I noted that although the Research Centre is supposed to be a breeding station for the Tea growing areas in the country, it had no fully equipped laboratory and as a result the pathology as well as other related research work was undertaken in the open environment in unroofed structures despite the station being located in the centre of tea growing estates with better laboratories and equipment. See pictures below:

<table>
<thead>
<tr>
<th>Photograph</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Image" /></td>
<td><strong>Tea Seedlings being grown in the open</strong></td>
</tr>
</tbody>
</table>

Lack of a fully-fledged laboratory and equipment retard the research and development in the tea industry hence affecting the economic development of the country given the large tea intervention programme by NAADS.

Management explained that the institute was formed after the approval of ATAAS project funding from which other institute laboratories and civil works requirements were being financed, adding that they were lobbying government to finance the infrastructure development requirements with a budget request of UGX 6 billion made for FY 2017/2018.
I await management’s efforts in this regard in order to have adequate research on tea.

32.5 **Non-payment of rent by tenants**

A memorandum of understanding was signed between National Agricultural Research Institute and Gulu University on 31st May 2011 to rent some of the Institute’s designated premises for establishment of a temporary campus for teaching of students at a monthly rate of UGX.5,500,000. The premises include; a four bedroom house, a classroom block, dining room, two dormitory blocks, kitchen containing four staff rooms, a farm yard, farm land and sanitary facilities. Further, another tenancy agreement was signed between Kitgum ARDC/Satellite under Ngetta ZARDI and an individual on 1st April 2003 to occupy the staff quarters at a monthly rental fee of UGX.80,000.

Review of the tenancy agreement and related communication revealed the following anomalies;

a) **Lack of Government Valuer involvement**

It was noted that the properties were neither valued by a Government Valuer nor an independent valuer and as such there was no basis for determination of the rent payable. The requirement on the standard procedures on rental fee determination was ignored. Further, five years down the road no rent revaluation has been undertaken despite a number of determinants changing such as inflation rate, exchange rates and property value appreciation.
33.0 Vegetable Oil Development Project (VODP) Phase II

33.1 Status of funds absorption

The approved project expenditure estimates for the financial year 2015/1026 amounted to UGX.33,903,272,527 and a sum of UGX.25,577,887,195 was released for spending during the year.

I noted that the project had a sum of UGX.12,519,116,730 brought forward from the previous year, bringing the total funds available for spending to UGX.38,097,033,925.

However, only UGX.27,512,170,264 was spent during the year, representing an absorption capacity of only 71%. UGX.10,584,833,661 was still held on the project account as at the close of the financial year.

Moderate absorption is likely to attract commitment fees charged on undrawn amounts and also negatively affects implementation of planned activities despite the availability of funds.

The status of some the procurements that were still pending at the time of writing this report is detailed in the Table below.
Table showing status of some procurement

<table>
<thead>
<tr>
<th>Goods/Supplies</th>
<th>Quantity</th>
<th>Estimated costs (UGX)</th>
<th>Commencement date</th>
<th>Expected Completion date</th>
<th>Status as at December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor boats (10-15 pple)*</td>
<td>1 units</td>
<td>500,000,000</td>
<td>Oct. 2015</td>
<td>May 2016</td>
<td>The users took too long to agree on the specifications. The procurement process is in progress. Bidding document and draft advert have been submitted to IFAD for review and clearance.</td>
</tr>
<tr>
<td>MIS Software</td>
<td>1</td>
<td>50,000,000</td>
<td>July 2015</td>
<td>Nov 2015</td>
<td>The contract was awarded; the consultant in liaison with the user is carrying out system review. The system is expected to be running in the month of January 2017.</td>
</tr>
<tr>
<td>Seed production &amp; storage- Cold rooms/ Deep freezers renovation (1 per institution)</td>
<td>2 units</td>
<td>123,826,500</td>
<td>Aug. 2015</td>
<td>Dec. 2015</td>
<td>This procurement was put on halt because the research centres that required these facilities were undergoing a detailed assessment of renovations required before embarking on works. It will be implemented when the research Institutes submit details of what is required.</td>
</tr>
<tr>
<td>Ox-plough for demos</td>
<td>16 sets</td>
<td>40,000,000</td>
<td>Aug. 2015</td>
<td>Dec. 2015</td>
<td>The procurement was delayed due to issues raised by Contracts Committee (CC) at the stage of procurement approval. CC raised issues regarding lack of plans in place for utilization, management and sustainability for the ox-ploughs. The user has now addressed the issues and concerns raised by CC and the procurement process is in progress.</td>
</tr>
<tr>
<td>Computer accessories- KOPGT</td>
<td>Assorted</td>
<td>6,517,000</td>
<td>Sept. 2015</td>
<td>Nov. 2015</td>
<td>The existing KOPGT server was upgraded from 2GB to 8GB and SQL server software installed. The procurement was therefore suspended.</td>
</tr>
<tr>
<td>Oil palm seedlings- Buvuma</td>
<td>76,500 seedlings</td>
<td>669,375,000</td>
<td>July. 2015</td>
<td>Dec. 2016</td>
<td>The contract delayed due to quotation in USD by the evaluated supplier. The project sought a waiver from the Ministry of Finance, Planning and Economic Development (MoFPED) to contract in US Dollars. MoFPED has now cleared the project to go ahead and enter into contract in US Dollars with the service provider.(Communication from MoFPED attached).</td>
</tr>
<tr>
<td>Construct fertilizer stores in outlying islands</td>
<td>2</td>
<td>240,000,000</td>
<td>July. 2015</td>
<td>Nov.2015</td>
<td>The construction process was affected by the loss of the Project Engineer. In addition, Kalangala district was requested to provide land with clear ownership before construction is initiated. The district is working on the land issue, while recruitment of an engineer for the project is ongoing.</td>
</tr>
<tr>
<td>Construct Vehicles packing shed for KOPGT</td>
<td>1</td>
<td>55,000,000</td>
<td>August. 2015</td>
<td>Dec.2015</td>
<td>This procurement was delayed because of the loss of the engineer who was preparing the bills of quantities.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,184,718,500</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Unless planned activities are implemented, the project may not achieve the set objectives of alleviating poverty in the targeted areas.

Management explained that the project is expected to remain with funds at the closure of the financial year as a liquidity measure to ensure that activities are not affected due to inadequate funds.

Under-absorption was mainly due to the long process of contracting five new Pay-for-Service extension service providers and business development services and time taken to appraise the previous extension service providers before contract renewal.

The passing away of the project Engineer and breakdown of road equipment also affected implementation of civil works in Kampala.

I advised the Accounting Officer to plan adequately and ensure that incomplete activities are handled within the stipulated time.

### 33.2 Delayed Procurement of land in Buvuma Island

According to the agreement signed between Oil Palm Uganda Ltd (OPUL) and GOU, the Government through the Project Management Unit (PMU) was to acquire 6,500 ha of land, free of any encumbrance to be handed over to OPUL for consolidation and expansion of oil palm growing/development in Buvuma district.

The 6,500 hectares of land would enable OPUL initiate investments for the development of nucleus estate and infrastructure required for development of oil palm plantations by OPUL and smallholders, establishment of nurseries for seedlings, warehouse for inputs supplies and a crude palm oil mill.

In addition, Management was supposed to establish oil palm nursery beds and mobilize farmers to participate in the smallholder scheme.

I noted that the project had acquired 6,405 hectares of land against 6,500 hectares required by the Investor, leading to a shortfall of 95 hectares. Of the 6,405 hectares acquired, titles for 1,191.51 hectares have been transferred to Uganda Land Commission (ULC), while 1,679.23 hectares submitted to land office
for transfer to ULC, 1,121.93 hectares are still being subdivided and 1,802 hectares transfer process is on-going. As a result of the delays in acquiring land, the planned activities were not fully undertaken.

Management explained that the process of land acquisition was slowed down by factors such as lack of land titles, multiple claims on a piece of land by Landlords, absentee landlords and claimants for compensation not known to the landlords.

The slow-down was also attributed to failure to identify landlords who are willing to sell land, tenants who are willing to vacate after compensation, survey and boundary opening and valuation of properties.

Overall, delays in acquisition of land have affected the take-off of the project activities in Buvuma that was supposed to be in full implementation. Bidco plans to start development of the land in early 2017.

I advised the Accounting Officer to engage Uganda Land Commission for speedy processing of land title to enable the investor start of project implementation.
ENERGY SECTOR

34.0 Ministry of Energy and Mineral Development

34.1 Outstanding payment of pension
In accordance with provisions of the Pensions Act, the Government’s policy is to pay all qualifying employees their pension promptly.

The Ministry however reported pension liabilities at the end of the financial year of UGX.734,148,507 implying that some pensioners had not been paid.

Management indicated that listed pensioners lacked necessary supporting documents.

I advised the accounting officer to liaise with the ministry of Public service to confirm validity of the pensioners before the settlement of the liability.

34.2 Failure to collect Royalties from Gold Exports
Section 98 and 106 of the Mining Act 2003 state that all minerals obtained or mined in the course of prospecting, exploration, mining or beneficiation should be subjected to the payment of royalties on the gross value of minerals based on the prevailing market price of the minerals.

Section 71 states that every holder of a mineral dealer’s licence shall be liable for the due payment to the Commissioner of all royalties due on any minerals bought, received or exported by the holder and shall give the Commissioner such security as may be prescribed for the due payment of all such royalties.

Part (3) of section of the Mining Act 2003 adds that; Any person who exports any mineral from Uganda without complying with the requirements of subsection (1) of this section commits an offence and is liable, on conviction, to a fine of not less than two hundred and fifty currency points or to imprisonment for a term of not less than two years, or both.
During the financial year 2015/16, I noted that the management assessed royalty and awarded export permits for only 93kgs of gold worth UGX.11,822,178,756. However, collaborative reports from the Customs and Excise Department of Uganda Revenue Authority indicated that 5,316 kgs of gold had been exported with a total value of UGX.698,096,530,839.

Accordingly, Government should have collected between UGX.6,980,965,308 and UGX.34,904,826,541 in royalties using the applicable rates of 1% and 5% for the imported or locally mined gold respectively. There was no evidence of any action taken on the offenders as required by the law.

Management explained that it would engage Uganda Revenue Authority, the Ministry of Trade and Industry with a view to confirming the export figures and the corresponding exporters and subsequently enforce recovery measures.

I advised management to put in place adequate controls over mineral imports and exports. Meanwhile I await results of the recovery measures.

34.3 Default on Annual Rental Fees

The Directorate of Geological Survey and Mines granted mining leases ML 1230 in January 2014 and ML 1129 in April 2013 respectively for a period of 21 years. It was observed that the two companies have defaulted on payment of annual rental fees amounting to UGX.250,000,000 (6,520 Ha X 20,000 X 2 Years) and UGX.441,900,000 (7,365 Ha X 20,000 X 2 Years) for ML 1230 and ML 1129 respectively totalling up to UGX.691,900,000.

Management explained that the Mining Act requires the license holders to pay annual mineral rent at each anniversary without demand.

Notwithstanding the above, the Ministry had issued notices of noncompliance and violation of the provisions of the Mining Act, the Mining Regulations and the Terms and Conditions of the lease agreements.

Management further indicated that the option of litigation in accordance with section 105 of the mining Ac 2003 may be considered.
I advised the accounting officer to enforce the prescribed sections of the law without further delay bearing in mind that minerals are non-renewable resources.

35.0 Energy Fund

35.1 Lack of Operational guidelines

Best practice requires institutions to develop and apply operational guidelines in order to promote consistency and comparability in operations and reporting. However, it was noted that the Fund lacks guidelines for implementation of operational activities.

As a result there is lack of consistency in the financial reporting. For instance, Contract ledgers which record and monitor cumulative payments on Karuma and Isimba projects are not maintained making it difficult to track the cumulative investments in the projects.

Although this issue was reported in prior years and management had indicated that the guidelines were in draft form, there is no evidence of any progress to date.

Management explained that operational guidelines are still in draft form.

I advised management to expedite the process of developing guidelines and having them approved.
36.0 Ministry of Health

36.1 Doubtful accountability for VAT

Section 5(a) of the Value Added Tax Act provides that except as otherwise provided in the Act, the tax payable in the case of a taxable supply is to be paid by the taxable person making the supply.

However review of payments to a contractor, M/S IWATA CHIZAKI INC JAPAN who carried out rehabilitation and supply of equipment in selected hospitals in western Uganda revealed that the VAT component for the contract amounting to UGX 3,814,212,222 was paid to the Project Manager, Mr. Teruo Ishii instead of the contractor making the accountability for VAT doubtful.

The Accounting Officer stated that the project manager had been given powers of attorney to manage the affairs of the company.

I advised the Accounting Officer to always pay tax to the taxable persons as prescribed in the VAT Act. Meanwhile the Ministry should liaise with Uganda Revenue Authority to ensure that the tax liability is settled.

36.2 Doubtful payments

Section 45(2) of the PFMA 2015 states that in the exercise of the duties under this Act, an Accounting Officer shall, in respect of all resources and transactions of a vote, put in place effective systems of risk management, internal control and internal audit.

Contrary to the above requirement, a private company was paid UGX.888,671,878 excluding withholding tax vide voucher number D27/JUN16/0220 as storage costs under contract reference MOH/SUPP/09-10/325/01 basing on photocopies of supporting documents.

Payments against photocopies may result into multiple expenditure.

I advised the Accounting Officer to involve other government investigative agencies to ascertain the authenticity of the expenditure.
36.3 **Costs on treatment abroad**

Review of the Health Sector Ministerial Policy Statement for the year 2015/2016 indicated that reduction of referrals abroad would be a key result area for the ministry.

Statistics derived from the Accounting officer’s letter reference number ADM.123/266/01 dated 23rd November, 2016 revealed that a total of 140 patients were referred abroad for treatment by the Medical Board over the past three financial years at an estimated cost of USD 2,837,909 excluding flight, upkeep and attendants’ costs.

The common ailments for which reference was made to hospitals abroad was as follows:

<table>
<thead>
<tr>
<th>Type of ailment</th>
<th>Number of patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neurology</td>
<td>46</td>
</tr>
<tr>
<td>Kidney diseases</td>
<td>30</td>
</tr>
<tr>
<td>Cancers</td>
<td>22</td>
</tr>
<tr>
<td>Heart conditions</td>
<td>13</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>14</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>9</td>
</tr>
<tr>
<td>Gastro-entorology</td>
<td>6</td>
</tr>
</tbody>
</table>

A trend analysis of referrals also indicated an upward movement in numbers and costs as follows;

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of patients</th>
<th>Treatment Cost (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>46</td>
<td>831,752</td>
</tr>
<tr>
<td>2014/15</td>
<td>51</td>
<td>739,873</td>
</tr>
<tr>
<td>2015/16</td>
<td>57</td>
<td>1,266,284</td>
</tr>
<tr>
<td></td>
<td>154</td>
<td>2,837,909</td>
</tr>
</tbody>
</table>

Since the analysis was limited to patients approved by the medical board, many other individuals could be incurring much higher expenditure resulting into foreign exchange authorized on treatment abroad and the demise of patients who are unable to afford the high costs.
Management indicated that the national referral hospital and other specialized institutions are being rehabilitated to improve capacity for local treatment.

I advised Management to come up with a comprehensive Health Sector Strategic plan to develop capacity for treatment of the identified ailments locally so as to be able to serve a bigger population and minimize foreign exchange authorized. The ministry should also liaise with all relevant stakeholders to mobilize the necessary funding for infrastructure and staffing needs.

36.4 **US Centers for Disease Control and Prevention of HIV/AIDS Project**

a) **Revenue shortfall**

The Notice of Award (NoA) showed that the Ministry’s application for funding of the project for the year under review was approved in full at USD.3,570,000.

However, the review of the financial statements indicated that only USD.708,856 equivalent to UGX.2,443,763,465 was released resulting into a shortfall of USD.2,861,144. The releases were again made late in the last two months of the financial year under review. This resulted into non-implementation of most of the planned activities. The table below refers:

<table>
<thead>
<tr>
<th>Date received onto the USD bank statement</th>
<th>Amount (USD)</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/02/2016</td>
<td>668,596</td>
<td>2,308,107,053</td>
</tr>
<tr>
<td>04/03/2016</td>
<td>19,440</td>
<td>65,524,658</td>
</tr>
<tr>
<td>29/03/2016</td>
<td>20,820</td>
<td>70,131,754</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>708,856</strong></td>
<td><strong>2,443,763,465</strong></td>
</tr>
</tbody>
</table>

Furthermore, of the UGX.2,443,763,465 received, UGX.2,079,964,934 was spent on hire of office premises and UGX.178,276,541 was spent on support to international travel by technical staff. This resulted into other budgeted items like procurement of equipment and office supplies not to be undertaken and negatively impacting on the project implementation schedules and activities.
The Accounting Officer explained that the entire USD.3,570,000 was awarded in July, 2015 after loss of the first quarter of the year.

Financial transactions were placed on a manual alert and payments were subject to prior approval by CDC Project Officer in Country but this office was vacant between May and October 2015.

The new Project Officer also had to first consult the Office for Financial Resources (OFR) in Atlanta before approval of payments which was a time consuming process.

Finally, the new fiscal management guidelines released by the US Embassy on what constitutes allowable costs under the award resulted into most expenses under the work plan to be un-allowable and required the Ministry to seek for waivers from CDC before meeting the expenses. The waivers were slow in coming resulting into loss of time to implement most of the planned activities. The Ministry was engaged in negotiations with CDC and indications were that funding of the project would improve.

I advised the Accounting Officer to enhance follow up of the negotiations to ensure that funds are released early so that all planned activities are implemented within the planned timelines.

36.5 **Uganda Global Fund to Fight Aids, Tuberculosis and Malaria Project – Health Systems Strengthening Component**

a) **Unexpended Balances**

Review of the Fund Accountability statement for the period revealed that the GF-HSS component had unutilized funds amounting to USD. 1,476,881.67 brought forward from the previous year. During the year, funds worth USD. 3,781,818.23 were received from TGF together with a VAT refund of USD.99,442.10 from Ministry of Health resulting into a total of USD.5,358,102 available for use, of which USD.1,969,926.69 was spent leaving USD. 3,388,175.32 Un-utilized.
Failure to utilize the funds in accordance with the work plan hinders achievement of the project objectives.

In response management attributed the unexpended balances to late disbursement of funds, delayed procurement process and the process of migrating from BBS payment system to IFMS system.

I advised the management to enhance supervision of the project to ensure timely absorption of the availed funds.

b) **Revenue Performance**

Review of the financial statements indicated that although the project budgeted to receive and spend USD.12,193,583.32 during the year, a total of only USD.3,781,818.23 (31%) was received.

The delayed disbursement was attributed to procurement delays especially for expansion of NMS and UHMG activities whose funding of USD.6,184,300 was to be made directly by GF. Other activities that were not implemented included:

(i) Enhancing laboratory referral systems,
(ii) Strengthening laboratory specimen referral system for TB/HIV(USD.471,855),
(iii) Improving delivery capacity at HC3 (USD.508,699.68),
(iv) LMIS-Warehouse information management (USD.2,020,000),
(v) Provision of harmonized and integrated HIS tools (USD.357,653),
(vi) Community Health Management Systems (USD.500,000) and
(vii) Mortality analysis (USD.4,350,000).

Under-disbursement of funds negatively impacts on service delivery.

In response management explained that USD 1,150,032 was released in March 2016 and of which USD 950,000 had been disbursed to Makerere University School of public Health for implementation of these studies.

It was also stated that Autoclaves and delivery test kits for improving delivery capacity at HC3 had been delivered and the contract for the supply of motorcycles
was signed and deliveries are expected before end of December, 2016 but the funds for expansion of warehouse at NMS and UHMG hadn’t been disbursed due to delays in procurement process.

I advised management to liaise with the relevant stakeholders to expedite the release of the remaining funds.

c) **Absence of Internal Audit Reviews**

Best practice require the Internal Audit function to review and report on the system for generating financial information and data, and on the reliability and integrity of financial statements and other related accounting and financial information; and further to conduct systems audit to ascertain whether or not internal controls are appropriate to the entity, and whether or not they are operating effectively and efficiently.

Contrary to the above, I noted that there were no internal audit reviews for Global Fund – HSS Component during the audit period. This was attributed to inadequate staffing in internal audit department of the MoH.

Lack of internal audit review exposes the project to the risk of control weaknesses remaining undetected over long periods.

In response, Management stated that it had been agreed with the GF that a dedicated staff be recruited under Internal Audit department dedicated towards the grant transactions and that the required budget had been submitted to the funder for approval.

I await implementation of management’s proposal

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**37.0 Uganda Cancer Institute**

**37.1 Drug Stock Outs**
Review of the Institute’s Procurement Plan indicated that although the Institute required medicines and other health supplies worth UGX.12,513,878,850 the budget ceiling was only UGX.6,999,999,999 resulting into an under funding of UGX.5,513,878,851.

It was noted that UGX 1,308,584,876 was brought forward from the previous financial year bringing the available funds to UGX 8,308,584,875.

However NMS was able to deliver supplies worth UGX.7,710,760,932 resulting into undelivered Items worth UGX.597,823,943 owing to non-availability of the specialised supplies.

Review of the stores records indicated that the Institute suffered stock outs of various medicines. The stock out days averaged 150 days ranging between 1 day and 355 days.

Stock outs of medicines and other health supplies cause treatment disruptions, drug resistance and ultimately loss of life.

Management attributed the stock outs to the inadequate allocation of funds for drugs and supplies.

It was further explained that over the years there has been progressive increase in funds allocated to the NMS for UCI drugs.

However, the ever increasing cancer burden and fluctuations in the foreign exchange make the current allocation inadequate.

I advised the Accounting Officer to liaise with the Ministry of Health, Ministry of Finance and NMS to further enhance the budget allocation and procurement of medicines at the Cancer institute.

38.0 Uganda Heart Institute

38.1 Stock out of super specialized drugs

The Mission of Uganda Heart Institute is to serve as a centre of excellence for the provision of comprehensive care to patients with heart and related diseases.
However, the inspection of the drugs stores records indicated that the Institute did not have certain super specialized drugs throughout the year under review.

The table below refers;

<table>
<thead>
<tr>
<th>Name of drug</th>
<th>Quantity Delivered</th>
<th>Stock days</th>
<th>out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milrinone Injection</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
<tr>
<td>Protamine Injection</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
<tr>
<td>Amidarone 150Mg/3Ml Injection</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
<tr>
<td>Calcium Gluconate 10Mg/Ml Injection</td>
<td>100</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Dobutamine 50Mg/Ml</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
<tr>
<td>Sodium Bicarbonate 8.4 Injection</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
<tr>
<td>Hypetonic Sodium Chloride 3 % Injection</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
<tr>
<td>Piperacillin/Tazobactum 4.5gm</td>
<td>NIL</td>
<td>365</td>
<td></td>
</tr>
</tbody>
</table>

In the absence of the super specialized drugs, the expected services may not be rendered by the Institute.

The Accounting Officer explained that super specialized drugs are not regularly stocked by NMS. Though they were included in the Institute’s procurement plan the corresponding funds were carried forward to the next year.

Management further explained that, Section 5(d) of the Uganda Heart Institute Act, 2016 gives the Institute authority to procure super specialized cardiac medicines and this is expected to improve availability of the medicines.

I advised the Accounting Officer to expedite the implementation of the new law to ensure availability of super specialized drugs.

39.0 **Mulago Referral Hospital Complex**

39.1 **Non-disclosure of value of Essential Medicines and Health Supplies (EMHS) in the Financial statements**

A review of delivery notes and pharmacy reports at the hospital revealed that EMHS worth UGX.13,193,250,578 were received from National Medical Stores (NMS) in respect of the hospital’s budget for the year under review with NMS.
In addition the hospital also received supplies through NMS, from other development partners but with zero values. The total value of these items received and used by the hospital were not reported in the financial statements.

The Accounting Officer explained that they would seek guidance from the Accountant General on how to report the value of the EMHS received through NMS.

I advised the Accounting Officer to follow up with the Accountant General and ensure that the value of EMHS and donor medicines are reported in the hospital’s financial statements.

39.2 **Failure to witness Delivery of Essential Medicines and Health Supplies (EMHS)**

To ensure that the process of receiving supplies is transparent and minimize the chances of error, the Management of Medicines and Health Supplies Manual, 2012 requires presence of a second person to participate in the receipt of medicines and Health Supplies at the Health facilities.

However, a review of delivery notes and invoices from National Medical Stores in respect of delivery of Essential Medicines and Health Supplies indicated that items worth UGX.3,495,870,306 were received by one person without a witness. This can result into compromises or errors not being detected in the process of receiving the supplies at the hospital.

The Accounting Officer explained that the current practice is that all deliveries of EMHS from NMS to the hospital are witnessed and verified by a verification team composed of the Stores Assistant, the Hospital Pharmacist and at times the Hospital Administration.

I advised the Accounting Officer to ensure that all deliveries of EMHS are always witnessed as required by the manual.
39.3 Mulago Kampala Capital City Authority Project (MKCCAP)

a) Delayed VAT Payment by Government

In my previous report I reported that the Ministry of Health signed a contract with a Construction Company for the rehabilitation and upgrading of the Lower Mulago Hospital Complex at contract price of USD.29,617,820.64 inclusive of Value Added Tax of USD.4,517,972.67 on 17th October, 2014.

According to the contract agreement it was noted that the tax liability was the responsibility of government of Uganda.

However, VAT amounting to USD.2,565,909.71 had not been paid to the contractor. Delayed settlement of the tax liability may result into additional costs such as penalties and fines that are likely to be passed over to the government.

The Accounting Officer explained that the Ministry of Finance Planning and Economic Development had budgeted for the VAT for all the concerned project activities in financial year 2016/2017 and is being released on a quarterly basis. By the time of writing this report, UGX.1.03 billion in respect of VAT had been released to the project and its payment to the supplier was being processed.

I advised the Accounting Officer to prioritize settlement of the VAT liability.
Regional Referral Hospitals

40.0 Arua Regional Referral Hospital

40.1 Delayed Procurement of the Oxygen Plant
Section 45(1) (c) of the Public Finance Management Act 2015 requires an Accounting Officer to control the resources received, held or disposed off by or on account of a vote. It was observed that the hospital received UGX.392,856,999 for the procurement of an oxygen plant. The funds were later transferred to Naguru Referral Hospital to procure the plant on the Hospital’s behalf. However, by the time of writing this report, December 2016, the oxygen plant had not been installed.

The Accounting Officer indicated that the matter was being followed up.

I advised the Accounting Officer to follow up the matter with Naguru Referral Hospital and ensure that the Oxygen Plant is supplied.

41.0 Fort Portal Regional Referral Hospital

41.1 Unauthorised Utilisation of Non Tax Revenue (NTR)
Paragraph 94 of Treasury Accounting Instructions (TAI) 2003 Part 1- Finance prohibits revenue collectors from utilizing Non Tax Revenue (NTR) at source unless authorized by the Accountant General.

However, it was observed that an amount of UGX. 46,332,760 was spent at source without the authority of the Accountant General.

The Accounting Officer explained that the money was spent to pay wages for the interns who were threatening to go on strike because wage subvention had delayed to be remitted by Ministry of Health.

I advised the Accounting Officer to ensure that the Accountant General authority is obtained before spending at source.
42.0 **Gulu Regional Referral Hospital**

42.1 **Health Service Delivery**

a) **Delayed Procurement of an Oxygen Plant**

During the financial year under review, the hospital planned to construct and install an oxygen plant. It was however observed that before the award could be made to the best evaluated bidder, the Hospital transferred UGX.388,802,000 meant for the oxygen plant to Naguru Referral Hospital for a joint procurement.

The Accounting Officer explained that GOU provided funding for oxygen plants to all Referral Hospitals and the various Hospital directors met at the Ministry of Health under the leadership of the Permanent Secretary and agreed to do a joint procurement with Naguru Referral Hospital being the leading Agency. An MOU was signed between the Gulu Regional Referral Hospital and Naguru Hospital.

The delayed procurement and installation of the plant hinders effective service delivery.

I advised the Accounting Officer to engage Naguru Referral Hospital to ensure that the oxygen plant is supplied.

b) **Discrepancies between order and deliveries of medicines**

According to Section 2.3 of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS), NMS has an obligation to procure the aggregated requirements of the health facilities and distribute them against orders submitted by the health facility in compliance with the published schedule.

During the year, the hospital made six requisitions for drugs under the credit line for the six cycles but it was observed that not all the medicines ordered for were delivered.

This led to perpetual deficiencies (stock outs) at the hospital and patients returning home untreated and exposed to the risk of death.
The Accounting Officer explained that Council would engage NMS and ensure that it adheres to the hospital plans and requisitions for drugs.

I advised the accounting officer to liaise with National Medical Stores (NMS) and ensure supply of medicines in quantities ordered by the health facilities in accordance with the MOU.

c) **Non-functioning equipment**

It was observed that the hospital had its two X-ray machines all broken down. One machine had been down for over 4 years and the other had been down for a year.

The Accounting Officer explained that they were lacking the spare parts and regional mechanical officer has been got and he is working on the x-ray.

It was also observed that the heart machine had broken down for over a year and no steps had been taken to have it fixed. The patients are referred to other hospitals and the private wing whose charges are not affordable to all patients hindering service delivery to the citizens.

<table>
<thead>
<tr>
<th>Two x-rays not working</th>
</tr>
</thead>
<tbody>
<tr>
<td>The heart machine which is not functional</td>
</tr>
</tbody>
</table>

I advised the Accounting Officer to prioritise repair of those machines to enhance effective service delivery.
43.0 **Hoima Regional Referral Hospital**

43.1 **Delayed Procurement of an Oxygen Plant**

During the financial year under review, the hospital planned to construct and install an oxygen plant. The contract was awarded to Biomed Systems Ltd to supply the oxygen plant. It was observed that the procurement did not take place and on 16/06/2016, the Hospital transferred UGX 391,157,200 meant for the oxygen plant to Naguru Referral Hospital. However, at the time of writing this report in December 2016 the oxygen had not been supplied.

The Accounting Officer explained that GOU provided funding for oxygen plants to all Referral Hospitals and the various Hospital directors met at the Ministry of Health under the leadership of the former Permanent Secretary and agreed to do a joint procurement with Naguru Referral Hospital being the leading Agency. An MOU was signed between the Hoima Regional Referral Hospital and Naguru Hospital.

The delayed procurement and installation of the plant hinders effective service delivery.

I advised the Accounting Officer to engage Naguru Referral Hospital to ensure that the oxygen plant is supplied.

43.2 **Absence of a Hospital Board**

Section 4.4 of the guidelines on Hospital Management Board for Referral Hospitals, 2003 states that the Chairperson or any other member of the Hospital Board shall hold office for a term not more than three years.

However, it was observed that the hospital lacked a Board of members. The mandate expired in 2014 and since then their membership has not been renewed or other members appointed. This affects the proper governance of the Hospital which may lead to poor service delivery.
The Accounting Officer explained that the hospital forwarded the names to the ministry of Health for appointment. Several reminders have been made to that effect without any success.

The matter requires urgent attention.

44.0 **Jinja Regional Referral Hospital**

44.1 **Discrepancies between orders and deliveries of medicines**

Section 2.3 of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS), obligates NMS to procure the aggregated requirements of the health facilities and distribute them against orders submitted by the health facility in compliance with the published schedule.

It was observed that out of 477 drugs ordered by Jinja Regional Referral Hospital; only 23% representing 110 items were supplied resulting into 367 items undelivered during the financial year as shown in the table below;

<table>
<thead>
<tr>
<th>Cycle</th>
<th>Items Ordered</th>
<th>Items Supplied</th>
<th>Under Deliveries</th>
<th>Percentage supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>cycle 3</td>
<td>60</td>
<td>19</td>
<td>41</td>
<td>32%</td>
</tr>
<tr>
<td>cycle 4</td>
<td>102</td>
<td>26</td>
<td>76</td>
<td>25%</td>
</tr>
<tr>
<td>Cycle 6</td>
<td>130</td>
<td>14</td>
<td>116</td>
<td>11%</td>
</tr>
<tr>
<td>Cycle 5</td>
<td>66</td>
<td>21</td>
<td>45</td>
<td>32%</td>
</tr>
<tr>
<td>cycle 2</td>
<td>119</td>
<td>30</td>
<td>89</td>
<td>25%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>477</strong></td>
<td><strong>110</strong></td>
<td><strong>367</strong></td>
<td><strong>23%</strong></td>
</tr>
</tbody>
</table>

This led to perpetual deficiencies (stock outs) at the health facilities and patients returning home untreated.

I advised the accounting officer to liaise with National Medical Stores (NMS) and ensure supply of medicines in quantities ordered by the Hospital in accordance with the MOU.
44.2 **Non-disposal of expired medicines**

Section 1.1.1 (f) of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS) requires the Ministry of Health to communicate mechanisms of reducing expiries, carry out periodic collection and disposal of expired medicines from the districts and health facilities in collaboration with Ministry of Local Government and National Medical Stores.

However, it was observed that there were expired medicines at the Hospital which had not been collected for disposal.

This creates a risk that the expired medicines may end up on the market and be misused.

I advised the accounting officer to engage the relevant authorities and ensure that the expired medicines are disposed off to avoid misuse.

44.3 **Delayed Procurement of an Oxygen Plant**

During the financial year under review, the hospital planned to construct and install an oxygen plant. The contract was awarded to Biomed Systems Ltd to supply the oxygen plant. However, it was observed that the procurement did not take place and on 22/06/2016, the Hospital transferred UGX.385,540,000 meant for the oxygen plant to Naguru Referral Hospital for supply of the plant. However, by the time of reporting in December, 2016, the plant had not been supplied.

The Accounting Officer explained that GOU provided funding for oxygen plants to all Referral Hospitals and the various Hospital directors met at the Ministry of Health under the leadership of the former Permanent Secretary and agreed to do a joint procurement with Naguru Referral Hospital being the leading Agency. An MOU was signed between the Jinja Hospital and Naguru Hospital.

The delayed procurement and installation of the plant hinders effective service delivery.
I advised the Accounting Officer to liaise with Naguru Referral Hospital and ensure that the oxygen plant is supplied.

45.0 **Kabale Regional Referral Hospital**

45.1 **Discrepancies between orders and deliveries of medicines**

According to Section 2.3 of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS), NMS has an obligation to procure the aggregated requirements of the health facilities and distribute them against orders submitted by the health facility in compliance with the published schedule.

However, audit inspections carried out at Kabale Regional Referral Hospital revealed that on several occasions there were drug stock outs which left the hospital without several essential, vital and necessary drugs. This led to perpetual medicine deficiencies (Stock outs) at the health facility and patients returning home untreated.

The Accounting Officer pledged to engage National Medical Stores to ensure availability of essential medicines and health supplies as demanded by the hospital in the procurement plan.

I advised the Accounting Officer to engage National Medical Stores (NMS) to ensure supply of medicines in quantities ordered by the health facility in accordance with the MoU.

46.0 **Lira Regional Referral Hospital**

46.1 **Delayed Procurement of an Oxygen Plant**

Section 45(1) I of the Public Finance Management Act, 2015 requires the Accounting Officer to control the resources received, held or disposed of by or on account of a vote.

During the financial year under review, the hospital received funds to construct and install an oxygen plant under open bidding. The contract was awarded to
Biomed Systems Ltd to supply the oxygen plant. However, it was observed that the procurement did not take place and on 20/06/2016, the entity vide voucher no. LRH/33/06/16 transferred UGX.370,857,000 meant for the oxygen plant to Naguru Referral Hospital but the oxygen plant had not been procured by the time of writing this report.

The delayed procurement and installation of the plant hinders effective service delivery at the Referral Hospital.

The Accounting Officer explained that he received an instruction from the Permanent Secretary, Ministry of Health and the Permanent Secretary/Secretary to the Treasury (PS/ST) to transfer the money to Naguru Referral Hospital that would be a lead agency in handling the procurement.

I advised the Accounting Officer to follow up the matter with Naguru Referral Hospital and ensure that the plant is installed.

46.2 **Under-utilised Intensive Care Equipment**

During financial year 2013/14, the Hospital procured and installed Theatre and Intensive Care Unit equipment at a contract sum of USD.326,925 (UGX.850,005,234).

It was however observed during audit inspection carried out on 01/11/2016, that most of the procured equipment was idle and unutilized for close to 3 years.

Part of the items procured was computers installed in the control room which is now being used to store other items like chairs as shown below;

<table>
<thead>
<tr>
<th>Intensive care equipment</th>
<th>Intensive care beds</th>
</tr>
</thead>
</table>
The Accounting Officer attributed the shortcoming to lack of human resource needed to run the Intensive Care Unit (ICU).

Non-utilization of the equipment not only causes wastage but also denies the community the much needed health services.

I advised the Accounting Officer to liaise with the relevant authorities to ensure that staffs are recruited and the unit is operational.

46.3 Discrepancies between orders and medicines delivered by NMS

According to Section 2.3 of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS), NMS has an obligation to procure the aggregated requirements of the health facilities and distribute them against orders submitted by the health facility in compliance with the published schedule.

However, inspection carried out at Lira Regional Referral Hospital revealed that NMS on a number of occasions did not deliver medicines as per ordered by the hospital.

This led to perpetual deficiencies (stock outs) at the Hospital and patients returning home untreated.

National Medical Stores (NMS) should ensure supply of medicines in quantities ordered by the Hospital in accordance with the MOU.
47.0 Masaka Regional Referral Hospital

47.1 Delayed Procurement of an Oxygen Plant

During the financial year under review, the hospital planned to construct and install an oxygen plant. The contract was awarded to Ms. Biomed Systems Ltd to supply the oxygen plant. It was however observed that an amount of UGX.392,857,000 meant for the oxygen plant had been transferred to Naguru Referral Hospital.

The Accounting Officer explained that GOU had provided funding for oxygen plants to all Referral Hospitals and that the various Hospital directors had met at the Ministry of Health under the leadership of the former Permanent Secretary, and agreed to do a joint procurement with Naguru Referral Hospital being the leading Agency. A MOU was signed between the Masaka Hospital and Naguru Hospital.

The delayed procurement and installation of the plant hinders effective service delivery.

I advised the Accounting Officer to engage Naguru Referral Hospital to ensure that the oxygen plant is supplied.

48.0 Mbale Regional Referral Hospital

48.1 Utilization of Non-Tax Revenue (NTR) without Authority

Paragraph 94 of Treasury Accounting Instructions (TAI), 2003 does prohibits authorized of NTR at source unless authorized by the Accountant General. However, it was observed that an amount of UGX.10,132,000 was spent at source without the Accountant General’s authority as required.

The Accounting Officer attributed the anomaly to hospital operational emergencies.
I advised the Accounting Officer to comply with the regulations.
49.0 **Mbarara Regional Referral Hospital**

49.1 **Discrepancies between orders and deliveries of medicines**

According to Section 2.3 of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS), NMS has an obligation to procure the aggregated requirements of the health facilities and distribute them against orders submitted by the health facility in compliance with the published schedule.

However, audit inspection revealed that National Medical Stores (NMS) did not supply all the medicines ordered by the health facility.

This led to perpetual medicine deficiencies (Stock outs) at the health facility and patients returning home untreated and death.

The Accounting Officer explained that the hospital had no direct control on the procurement decisions by National Medical Stores.

I advised the Accounting Officer to engage National Medical Stores (NMS) to ensure supply of medicines by the quantities is ordered in accordance with the MoU.

50.0 **Moroto Regional Referral Hospital**

50.1 **Delayed Procurement of Oxygen Plant**

During the financial year under review, the hospital planned to construct and install an oxygen plant. The contract was awarded to Biomed Systems Ltd to supply the oxygen plant. It was observed that the procurement did not take place and on 16/06/2016, the entity transferred UGX.392,857,000 meant for the oxygen plant to Naguru Referral Hospital, but the plant was not in place by the time of audit.
The Accounting Officer explained that GOU provided funding for oxygen plants to all Referral Hospitals and the various Hospital directors met at the Ministry of Health under the leadership of the former Permanent Secretary and agreed to do a joint procurement with Naguru Referral Hospital being the leading Agency. An MOU was signed between the Moroto Regional Referral Hospital and Naguru Hospital.

The delayed procurement and installation of the plant hinders effective service delivery.

I advised the Accounting Officer to liaise with Naguru Referral Hospital to ensure that the oxygen plant is procured.

51.0 Mubende Regional Referral Hospital

51.1 Non-disposal of expired Medicines
Section 1.1.1 (f) of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS) requires the Ministry of Health to communicate mechanisms of reducing expiries, carry out periodic collection and disposal of expired medicines from the districts and health facilities in collaboration with Ministry of Local Government and National Medical Stores. However, it was observed that there were expired medicines at the health facility which had not been collected for disposal for a period ranging from 6 months to 6 years.

This creates a risk that the expired medicines may end up on the market and be misused.

The Accounting Officer explained that disposal of expired drugs is very hazardous and expensive but are hopeful to benefit from Strengthening Decentralization for Sustainability Program (SDS) which entered into an MOU with the District to extend a grant for health care waste collection, disinfection and destruction of expired drugs.
I advised the Accounting Officer to engage the relevant authorities and ensure that the expired medicines are disposed off promptly to avoid misuse.

52.0 **China-Uganda Friendship Hospital, Naguru**

52.1 **Advance payment without Security**

Section 47 (2) provides that payment shall be made to a provider before receipt of deliverables specified in the contract, after obtaining an appropriate payment security.

However, it was noted that the Hospital paid UGX.233,019,261 in advance payments to contractors without an appropriate payment security. Failure to obtain advance payment security may lead to loss of funds in the event the contractors fail to meet their obligations.

In response, the Accounting Officer acknowledged the observation and explained that it was an oversight on the part of the entity.

I advised the Accounting Officer to always obtain advance payment security from contractors before any advance payments are granted.

52.2 **Procurement of Oxygen Plant**

Review of procurement file no CUFH/SPLS/15-16/0092 in relation to the procurement of oxygen plants for 13 regional referral Hospitals revealed the following;

a) The contract was awarded in USD dollar contrary to the Solicitor General’s clearance and the PS/Secretary to Treasury’s circular to all Accounting Officers dated January 15, 2016 which directed contracting in Uganda Shillings (UGX).

b) ITB clause 45.1 of the bidding document required performance security to be issued by a bank located in Uganda or a foreign bank through
correspondence with a bank located in Uganda. On demand insurance bond with proof of re-insurance in the format included in section 9 (contract forms) can be accepted.

However Section 9 could not be found in the bidding document and in addition there was no proof of re-insurance of the Gold Star Insurance co limited that provided an advance performance security for USD.540,104.1.

I was unable to ascertain that the performance security obtained was correctly issued and that it can be reverted to in case of failure by the contractor to deliver the required services.

In response the Accounting Officer explained that the insurance bond was verified by the PDU and was accepted. Additionally, the same bond was accepted by BOU, because it was a pre requisite for opening a letter of credit. However, no evidence was provided to in relation to re-insurance as required.

52.3 Internal control weakness

According to section 45(2) of the Public Finance Management Act, 2015 an Accounting Officer in the exercise of the duties under the Act in respect of all resources and transactions of a vote, shall put in place effective systems of risk management, internal control and internal audit.

a) Weaknesses in Accounts records Management

The filling system in place made it difficult to trace supporting documents and relating them to their corresponding payments.

In response the Accounting Officer acknowledged the observation and attributed the anomaly to shortage of staffing.

I advised the Accounting officer to organize the filling system in the Accounts section to easy traceability of documents.
b) **Poor Staffing in cash office**

We noted that there is no segregation of duties in the cash office, the cashier collects the revenue, banks it and also carries out the reconciliation.

In response the Accounting Officer explained that he had written to MFPED for deployment of more staff as there unfilled vacancies.

I advised the Accounting Officer to strengthen the controls regarding NTR collection.

c) **Use of note books to receipt cash collection**

It was noted that in a number of instances notebooks were used to acknowledge receipt of cash.

This can lead to loss of funds to the hospital. It is also not possible to ascertain whether procedures in procurements and payments are followed by the hospital management.

In response the Accounting Officer explained that he now has customized receipt books officially issued by the hospital.

I advised the Accounting Officer to strengthen the controls regarding NTR collection.

52.4 **Lack of Maintenance Budget**

Sec 34(1) of PFMA 2015 states that an accounting officer shall be responsible for the management of the assets and the inventories of the vote.

I observed that a number of equipment needed urgent repairs to make them operational while others had broken down.
Table showing a list of broken down equipment

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fire Extinguishers overdue service dates</td>
</tr>
<tr>
<td>2</td>
<td>Autoclave machine in the Maternity Ward not in use due to lack of spare parts</td>
</tr>
<tr>
<td>3</td>
<td>Beds in the maternity ward</td>
</tr>
<tr>
<td>4</td>
<td>Cabinets in the Maternity Ward Need replacement</td>
</tr>
<tr>
<td>5</td>
<td>Bathrooms doors in the Maternity Ward</td>
</tr>
<tr>
<td>6</td>
<td>Weighing scale in the Family ward</td>
</tr>
<tr>
<td>7</td>
<td>Centrifuge in main laboratory has a faulty cover that needs to be repaired</td>
</tr>
<tr>
<td>8</td>
<td>2 hematology analyzers</td>
</tr>
<tr>
<td>9</td>
<td>X-ray film viewer in the theatre Room is not in use and needs servicing</td>
</tr>
<tr>
<td>10</td>
<td>Operating bed in theatre room is stuck and needs repair</td>
</tr>
<tr>
<td>11</td>
<td>Anesthesia machine</td>
</tr>
</tbody>
</table>

There is a risk that high repair costs may be incurred if equipment is not serviced or permanent breakdown may lead setbacks in service delivery.

The accounting officer attributes this to luck of budget for maintenance. He explained that all medical equipment maintenance at the hospital is supposed to be undertaken by the Health Infrastructure Division of MoH but the HID support is only in form of Technical expertise without spares or replacement parts.

The entity doesn't have the capacity to procure the parts. He also attributed the poor maintenance to inadequate skilled labour in equipment maintenance department.

I advised the accounting officer to liaise with the relevant stake holders to enhance the maintenance budget for the hospital.

52.5 Ineffective use of CCTV cameras

The hospital management installed CCTV Cameras to monitor activity at the hospital.

I noted however, that in areas such as the pediatrician ward, outpatient wing, accident and emergency, administration unit corridor and the business Centre behind OPD were not covered by the cameras.
I also noted that recorded details are not stored or backed up for future reference. In the circumstance, the Cameras are not serving the purpose for which they were intended.

Management explained that the procurement of the service is in advanced stage and that the system is expected to be worked on by the end of December 2016.

I advised the Accounting Officer to expedite the process.

52.6 Idle equipment in the Hospital
I observed that there were uninstalled or unused equipment since the hospital was opened.

In response, the Accounting Officer attributed this to; inadequate space, inadequate skilled labour to conduct user training, insufficient funds, lack of tools and that some equipment are utilized as spare equipment.

I advised the Accounting Officer to liaise with the relevant stakeholders to transfer the equipment to other hospitals where it can be put to use.

52.7 Inadequate supply of essential drugs
Naguru China Uganda Hospital planned to procure drugs for financial year 2015/2016 on the letter dated 21st May 2015 to NMS, however a review of order forms that the hospital use to order for its drugs from NMS revealed that essential drugs were only supplied/delivered once. This may affect efficient services delivery to the citizens.

In response, the Accounting Officer stated that an email was sent to NMS to notify them of the items ordered for but deliveries continue to fall short of the orders. He further explained that. He also explained that the pharmacist shall include this recommendation in her presentations during the annual joint NMS-Referral hospital meetings

I shall review the outcome of the interaction with NMS in my next Audit.
52.8 Delivery of short shelf life and expired drugs

It’s was a condition of framework contracts entered into by National Medical Stores and various providers of Essential Medicines and Health Supplies that the remaining shelf life of the goods on delivery shall not be less than 75%.

A review of invoice/delivery notes at Naguru hospital revealed that medicines below were delivered to the hospital close to their expiry date as seen in the table below; although the drugs were eventually rejected by the hospital, the practise should desist.

<table>
<thead>
<tr>
<th>Description</th>
<th>QTY</th>
<th>UOM</th>
<th>Delivery date</th>
<th>Expiry date</th>
<th>Remaining to expiry months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insulin mixtard human 100iu/ml 10 ml</td>
<td>50</td>
<td>1</td>
<td>5/2/2016</td>
<td>30/4/2016</td>
<td>2 months and 23 days</td>
</tr>
<tr>
<td>Set infusion paediatric, 60 drops/ml</td>
<td>100</td>
<td>1</td>
<td>5/2/2016</td>
<td>30/5/2016</td>
<td>3 months and 23 days</td>
</tr>
<tr>
<td>Chlorhexidine gluconate 4% w/v 500 ml with dispenser</td>
<td>100</td>
<td>1</td>
<td>5/2/2016</td>
<td>30/5/2016</td>
<td>3 months and 23 days</td>
</tr>
</tbody>
</table>

In response the Accounting Officer explained that the medicines with a short half-life chlorhexidine and pediatric infusion were a donation to the hospital by NMS and were not part of the hospital costed items. He further stated that Insulin was rejected because it could not be consumed before the expiry date.

I advised the Accounting Officer to put measures in place to reduce on the levels of drug expiries.

53.0 Soroti Regional Referral Hospital

53.1 Delayed Procurement of and Oxygen Plant

During the financial year under review, the hospital planned to construct and install an oxygen plant. The contract was awarded to Biomed Systems Ltd to supply the oxygen plant. It was observed that the procurement did not take place and on 16/06/2016, the entity transferred UGX 391,157,200 meant for the oxygen plant to Naguru Referral Hospital but the plant was not in place by the time of audit.
The Accounting Officer explained that GOU provided funding for oxygen plants to all Referral Hospitals and the various Hospital directors met at the Ministry of Health under the leadership of the former Permanent Secretary and agreed to do a joint procurement with Naguru Referral Hospital being the leading Agency. An MOU was signed between the Soroti Regional Referral Hospital and Naguru Hospital.

The delayed procurement and installation of the plant hinders effective service delivery.

I advised the Accounting Officer to liaise with Naguru Referral Hospital to ensure that the oxygen plant is procured.
EDUCATION SECTOR

54.0 Ministry of Education and Sports

54.1 Irregular payments of pension
Public Service Standing orders 2010 B-a 12 states that Payment of a salary to a Public officer shall be stopped immediately the officer ceases to render services to Government under whatever circumstances including death. However, review of the payroll revealed that the ministry made payments worth UGX.89,898,251 to staff who had exited the ministry and those who were supposed to retire without any proper justifications.

Review of the pension payroll also revealed that the ministry made double payments of UGX.395,949,809 to several pensioners. Management indicated that for the sampled analysis of the affected duplicate cases, one employee’s work location under IPPS employee assignment belonged to a different vote.

Management explained that the IPPS does not automatically deactivate an employee’s assignment on attainment of Mandatory retirement age. Management further indicated that overpayment would be recovered from their gratuity.

I have advised management to strengthen the controls in respect of deletion of staff that leave the ministry. Meanwhile, efforts should be made to ensure that monies paid irregularly are recovered.

54.2 Management of the Teachers' SACCO funds
During the year 2013/14, the Government pledged UGX.25bn for the teachers SACCO fund to be contributed in 5 years for purposes of improving teacher’s welfare. A total of UGX.9,317,423,564 had been disbursed to Micro Support Centre Limited by the end of FY 2014/15 in accordance with a contract signed with the ministry. In August 2015 Government changed its policy and decided that the grant be handled directly by the teachers themselves. Subsequently during the
year under review a total of UGX.5,000,000,000 was disbursed to Uganda National Teachers Union SACCO.

It was noted that for the two years running, MSCL had failed to provide accounts and records of the services rendered under the General conditions of the Contract implying that the stewardship of the funds disbursed is not clear. I explained to the Accounting Officer that this implies breach of contract.

In response the Accounting Officer stated that the ministry gave notice of intention to terminate the contract with micro finance support center as provided for under the contract. Meanwhile the center had been requested to prepare and submit all the relevant records.

I await the results of management commitment in regard to this matter.

54.3 Irregularities in transfer of funds to Private Universities

In a bid to boost the standard of education both in private and public Universities, H.E the president made pledges to support several projects in private universities through Ministry of Education and Sports. During the year under review the Ministry transferred a total of UGX.2,192,500,000 to various private Universities in partial fulfillment of the pledges. The table below refers;

<table>
<thead>
<tr>
<th>Name of University</th>
<th>Amount Transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bishop Stuart university</td>
<td>380,000,000</td>
</tr>
<tr>
<td>Kumi university</td>
<td>300,000,000</td>
</tr>
<tr>
<td>Kisubi brothers university college</td>
<td>912,500,000</td>
</tr>
<tr>
<td>Nkumba university</td>
<td>300,000,000</td>
</tr>
<tr>
<td>Mountains of the moon university</td>
<td>150,000,000</td>
</tr>
<tr>
<td>Ndeje university</td>
<td>150,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>2,192,500,000</strong></td>
</tr>
</tbody>
</table>

The following observations were made;

(i) The Ministry released only UGX.912,500,000 of the budgeted sum of UGX.950,000,000 to Kisubi Brothers University resulting into a shortfall of UGX.37,500,000. The total cumulative outstanding pledges as at 30th June 2016 stood at UGX.1,667,366,531.
(ii) Transfers lacked detailed information with regard to the status of implementation of the pledges and the outstanding amounts thereof.

(iii) The transfers lacked accountability from the various private universities.

I explained to the Accounting Officer that without a proper accountability framework it is difficult to make a follow up of the funding.

In response the Accounting Officer stated that all the private universities that received funds have been asked to provide accountability and progress reports on their respective projects. Meanwhile the ministry is in the process of preparing memoranda of Understanding with the Universities.

I await results of the management action.

54.4 Committing Government without adequate funds
Regulation 7(1) (e) of the PPDA (contracts) regulations 2014 directs that a procuring and disposing entity shall not issue a contract document, purchase order, or other communication in any form, conveying acceptance of a bid that binds a procuring and disposing entity to a contract with a provider, until the full amount of the funding for the period of the proposed contract is committed;

I noted however that during the year under review management signed off contracts worth UGX.6,088,404,520 without availability of all the amounts for the contracts. Although the Accounting Officer confirmed availability of funds at the stage of initiation of procurements, it was noted that in some instances the ministry failed to meet the initial 20% advance payment to the contractors.

Management explained that funds were committed based on the approved budget estimates, however the actual release at the time of payment of the 20 % advance payment was inadequate to meet the commitment.

I have advised management to always ensure funds availability before committing Government.
54.5 **Emergency constructions in primary schools Phase II**

Emergency construction of Primary schools project/programme started on 1/7/2005 and the projected end date was 30/06/2015. Phase II started on 1/7/2015.

Review of the records revealed the following matters:
(i) During the year the Ministry budgeted for UGX.1,864,900,000 but only UGX.698,659,560 was received leading to a shortfall of UGX 1,166,240,440
(ii) The Ministry budgeted for emergency construction and rehabilitation of 21 primary schools however only seven worked on during the year. Meanwhile the transfers lacked accountability by the time of writing this report.

The Emergency construction of primary schools unit did not have a data bank of requests received, the assessments made and the schools that have been assisted overtime under this arrangement.

Management explained that the e-data bank for the requests, assessments made and the schools that have been assisted overtime under this arrangement would be put in place.

I advised management to liaise with MoFPED to improve on the funding for Emergency Construction Programme and to ensure the transfers to the beneficiary schools are accounted for.

55.0 **Support to Higher Education Science and Technology (Education V) Project**

55.1 **Commitment Charges**

Review of the project implementation plan and progress reports revealed that there were delays in the execution of the construction activities. The contracts Agreements for most civil works were signed in mid-December 2015 resulting into loss of two years. The civil works for UMI had not started as at June 2016.
There was also considerable delay in the start of the procurement of laboratory equipment worth USD 19.3M as there was need to adjust the statement of requirement lists from the beneficiary institutions to within the available budget estimates which were negatively affected by the loss in value occasioned by the strengthening of the US Dollar against the UA as well as harmonizing the specifications in line with the procurement guidelines.

The delayed implementation of the project activities and low disbursement of funds had attracted commitment charges amounting to UGX.1.62 Billion at the time of audit.

I explained to management that this loss could have been partly avoided if the implementation had started timely. In response, management attributed the project implementation delays to delayed recruitment of project staff. A revised implementation plan had been developed to enable achievement of the project milestones by June 2018.

I await management commitment in this regard.

55.2 **Low disbursement rate**

According to the project appraisal document, the Bank should have made 50% disbursements by half-life of the project whose loan agreement was signed on 5th July 2013 and of which the deadline for last disbursement is 30th June 2018.

I however, noted that with 36 months elapsed (60%) and only 26 months left to the deadline of last disbursement the current disbursement rate was at 10.24% with a physical overall rate of project implementation estimated at 20% which puts the project at a risk of not attaining 100% disbursement by the deadline for the final disbursement.

In response management indicated that during the Mid-Term Review of the Project, the Bank and the Ministry agreed on a revised implementation plan which also highlights the target quarterly disbursement rates to be achieved. The original
outputs were also scaled down to fit within the current budget due to currency loss.

I pointed out to the Project management that low disbursement rate exposed the project to loss of funds caused by foreign exchange fluctuations. By close of June 2016, the loss was at 7% of the loan amount UA 67.00 million translating into USD 7.37 million. Furthermore, the project is at risk of not fully utilizing the loan amount by the project end.

I advised management to expedite the implementation of the activities to ensure that the loan is fully utilized to allow the project achieve its objectives.

56.0 Support to Post-Primary Education and Training Expansion and Improvement (Education IV) Project

56.1 Delayed Special account Justification

According to section 4.1.5 of the appraisal document, disbursements were to be effected through a Special Account at Bank of Uganda acceptable to the African Development Fund (ADF). Disbursements were made on the basis of a program of activities acceptable to the ADF and after justification of expenditure of at least 50% of the previous disbursed amount. It was however noted that during implementation of the Project, there were delays in justification of special account advances which resulted into payment of USD 1,442,470 as commitment fees which could have been avoided if the justifications on special account had been done timely. There were instances when delays were up to 2 years.

In response, Management explained that the challenge in the management of the special account was as a result of the exchange rate variations between amounts submitted by the Project on justification and the Service Access Point (SAP) exchange rate upon justification for local currency Contracts.
The delay was further attributed to the lengthy procurement of consultants so funds remained on the account for quite some time as the procurement of consultancies was ongoing, which impacted on the absorption of funds and consequently the justification.

I advised Management in future to always ensure timely justification of advances to avoid reoccurrence in other subsequent projects.

57.0 Uganda Teacher and School Effectiveness Project (UTSEP)

57.1 Delayed implementation of project activities

USD.100 million GPE grant was approved on November 2013. The project agreement was signed on August 19, 2014 with March 24th 2015, being the effective date and 30th June 2018 being the project end date. However, by June 2016, only 10% of the grant proceeds had been disbursed.

I also noted that the project staff were recruited in 2015, one year after the signing of the agreement.

Furthermore, review of the project progress revealed delayed start of the key project activities such as procurement of goods, works and services especially for huge contracts. Consequently, at the time of writing this report the project had been rated moderately unsatisfactory. The notable delays were as follows;

(i) There were delays in Early Grade Reading (EGR) training programme which was initiated in Jan 2016. As at June 2016, the pupils under the program had not yet received the respective primers/instructional materials, due to delayed delivery.

(ii) Baseline early grade assessment which was supposed to take place in April 2016 had not started by June 2016.
(iii) There was also delayed start for the constructions under SFG. This was caused by the delay in the selection of schools and in the procurement of contractors for the civil works. By the time of writing this report, I noted that contracts had been signed for only 55 out of the intended 220 schools and construction expected to commence in January 2017. Procurement process for the remaining 165 schools had not yet started.

I explained to management that the project risks loss of grant proceeds if the deadlines are not met. There is also risk of cancellation of project funding for civil works contracts that will not have been signed by April 2017.

In response, Management attributed the delays to initial delay in the project readiness for effectiveness, coupled with the systemic delays in the procurement. Management further pointed out that following the Mid Term Review of the Project, new timelines and critical milestones were agreed with the Development Partners. To-date, all key milestones that were set at 15 December 2016, had been achieved, and this puts the project out of any risk that is related to delayed implementation.

I advised management to ensure that in future project activities are implemented on a timely basis so as to ensure objectives are met within the agreed time frame.

57.2 Under performance of the Communication Strategy and Awareness activity

According to the work plan the project was supposed to have carried out communication and awareness sensitization in 220 GPE beneficiary schools.

I noted that the project paid out funds amounting UGX.225,912,000 for this activity. However, a review of the accountability revealed that only 20 schools out of the 220 were covered leaving a balance of 200 schools.

I explained to management that without the accountability of the funds, there is a likelihood that the 200 schools may not have been visited and thus funds diverted for personal use.
Management acknowledged that the activity reports from schools visited were fewer at the time of audit. The Accounting Officer explained that the activity had been planned to provide information on GPE and specifically SFG component as provided by the project operations manual (POM). Management indicated that the activity had stagnated because most of the officers involved had been engaged in other equally important activities but the exercise was being undertaken and all teams had gone to the field. A comprehensive report was being completed.

I advised the Project Management to follow up with the concerned officers and ensure that the activity is completed and final report produced.

57.3 Direct procurement by Colleges

According to the guidelines issued to management of Colleges, the project management indicated that all suppliers of Goods, works and services must be from prequalified service providers, and contracts committee minutes should be provided as evidence that the firms used went through competitive procurement processes as per the provisions of the PPDA Act, 2003.

Contrary to the above requirement, UGX.475,738,469 was paid out to several suppliers without undergoing the procurement process.

I explained to management that under the circumstances, the project management’s intended objective of competitive procurement was not met.

In response management attributed the anomaly to non-sensitisation of the college management at the beginning of the Project Implementation since the Ministry had assumed that colleges had capacity and knowledge of Procurement procedures. However, on realising the anomalies in the accountabilities, the guidelines were issued.

I advised management to ensure that Colleges adhere to the project management guidelines issued from time to time.
57.4 **Delayed evaluation of Bids**

Section 5 of the PPDA (Evaluation) Regulation 2014, states that (1) An evaluation exercise should be concluded within twenty working days for the evaluation of bids for the procurement of supplies or non-consultancy services, from the date of opening of the bids; (2) Where an evaluation committee is not able to complete an evaluation exercise within the time specified in sub-regulation (1), the evaluation committee shall in writing explain to the Accounting Officer the reasons for this and request for extension of the time period for the evaluation exercise.

A review of the procurement for Supply and Delivery of Tablets and Accessories revealed that evaluation committee exceeded the time period specified to complete the evaluation process after bid opening contrary to the PPDA Regulations. The bids opening was on 21/1/2016 and evaluation was conducted on 29th March 2016. This led to an extension of bid validity for a period of 60 days from 22/4/2016 to 22/6/2016 to allow the evaluation process to be concluded. It was further noted that PDU never sought approval from the Accounting Officer.

I explained to management that delayed evaluation of bids can cause lengthy lead time and impact on the achievement of the project milestones.

In response management explained that the technical officers on the evaluation committee were engaged on other Ministry activities at the time and hence the delay to convene and finalise the evaluation exercise. The evaluation exercise was however conducted and the contract signed.

In the matter of PDU not seeking approval from the Accounting Officer, management indicated this was done although not in writing and regretted the omission.

I advised the Procurement and Disposal Unit to always ensure that all evaluation of bids is done expeditiously in accordance with PPDA (Evaluation) regulations, 2014.
58.0 Makerere University

58.1 Doubtful Unpresented Cheques used in Bank Reconciliation
Section 347 of the TAI Part I: Finance requires an Accounting Officer to follow certain procedures in respect of cheques that remain unpresented for longer than six months from the date on which they were drawn.

Examination of the bank reconciliations as at 30th June 2015 revealed that the university administrative units and project accounts disclosed several unpresented cheques worth UGX.2,357,847,241 that were more than 6 months old. Of this amount, UGX.401,868,143 relates to accounts at the centre, while UGX.1,955,979,098 relates to project accounts. There is a risk that cash and cash equivalents balance in the financial statements are misstated.

In response, the Accounting Officer explained that some of the cheques related to online payments that had been loaded to the payment system but not yet cleared, whose cheques cleared in the current financial year. However, during verification, the transactions had neither cleared nor been reversed. I further noted that online payments, ordinarily would not need all that time to clear.

I advised the Accounting Officer to follow up this omission with a view of depicting the true cash position for the university.

58.2 Revenue Collected from Short Courses
A total of UGX.2,494,991,040 was collected by various Colleges from provision of short courses. However, I have not obtained evidence that management disclosed this amount in the financial statements, thereby understating the revenue and expenditure by the same amount.

In addition, the University Council Policy on sharing of revenue from short courses requires Colleges to remit to the Centre, 20% of all total collections from short
courses and retain 80%. Contrary to this, a total of UGX.493,998,208 was not remitted to the Centre, as shown in the table below;

<table>
<thead>
<tr>
<th>College</th>
<th>Total collected on short courses (UGX)</th>
<th>Remitted to the centre (UGX)</th>
<th>Unremitted Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Education and External Services</td>
<td>574,490,100</td>
<td>0</td>
<td>114,898,020</td>
</tr>
<tr>
<td>College of Humanities and Social Sciences</td>
<td>842,883,440</td>
<td>0</td>
<td>168,576,688</td>
</tr>
<tr>
<td>School of Law</td>
<td>137,617,500</td>
<td>5,000,000</td>
<td>22,523,500</td>
</tr>
<tr>
<td>College of Computing and Information Sciences</td>
<td>940,000,000</td>
<td>0</td>
<td>188,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>2,494,991,040</td>
<td>5,000,000</td>
<td>493,998,208</td>
</tr>
</tbody>
</table>

The money remitted to the centre is critical since it would help the university cover general overhead costs and utility bills like water, electricity, and other wear and tear of university assets incurred from conducting the short courses.

The Accounting Officer explained that the colleges did not remit the Centre share of short courses revenue due to budgetary constraints.

I advised that there is need to always include the revenue and expenditures out of the short courses and to also adhere to the council requirement of sharing revenue from short courses in the agreed proportions. In addition, the outstanding amount should be recovered from the colleges.

58.3 Revenue from Tuition

It was noted that whereas the cash book puts revenue collected from tuition and functional fees at UGX.86,816,793,066, the financial statements reported a figure of UGX.87,946,425,729. This created an unreconciled variance of UGX.1,129,632,663.

I was not provided with a satisfactory explanation regarding this discrepancy. Under the circumstances, I am unable to establish the accuracy of the revenue reflected in the financial statements.

In addition, I reviewed the revenue collection cycle and noted the following weaknesses;
(i) There is no clear trail to link a payment in the bank to the student ledger within the Integrated Tertiary Software (ITS) system; bank transactions are identified by student numbers whereas the ITS system uses student registration numbers.

(ii) Payments in the bank made by cheques or in block have to be manually posted within the ITS system, creating room for unauthorized changes.

(iii) There are no laid down controls in relation to manual postings within the ITS system.

The above weaknesses expose the University to a risk of revenue leakages.

I advised management to review the revenue collection process with a view of enhancing the controls embedded to avoid revenue loss and to also undertake further reconciliations of the cashbook with the ledgers, to establish the cause of the discrepancy noted above.

58.4 Outstanding Affiliation Fees

I reviewed the records of students registered by the university from various affiliated institutions and computed the affiliation fees payable and noted that the university was meant to receive UGX.2,121,337,800 from affiliated institutions as affiliation fees. However, the fees had not been remitted by the close of the audit.

I did not obtain evidence that the University had sent demand notes to the institutions in question as part of its follow up action to obtain these fees. Failure to follow up and collect such revenues contributes to the revenue shortfalls experienced by the University.

The Accounting officer in his response promised to follow up the issue and ensure recovery is made from the various institutions.

I await the outcome of management’s commitments.

58.5 Completeness of Revenue from Grants and Investments
The University reported a total of UGX.38,415,795,141 as revenue received from 79 non-bilateral grants in a memorandum statement to the financial statements, and also disclosed that it did not obtain any revenue from investments during the year under review.

However, the list of projects I was provided had a total of 182 grants running within the university. Additionally, the University’s published Annual report for 2015 availed to me by the Accounting Officer, puts the worth of running projects from grants at USD.50,000,000 in the year 2015.

In addition, the same published Annual Report shows that the University initiated an Endowment Fund in 2014 (Makerere University Endowment Fund), whose investment activities and revenues to-date, have not been disclosed in the financial statements. Under the circumstances, I cannot confirm the completeness and accuracy of the grants and investment revenues reported in the accounts.

I further noted that the university lacks comprehensive guidelines on the management of research projects and how they are to relate with the central administration. It was noted that these projects benefit from university facilities including space, laboratory equipment, utilities, and staff but do not contribute any funds to meet the university overhead costs.

I advised the Accounting Officer to consider enhancing the financial statements prepared by the University to reflect a holistic view of the University’s financial performance so as to give the users of the accounts complete information about the affairs of the University. In addition, there is need to develop comprehensive guidelines to streamline the operations of research projects in the university.

58.6 Non-inclusion of Domestic Arrears in the Consolidated Budget
Section 3.2.5 of the Finance Manual 2014 states that based on the resources allocated, Units are required to prepare activity/output based budgets
comprehensively detailing: output, performance indicators, and activities to achieve the output, inputs required and their costs. The unit budgets should be populated in the approved chart of accounts. The forecast of expense is based on experience and resources.

I noted that domestic arrears amounting to UGX.16,167,302,122 reported in the previous year’s financial statements were not budgeted for during the year under review; however, the university spent a total of UGX.4,690,396,637 on previous years bills by the end of the year, without any approved reallocations.

The practice distorts implementation of planned activities and implies that the university has no set criteria for meeting its liabilities.

The Accounting Officer explained that there was a cash flow issue where the budget for the year was inadequate to cover the arrears. However, arrears take the first call on the budget and that all units had been advised to endeavour to budget for domestic arrears in the subsequent years.

I explained to the Accounting Officer that there is need to review and enhance the commitment control system in order to curtail accumulation of arrears and for the existing arrears, these should always be included in the budget accordingly.

### 58.7 Failure to Recognise complete stock of Outstanding Liabilities

I established that the University’s position of liabilities/outstanding obligations stood at UGX.119,664,797,892 by close of the financial year, as shown in the table below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Incentives</td>
<td>37,716,594,521</td>
</tr>
<tr>
<td>Pension Arrears</td>
<td>3,234,002,946</td>
</tr>
<tr>
<td>In house retirement Benefits</td>
<td>18,840,025,398</td>
</tr>
<tr>
<td>Deposit Administration Plan</td>
<td>12,985,465,902</td>
</tr>
<tr>
<td>Deposit Administration Plan Interest</td>
<td>17,697,851,065</td>
</tr>
<tr>
<td>Un remitted Deposit Administration Plan 2013 -2015</td>
<td>2,890,682,806</td>
</tr>
<tr>
<td>Suppliers and Pending Vouchers</td>
<td>4,060,730,076</td>
</tr>
<tr>
<td>Regulators</td>
<td>4,320,640,618</td>
</tr>
<tr>
<td>External examiners</td>
<td>1,019,822,287</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Recess term</td>
<td>64,710,000</td>
</tr>
<tr>
<td>Internship to Colleges</td>
<td>670,520,440</td>
</tr>
<tr>
<td>Teaching claims</td>
<td>2,340,401,035</td>
</tr>
<tr>
<td>Funds not remitted to Presidential projects</td>
<td>4,900,000,000</td>
</tr>
<tr>
<td>Funds not remitted to Centre for Research in Transportation Technology</td>
<td>8,923,350,798</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>119,664,797,892</strong></td>
</tr>
</tbody>
</table>

I also noted that the bulk of these payables have remained outstanding for quite a long time. The continued accumulation of outstanding obligations could result in reputational risks, as well as incurring more expenses in form of ligation costs in case the service providers and staff opt to take legal action.

Further noted was that the university only included UGX.47,167,283,674 as Total Liabilities in its Statements of Financial position and Outstanding Commitments, while the remaining UGX.72,497,514,218 is only mentioned in additional notes as it relates to incentive arrears, funds not remitted to presidential projects, among others.

The Accounting Officer explained that this amount could not be included in the total liabilities, as it is non statutory. However, I did not find this explanation satisfactory, given that the university, indeed has to clear these liabilities and this has been one of the causes of the frequent strikes at the University.

The Accounting Officer in his response explained that the outstanding obligations arose due to inadequate funding and that they had been submitted to Government for consideration and funding. He further explained that Government had taken over the deposit administration plan debt and interest to the tune of UGX.30.68 Billion. Of this amount, so far UGX.10 Billion has been paid and the balance of UGX.20.68 billion would be paid in July 2017.

In addition, as a long term solution, Management has proposed to the University Council and Government that fees paid by private students should be increased to enable the University meet the Unit cost of running the programmes.
I advised the Accounting Officer to continue liaising with all the relevant stakeholders to ensure that the outstanding obligations are settled without further delay so as to avoid unnecessary legal costs.

In addition, those charged with Governance should ensure that policies set for the university can be met by the available and projected revenue streams.

58.8 Payments of Salaries to staff Employed in other Institutions

General rules on payment of salaries Sub-section B-a 12 of the Uganda Public Service Standing Orders 2010 provides that the Payment of a salary to a Public officer shall be stopped immediately the officer ceases to render services to Government under whatever circumstances including death.

Review of the University payroll revealed instances of staff under full employment by the university, were also fully employed by other institutions. There is a risk that such staff do not provide outputs commensurate to the needs of the university.

The Accounting Officer stated that this matter had come to the attention of Management and that relevant College Principals have been instructed to verify whether the output expected of them have been delivered. Further inquiry would be made by the Human Resource Directorate to verify their existence as full-time staff in other private Universities.

I await managements’ outcome in this regard. I have also advised the Accounting Officer to ensure that the University strengthens its staff performance monitoring/measurement systems, to ensure that all employees provide the expected level of services, as per their terms of engagement.

58.9 Litigation against the University

a) Cases concluded/lost by the University

The university was sued and it lost in a number of cases for which court awards were given to the successful parties. However, a number of them remain unpaid.
I further noted that cases lost by the University were arising from claims of entitlement to pension, unpaid salary arrears, decisions of dismissal from University service, suspension and expulsion of students and breach of contract, most of which appear avoidable.

Under the circumstances, there is a risk that the unpaid judgment creditors may attach the University’s property.

Further noted was that, the university has 47 cases which are ongoing in different courts of law, however, these cases have not been disclosed in the financial statements.

In response, management explained that the University had not been able to clear all court awards and pension claims due to cash flow and budgetary constraints. And those cases arose from labour disputes against the University involving delayed payments of retirement benefits.

For students, cases arose from disciplinary actions that students get dissatisfied with. The other cases largely arise from service providers whose payments delay due to cash flow constraints.

I advised the Accounting Officer to ensure that the university undertakes a wholistic analysis of the causes of the court cases with a view of determining possible remedies to mitigate such situations and avoid recurrence.

I further advised management to expedite clearance of judgement creditors.

58.10 **Procurement Anomalies**

a) **Procurement from non-prequalified suppliers**
Section 8.2 of the Procurement and Disposal Manual, 2014 requires that pre-qualifications be conducted prior to the issue of an invitation to tender in order to identify potential suppliers who are qualified to deliver goods or services. Contrary to this requirement, the University procured services and paid UGX.2,325,210,584 from various suppliers who were not prequalified for supply as detailed below;

<table>
<thead>
<tr>
<th>College/unit</th>
<th>Amount - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the Centre</td>
<td>2,143,902,795</td>
</tr>
<tr>
<td>CONAS</td>
<td>53,859,221</td>
</tr>
<tr>
<td>CEES</td>
<td>84,886,471</td>
</tr>
<tr>
<td>Academic Registrar’s Office</td>
<td>42,562,097</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,325,210,584</strong></td>
</tr>
</tbody>
</table>

It should be noted that several prequalified suppliers existed in the University’s database. The rationale for using non-prequalified suppliers while ignoring those on the prequalified list could not be understood.

Use of non-prequalified suppliers raises the risk of procuring services from incompetent providers. Prequalification also shortens the sourcing cycle, an advantage one would lose if they chose to use non-prequalified providers.

In response, the Accounting Officer indicated that all suppliers had been shortlisted, however, on verification of the prequalified list these were missing.

I advised the Accounting Officer to always use prequalified suppliers for supplies or services as provided for in the university manual.

**b) Use of the wrong method of procurement**

Regulation 6(4) of the Public procurement and Disposal of Public Assets (Rules and Methods for Procurement of Supplies, Works, and Non-Consultancy Services) 2014 provides that the choice of procurement method shall be in accordance with the thresholds specified in Guidelines issued by the Authority.

Paragraph 1 of the PPDA Guideline 1/2014 on Thresholds for procurement method provides that;
(i) Open domestic bidding or International bidding shall be used if the estimated value of the works exceeds UGX.500,000,000, and;

(ii) Restricted Domestic Bidding or Restricted International Bidding shall be used if the estimated value of works is greater than UGX.200,000,000 but does not exceed UGX.500,000,000.

However, it was noted that contrary to above Guidelines, the University used restricted domestic bidding for the procurement of services for the construction of the proposed research Centre, college of health sciences, whose contract price was UGX.4,611,361,603 under procurement reference MAKS/WKS/15-16/00016.

No justification or approval was provided to support the departure from the law.

In this regard, management did not comply with provisions of the law and I cannot confirm that they secured the best bid.

In response, the Accounting Officer stated that this was a donor funded procurement with tight deadlines within which to commit the funds or risk losing the money. And that the Principal Investigator had requested that they are handled expeditiously in view of the tight deadlines hence the urgency of the procurement.

I advised the Accounting Officer to always ensure that adequate procurement planning is undertaken, to avoid situations that force the university to deviate from approved procurement procedures.

c) **Unjustified Direct Procurement**

Section 85(2) of the Public procurement and Disposal of Public Assets Act, 2003 (as amended) states that direct procurement shall be used to achieve efficient and timely procurement, where the circumstances do not permit a competitive method.
Contrary to the above provision, it was established that the University used direct procurement method for goods and services worth UGX.1,667,874,727 with no proper justification.

The circumstances that could not permit a competitive method were not provided by management. Details are shown in table below;

<table>
<thead>
<tr>
<th>Procurement Ref No.</th>
<th>Subject of procurement</th>
<th>Contract value - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mak/SPLS/2015-16/00013</td>
<td>Request from DICTS for supply and installation of additional hotspot solution</td>
<td>419,979,350</td>
</tr>
<tr>
<td>Mak/CONS/2015-16/00001</td>
<td>consultancy Services for the proposed construction of the perimeter fence for Makerere University Main Campus</td>
<td>581,462,700</td>
</tr>
<tr>
<td>Mak/SRVCS/2015-16/00022</td>
<td>Procurement of medical insurance for 46 MasterCard Foundation Scholars at Makerere University.</td>
<td>25,724,980</td>
</tr>
<tr>
<td>Mak/SPLS/2015-16/00043</td>
<td>Supply of 3 brand new Toyota land cruiser for College of Health Sciences</td>
<td>640,707,697</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,667,874,727</strong></td>
</tr>
</tbody>
</table>

I explained to the Accounting Officer that use of direct procurement method limits competition and exposes the University to a risk of acquiring services at non-competitive rates.

In response, it was explained that the service providers had previously been awarded contracts for the first phases and performed them to the satisfaction of the University hence the use of the direct procurement method to ensure continuity, compatibility and to save time.

I advised the Accounting Officer to always ensure that all procurements are done in accordance with the law.

**d) Payment of Value Added Tax to Non-registered Suppliers**

Section 7(1) of the Value Added Tax Act, 2014, stipulates the conditions necessary for a taxable person to be registered to pay Value Added Tax (VAT).

Verification of a sample of suppliers revealed that several suppliers were not registered with URA as taxable persons in respect of VAT during the period under audit.
I noted that these suppliers were paid amounts inclusive of VAT totalling to UGX.54,013,481. I explained to management that paying VAT to non-registered suppliers amounts to a financial loss to government since the same is not remitted to URA.

In response, management explained that at the time of bidding for the procurements, these suppliers and contractors had submitted hard copies of their VAT Registration certificates and that during the evaluation processes, PDU verified and confirmed that the three firms appeared among tax payers with Tax Identification Numbers (TINs) registered and listed on the PPDA website. However, on verification with the URA web portal, I noted that though the suppliers have TIN numbers, they were not registered for VAT.

I advised the Accounting Officer to ensure that adequate due diligence is always undertaken by the procurement unit to establish the tax status of all successful bidders and stop the practice of paying VAT to non VAT registered suppliers.

e) Payments to potentially non-tax compliant suppliers

Regulation 17(1) of the Public Procurement and Disposal of Public Assets (Evaluation) Regulations, 2014 requires the evaluation committee at the preliminary examination to verify the accuracy, validity, and authenticity of the documents submitted by a bidder.

In addition, they are also required to determine if the bidder fulfilled the obligations to pay taxes and social security contributions in Uganda.

A detailed review of the tax status of suppliers revealed that one supplier who had been paid a total of UGX.540,593,982 in the year under review had no approved Tax Identification Number (TIN) that would indicate their tax registration status and payments. This implies that Government is doing business with a supplier who is potentially not tax compliant and as a result Government could be losing the much need revenue.
I advised the Accounting Officer to ensure that proper due diligence is done on each contract award winner before any contracts are concluded.

f) **Inconsistencies in Procurement Documents**

Section 85 of the PPDA regulations upholds the principle of competition and section 117(2) requires an entity to secure at least three bids in a request for quotation method.

A review of accountability documents from COBAMS and CEES revealed that three purportedly different companies shared the same Tax Identification Number (TIN) and telephone contacts. It should be noted that a TIN is a unique number allocated to a specific company; the three companies shared the following company details:

(i) Company TIN number no: 1002422906

(ii) Telephone contacts: +256772695666 and +256703871383

It was further noted that the details on the bidding documents were not consistent with the details of the prequalified list. In addition, the same companies would bid for the same procurements. This is an indicator of the same person floating three different bids for the same procurement thereby eroding competition. It is also possible that these documents were prepared by staff of the university to provide accountability for air supply. In the year under review, a sum of UGX.131,374,423 had been paid to the respective companies. Under the circumstances, the above actions point to a fraudulent action.

In response, management confirmed that these companies had submitted different TIN numbers during the prequalification stage.

I advised the Accounting Officer to follow up the procurements in which the above three companies were involved to rule out any fraudulent actions.

**58.11 Contract for Traffic Control management/Parking Fees**

Makerere University entered into a contract with a company to collect parking fees in April 2014. It was noted that whereas the financial proposal of the company put the remittance to the University at UGX.365,148,000 per annum, the same was
never captured in the contract. Instead the contract provided for remittance of 60% of all the collections.

During the year under review, the company only remitted UGX.179,694,240 as parking fees for the year. It should be noted that the University has no mechanism whatsoever to confirm how much is collected by the service provider given that at the collection points payments are made in cash and no controlled receipts are utilised by the firm.
I noted that although, the contract provided for automation of the parking system, this has not been fully implemented.

This is an indicator of poor contract management and monitoring by those responsible and a breach of contract by the contractor for non-adherence to the terms and conditions of the contract.

I advised management to monitor the implementation of this contract with a view making good any breach of contract by the Contractor.

58.12 Continued payment of salary to Retired Staff
Paragraph 4.10.1 of the Makerere University Finance Manual requires management to update the payroll and delete all the retired employees on the payroll.
Contrary to above, it was observed that there were delays in payroll deletions of 14 former members of staff of the university, who had retired as far back as 2004 but continued being paid salaries, hence occasioning a loss of UGX.386,790,968.

Although the Accounting Officer explained that these related to normal salary payments to staff who had retired but given new contracts, on further examination during the verification, there was no evidence of subsequent contracts offered.

I advised Management to always ensure prompt deletions of staff who have left service in future and to initiate recovery steps of the funds paid as salary after the
staff had exited service. The Accounting Officer is further advised to investigate these cases so as to rule out collusion by staff and the beneficiaries.

58.13 **Salary Over Payments**

Section (B-a) of the Public Service Standing Orders, 2010 requires salaries to be paid correctly, in accordance with the approved salary structure for the Public Service.

However, a reconciliation of the amounts paid as salaries on the payroll, salary payment registers, monthly payslips, staff extracts from the Output Budgeting Tool (OBT) and the amounts paid out as confirmed on the Makerere University Bank of Uganda salaries account bank statements, revealed that there were salary overpayments to staff totalling to UGX.172,560,395. This can be attributed to laxity on the part of personnel officers, and absence of a verification mechanism before salaries are eventually paid. Under the circumstances, the amounts overpaid were irregular and are therefore recoverable.

The Accounting Officer explained that these payments related to salary arrears to staff and that the affected staffs are still with the University and the recovery for the same is on-going. However, verification revealed that there were no claims of arrears for the identified staff.

I advised management to strengthen controls for processing of salaries to include proper verifications of payrolls before payments are effected, to avoid salary overpayments.

In addition, a recovery of these funds should be instituted henceforth.

59.0 **Makerere University Business School**

59.1 **Direct Cash Payments for Air Tickets**

Regulation 17 of the PPDA Regulations (Rules & methods for procurement of supplies, works & non consultancy services Regulations) 2014, requires a procurement process under direct procurement to follow the procurement rules and processes set out in the regulations.
For the period under review, the University directly purchased air tickets for various travels abroad amounting to UGX.346,251,902, contrary to the guidelines.

The Accounting Officer explained that this was deliberately undertaken after establishing that the prequalified travel agents were inflating prices for air tickets compared to online purchasing, and that they had since then written to the Executive Director/PPDA to guide them on how to handle future travels.

I await the outcome of this engagement but also advise the Accounting Officer.

59.2 **Irregular Micro Procurements**

PPDA Guidelines 1/2014, (thresholds), Guideline 2(2.4), requires the use of Micro procurement to occur where the estimated value of the supplies or non-consultancy services does not exceed UGX.5 Million.

Contrary to the above, various goods and services amounting to UGX.277,067,920 were sourced and paid for using cash without following the procurement process as required by the PPDA rules and methods for procurement of supplies, works and non-consultancy services. The supplies and services were above the micro procurement of UGX.5 Million but were procured as such.

In other cases, cash was advanced to staff to carry out the activities and directly purchase the supplies.

The audit attributed the anomaly to laxity on the part of the Head Procurement and Disposal Unit (PDU) in ensuring that proper guidance was provided so as to comply with procurement regulations and guidelines.

Non-adherence to the procurement laws and regulations exposes the school to a risk of abuse and failure to obtain value for money.

The Accounting Officer explained that some activities were too small to be procured, leading to unnecessary delays and double costs; these activities included Open Week for students, youth camp, maintenance costs, among others.
I advised the Accounting Officer to strengthen the capacity of the PDU so as to ensure that appropriate guidance is always provided in regard to compliance with the existing procurement guidelines.

60.0 **Mbarara University of Science and Technology**

60.1 **Conflicting Laws on the Operations of the Audit Committee**

Whereas Section 43 (1) (a) of the Universities and Other Tertiary Institutions (UOTI) Act, 2001 requires University Councils to appoint Committees, Section 49(1) of the Public Finance Management Act, 2015 stipulates that it is the Minister to establish audit committees for each sector of Government. In addition Section 49(3) of PFMA, 2015 requires that members of the Audit Committee shall not be public officers.

I also noted that the UOTI Act does not provide for roles and responsibilities of the Audit Committees of Council.

In the case of Mbarara University it was noted that of the six members of the Audit committee, four were Public Officers while two were from the private sector. It was also observed that the Audit committee does not use the Audit Charter of Government as a guiding tool for its operations.

I explained to management that lack of clarity between the Public Financial Management Act, 2015 and the Universities and Other Tertiary Institutions Act, 2001, puts the legality of the committee into question. In response management explained that the Solicitor General has been requested to advice.

I await the outcome of the Solicitor General’s interpretation.

60.2 **Ineffectiveness of CEMAS functionality**
During the year under review, the University transacted its business using CEMAS, software piloted by MoFPED and M/S Talisma Corporation as the contracted developer of the solution. The System is to be used for the University’s key business processes under academic records, Finance Management and Human Resource/Payroll.

I however noted that the University was faced with numerous challenges in the implementation of the system as outlined below;

a) Perpetual failures in the student’s sign-up process.

b) Continued failure to test the exam and class attendance function with the tablets.

c) Repetitive failure of the bank integration with standard Chartered and Barclays Banks.

d) Delays in the complete handover of the production environment to the University from Talisma Corporation.

e) Failure by the University to use Finance Module to generate information required for final accounts reporting.

f) The Finance department of the University also reported that up loading of financial transactions done outside CEMAS into the system had not been completed and as a result it had affected its ability to adequately provide reports for the end of the 2015/2016 financial year.

g) I also noted that the financial reports produced by CEMAS were incomplete. For instance, the transactions done outside CEMAS from July - October 2015 were not included in the reports therefore payment reports (Cash books) lacked the information and the University had not maintained alternative backups. Furthermore, the system cannot readily generate reports on request but rather someone from Talisma has to be consulted first. The software also was not able to produce certain important fields such as description/purpose of the payment.

h) Furthermore the User training was not adequate. For example, the staff in finance and accounting department who are the users of financial management module were not able to independently produce reports and information requested by the audit team.
I pointed out to management that given the challenges in the implementation of the software, it is doubtful as to whether the project had met its intended objectives.

In response management indicated that a number of meetings have been held between management, MoFPED and Talisma Corporation with the aim of resolving the hindrances to the effective functionality of CEMAS. Management further stated that they had been advised not to continue with the manual maintenance of records and concentrate on CEMAS.

I advised Management to liaise with the MoFPED and Talisma Corporation to provide the University the necessary support to ensure that the shortcomings are resolved.

60.3 Mbarara University Buhoma Project

It was observed that in 1993, the University allowed the neighbouring community to carry out activities on its land with a view of conserving the environment and empowering the Community. Consequently a group under the umbrella name of Buhoma rest camp was allowed to carry out conservation activities on the land at a nominal fee of UGX.100,000 per annum.

I noted that the community had now established community schools, gravity water scheme, a SACCO and is operating commercially to the detriment of the University. The community activities carried out on the land have become commercial in nature generating about UGX.500,000,000 annually with no due share to the University since there was no formal agreement and hence no revenue sharing arrangements.

I further noted that to date, the University had not acquired title of the land and therefore its acreage is not known.
I explained to management that failure to acquire a title exposes it to risk of loss of the land.
In response management indicated that the process of titling the land had commenced. Meanwhile the community rest camp had accepted to pay UGX. 10,000,000 per year.

It was further explained that under the support of the African Development Bank Higher Education Science and Technology Project ,MUST is expected to receive US$ 196,000 to establish a Business Incubation Centre and also develop a Trekking Camp at Buhoma to generate income.

I advised management to acquire the land title and also review its arrangement with the group. A strategic development plan should be developed and implemented on the land so as to enhance revenue generation.

60.4 NTR Budget Shortfall
Out of University NTR budget of UGX.8,877,000,000 only UGX.7,987,031,523 was realized resulting into a shortfall of UGX.889,968,477.
As a result, some of the planned activities such as procurement of various equipment was not implemented and recurrent operations were scaled down.

Management attributed the shortfall to the decline in number of students registered during the year.

I advised management to consider harnessing its academic and property resources innovatively to realize more revenue. In addition management should ensure realistic budgets are prepared.

61.0 Kyambogo University

61.1 Unsupported adjustment of domestic arrears
The University reported outstanding domestic arrears of UGX.14,228,047,787 after adjusting for UGX.8,574,432,364 and UGX.9,169,313,891 paid and accrued respectively during the year. However, only UGX. 3,878,290,854 of the amount paid was supported with documents leaving a balance of UGX.4,696,141,510
without records on how it was paid out. Similarly, no documents were availed to support the newly accrued payables of UGX.9,169,313,891.

In the absence of supporting documents I could not confirm the correctness of the transaction leading to the reported balance of payables of UGX.14,228,047,787.

I also noted that the University did not have systematic procedures to be followed in maintaining the creditors list as the one presented in the financial statements lacks details of the individual beneficiaries.

I advised the Accounting Officer to put in place proper procedures of tracking and management of domestic arrears. The movements in the domestic arrears should be properly supported with appropriate documentation.

61.2 Disqualification of Students

Sec. 34 (3) of the Universities and Other Tertiary Institutions Act, 2001(as amended) requires the Academic Registrar to assist the first Deputy Vice-Chancellor in the administration and organization of all academic matters including admission, undergraduate studies, postgraduate studies, examinations, research and publication.

The University’s admission regulations stipulate that students’ academic documents shall be verified upon picking of admission letters, and during every semester, at registration for examinations.

However, I noted that there were cases where the University irregularly admitted students, without verification of relevant documentation, some of whom pursued their respective courses to completion. The anomalies were only discovered at the time of graduation despite the fact that all prior processes are performed internally by University staff. During the financial years 2014/14 and 2014/15, sixty one (61) students were affected and had their degree awards recalled and/or cancelled.

I pointed out to management that this may result into litigations with attendant costs and negatively affects the University’s reputation.
Management explained that Students were admitted on the basis of results screened by UNEB. However, systems are never 100% flawless and some few got admitted erroneously.

I advised management to strengthen controls surrounding students’ admission, processes ensure that non qualifying students are never admitted.

62.0 Gulu University

62.1 Under performance of NTR

Out of university NTR budget of UGX.10,849,910,982 from student revenue only UGX.8,705,282,906 (80%) was realized resulting into a shortfall of UGX.2,144,628,076 (20%).

I explained to management that failure to realize budgeted revenue undermines full performance of the planned activities hence impacting negatively on the service delivery.

In response management attributed the failure to drop in enrolment as a result of more universities operating in the region.

I advised management to introduce more tailor made courses which suit the current economic conditions so as to increase student numbers while also making realistic budget estimates.

62.2 Under-funding of University Capital Development Budget

Review of the University capital budget performance report revealed that on an average the University received 8% of the total government grants for capital development for each of the past five years.

Underfunding of capital development deprives the University the opportunity to develop its infrastructure stipulated in the master plan. The table below refers;
Table showing budget performance

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Wage</td>
<td>4,553,871,358</td>
<td>4,596,303,910</td>
<td>4,683,099,390</td>
<td>6,838,551,135</td>
<td>11,859,342,985</td>
</tr>
<tr>
<td>Wage Bill</td>
<td>6,595,878,464</td>
<td>8,355,983,888</td>
<td>8,547,938,427</td>
<td>7,407,448,782</td>
<td>8,662,453,953</td>
</tr>
<tr>
<td>Capital Development</td>
<td>1,150,000,000</td>
<td>791,686,248</td>
<td>991,990,022</td>
<td>1,160,733,280</td>
<td>2,816,251,079</td>
</tr>
<tr>
<td>Total</td>
<td>12,299,749,822</td>
<td>13,743,974,046</td>
<td>14,223,027,839</td>
<td>15,406,733,197</td>
<td>23,338,048,017</td>
</tr>
<tr>
<td>% of total Government release</td>
<td>9%</td>
<td>5.7%</td>
<td>6.9%</td>
<td>7.5%</td>
<td>12%</td>
</tr>
</tbody>
</table>

In response management indicated they will continue liaising with MoFPED and MoES to ensure allocation of adequate capital development funds. This was equally echoed by the Parliamentary Sectoral Committee on National Budget for FY 2016/17 which recommended that Government avails additional funds totalling UGX.25 Billion for Infrastructural development in the University master plan.

I await the outcome of the University engagement with the relevant ministries.

62.3 **Under allocation of library funds**

Contrary to Paragraph 9 (4) of the Universities and other tertiary institutions regulations 2005 which requires a university to allocate at least 10% of its budget towards library and information materials, I noted that the University budgeted for only UGX.163,000,000 for acquisition of new information materials from the total University budget of UGX.45,975,352,395 equivalent to 0.4%.

I further noted that only 0.1% (UGX.353,655,569) of the university operating expenditure was incurred on purchase of new information materials.

I explained to management that the low allocation of funds to the library does not only affect the student to book ratio but also the database of new information materials.

In response management stated that the revenue allocation criterion is in place and would be enforced.

I await commitment of management in enforcing the revenue allocation criterion.
62.4 **Irregularities in establishment of external University Campus**

Gulu University in line with its strategic plan of expanding access to higher education entered into an MOU with Bunyoro Kitara Kingdom for purposes of establishing a University campus in the Kingdom.

Review of minutes of the audit and Risk committee meeting however revealed a number of anomalies at the campus such as; absence of authority from the NCHE to admit students and run programs, appointing staff to the Hoima Campus and failing to pay them admitting students without responsibility for their academic and social welfare, and diverting student funds among other issues.

I reminded management that under the circumstances, the University faces a challenge of potential litigation for non-performance by the students at Hoima campus since they were admitted under Gulu University.

In response management stated that the process of reviewing the MOU with the aim of streamlining the operations of the campus was ongoing.

I await the outcome of the review process.
GENDER AND LABOUR SECTOR

63.0 Ministry of Gender, Labour and Social Development

63.1 Inadequate budget provision for Payables
The payables increased from UGX.3,726,312,583 in the previous financial year 2014/15 to UGX.4,624,339,098, in 2015/16 owing to the additions during the year under review. However, the Ministry’s approved budget for domestic arrears was only UGX.1,004,045,000 for 2016/17 which is not sufficient to cover payments for all domestic arrears for the previous years.

Following the PS/ST’s directive vide circular referenced BPD 86/298/02 dated 10th June, 2016 requiring all accounting Officers to prioritise payment of domestic arrears in the 1st Quarter of 2016/17, settlement of huge domestic arrears balances will affect implementation of activities planned for 2016/17.

The Accounting Officer explained that MoGLSD endeavoured to forecast budgetary expectations but was constrained by the inconsistencies in quarterly budget releases, which were not commensurate to the competing actual demands coupled with the ceiling that was insufficient to cover the entire mandatory and priority expenditure in a given financial year. He added that the bulk of the domestic arrears were composed of Workman’s compensation of which the Ministry of Finance, Planning and Economic Development (MoFPED) had approved one (1) billion per annum over the last two (2) Financial Years - to reduce the obligation.

I advised the Accounting Officer to liaise with the MoFPED and ensure that enough funds are budgeted for to settle the outstanding liabilities.

63.2 Youth Livelihood programme
a) Lack of accounting framework
By 30th June 2016, the Youth Livelihood Programme (YLP) had been implemented for three years. However, there was no proper accounting framework and/or detailed
guidelines for accountability. Consequently the implementing entities under the programme accounted for funds differently, which is not only recipe for improper accounting for programme funds but also impedes comparability of accounting reports across the implementing entities.

Although the Permanent Secretary/Secretary to the Treasury (PS/ST) in letter dated 5th May 2016 had requested the PS - MoGLSD to work with the Accountant General to develop detailed guidelines, by the time of audit, no guidelines had been developed.

The Accounting Officer in response stated that some actions had been undertaken, including developing simplified guidelines/formats which were shared with the Accountant General for use by the YLP beneficiary groups at the community level. In addition, the Accountant General had constituted a Technical Working Committee for formulation of Accounting and Reporting Guidelines for all Government of Uganda Revolving Funds and the MoGLSD nominated members to the committee that was expected to work under the leadership of the Accountant General.

I advised the Accounting Officer to continue the engagement with the Accountant General so as to expedite the process of developing guidelines to streamline the programme’s accounting processes.

b) **Recoverability of program funds**

Phase I of the YLP programme started in the financial year 2013/2014 with a total accumulated disbursement of UGX.58,438,923,900 to 8,213 projects by end of 2015/16 financial year. A review of the overall status of the program revealed the following:

(i) **Low rate of recovery**
The overall repayment as at 28th October, 2016 stood at UGX.5,501,217,366 (39%) of the UGX 14.2 billion that was due for repayment by the beneficiaries.

(ii) **Non traceable group projects**
During inspection, audit also noted that some projects/business managed by some of the youth groups could not be traced on the ground. This was
because some of the projects were either non-existent, had been disbanded or members had formed different projects thus presenting challenges of enforcing recoverability.

Consequently UGX.527,308,994 which had been released to these specific groups may not be recoverable.

(iii) Non compliance with recovery schedules
In addition non-compliance with recovery schedules was noted in the districts of Kanungu, Gulu and Koboko. A comparison of disbursement date, with first date of recovery and due date to completion recovery showed that some projects in the three districts had not paid instalments totalling UGX.290,873,435, as per the agreed terms.

(iv) Lack of repayment/recovery schedule
In the districts of Isingiro, Ntungamo, Kisoro and Kabarole no copies of repayment/recovery schedules were availed. It was not clear how funds were to be recovered from the beneficiary groups.

Consequently audit could not determine the amounts due for recovery and how much had actually been recovered in the four districts.

The above gaps in the implementation of the program are likely to affect achievement of the program’s intended objectives.

The Accounting Officer explained that there was evidence of improved recovery from the youth groups and that on average, the Ministry was recovering over UGX.100 million per week.

He also stated the Ministry had taken measures to sensitize the beneficiaries and the general public on the Programme and mobilize the beneficiaries for repayment through stakeholder engagements in various for a.
I advised the Accounting Officer to;

(i) Hasten recover of funds from the youth groups as per the agreed terms and schedules with a view of ensuring sustainability of the revolving fund and thus the attainment of programme objectives.

(ii) Consider partnering other government institutions such as MTAC that are mandated to incubate businesses and train stakeholders.

(iii) Improve on monitoring and supervision and where possible invoke sanctions on youth groups that are defaulting on repayment.

c) Lack of memoranda of understanding/financing agreements

Paragraph 4.1(iii) of the programme guidelines requires MoGLSD to sign Memoranda of Understanding (MoUs) with implementing District Local Governments (DLGs). In the same vein the districts are required to sign financing agreements with youth groups that have been approved for funding.

It was however noted that in Ntungamo and Isingiro Districts, some projects which had received funding of UGX.673,689,519, never signed financing agreements, contrary to the MOU requirements. Consequently there was a challenge of enforceability of responsibilities and obligations. This has a bearing on both the youths’ commitment to their projects and the funds recoverability.

In response, the Accounting Officer explained that he had taken up the matter with the Accounting Officers of the two Districts, given that the training of groups and the signing of financing agreements between the local governments and the beneficiary groups were pre-conditions for disbursement of funds by the District to the individual youth groups’ accounts.

I await the outcome of management’s actions on the Accounting Officers of the two Districts.

I also advised him to extend the same to all other districts as similar challenges may be pertaining there.
d) **Non-compliance with youth interest group composition requirements**

It was noted that some youth groups had less than 30% female members, which is a requirement in paragraph 4.2 of the YLP document, 2013. This was attributed to inadequate guidance by the technical committees and this may disadvantage the female youths in as far as development is concerned.

The Accounting Officer explained that overall, 45% of the 107,970 beneficiaries of YLP were female, surpassing the minimum requirement of 30%, however arising from errors of omission, a few projects 98 (1.2%) had fallen short of having at least 30% female members.

Management undertook to pay more attention at the review stage to ensure that gender composition requirements are adhered to at the individual projects level.

I advised the Accounting Officer to ensure that all youth groups comply with the gender composition requirement, before funding is accessed.

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63.3 **Missing pensioner files**

A sample of 15 pensioners out of 170 with payments totalling UGX.167,092,542 were randomly selected for verification tests and it was noted that only two had personal files with original documents while the rest had uncertified photocopies of documents such as appointment letters, confirmation and computation forms.

This was contrary to paragraph P-d (5) of the Standing Orders, 2010 that requires a public officer’s personal records to be complete and up to date at any given time, opened and maintained at the Ministry of Public Service and the Ministry Department or Local Government where the officer is working.

Audit could neither confirm the authenticity of pension payments effected on photocopied documents nor rule out payment of non-existing pensioners.

Management in its response explained that the Ministry was an amalgamation of previously different ministries, which had metamorphosed overtime, consequently leading to transit of documents including personal files.
By the time of decentralisation of salaries and pensions, most of the pensioners were already on the payment system, thus any lapse in payment of emoluments would lead to anxiety. As a stop gap measure the Ministry had to utilise photocopies of the relevant documents.

I advised the Accounting Officer to liaise with the Ministry of Public Service to access certified copies of documents for each pensioner.
WATER AND ENVIRONMENT SECTOR

64.0 Ministry of Water and Environment

64.1 Un-supported Payables
The Ministry disclosed payables of UGX.51,632,158,023 in the Statement of Financial Position. The scrutiny of the statement of outstanding commitments revealed that the Ministry had an opening payables balance of UGX.28,976,858,605, made adjustment of UGX.16,004,989, incurred additional payables in the year under review of UGX.44,401,551,830 and settled payables amounting to UGX.21,730,247,423.

However, the adjustments, additional payables incurred and paid out in the year under review were not supported with appropriate schedules. Consequently, audit could not confirm the accuracy and authenticity of the payables figures and thus the outstanding balance at year end.

I advised management to always make appropriate reconciliations and relevant schedules to support disclosures in the financial statements.

64.2 Nugatory Expenditure
The Ministry paid Euros 93,120.10 which is equivalent to UGX. 358,605,505 to construction companies as interest charges on delayed payments of approved certificates for construction of various water facilities. These payments are considered wasteful, given that the expenditure could have been avoided with proper financial planning.

This increases the cost of projects and is an unfair charge on public resources. The Ministry may also mischarge other items in order to cover the increased cost of the projects. Management attributed the nugatory costs to delayed release of funds by Ministry of Finance Planning and Economic Development (MoFPED), unscheduled public holidays and changes in scope of work.
I advised the Accounting Officer to liaise with MoFPED to ensure adequate financial planning to avoid wasteful expenditure. Meanwhile, contracts with high interest costs should be prioritized for settlement.

64.3 Ownership and Disclosure of Ministry Land

A review of the 2016 board of survey report revealed that the Ministry had 5 pieces of land in strategic locations however the entity lacked land titles. Consequently, the Ministry’s land on Plots 23, 25 and 27 on Commercial Street, Luzira was fraudulently sold to individuals. In addition ownership of plot 121 on Urban forest land, Soroti is under investigation by IGG.

Audit further noted that various pieces of land occupied by the proposed headquarters of the Water Resources Management Department - Entebbe, Water and Sanitation Development Facilities in South West, Eastern and Central regions were neither disclosed in the assets register nor captured in the board of survey report.

In the above circumstances, the Ministry is exposed to the risk of losing prime pieces of land.

I advised the Accounting Officer to secure legal ownership of all its properties by acquiring land titles from the relevant authorities and to ensure that all land is captured in the assets register for better control and management.

66.0 Water Management and Development Project (WMDP)

66.1 Undisbursed project funds - MWE components

Article 2.03 of the financing agreement between the Government of Uganda and International Development Association (IDA) indicates that undisbursed funds shall be charged a maximum commitment rate of one-half (1/2) of 1% per annum, payable by the recipient.
Out of USD 40,608,000 expected cumulative disbursement, to the project only USD 19,650,741 (48%) had been received by the 2015/2016 financial year end resulting into undisbursed balance USD 30,957,259. As a result, the Government of Uganda is expected to commitment charges on the undisbursed balance in the year as indicated in the financing agreement.

Management attributed the low absorption of funds was due to delays in signing the works contracts for Rukungiri, Katwe-Kabatoro and Koboko schemes and changes in the scope of works.

I advised the project management to undertake a comprehensive evaluation of the project implementation process and design strategies to minimise the delays.

66.2 Low utilisation of released project funds

In the period under review the project’s available funding was USD 17,105,174.77 of which USD 3,858,970.49 was brought forward from the previous financial year. I however, noted that out of the available funds only USD 10,382,779.65 (60.7%) was utilized during the year, leaving a balance of USD 6,722,395.12 (39.3%) un-utilized.

As a result of low utilisation, planned activities such as restoration and demarcation of Mabira central forest reserves and procurement of water monitoring equipment were not undertaken.

Non-absorption of the disbursed project funds may result into project time overruns with the associated administrative challenges.

Management indicated that low utilisation resulted from the delays in the procurement process.

I advised the project management to;

(i) Streamline management arrangements and harmonize the procurement processes prior to execution of the projects as this would enhance timely implementation of activities.
(ii) Expedite the implementation of pending activities to enable finalization within the agreed timelines.

66.3 Nyabyeya Forestry College

66.3.1 Lack of enabling Law

Nyabweya Forestry College was transferred from Ministry of Education and Sports (MoES) to Ministry of Water and Environment (MWE). While reporting to MoES, the College was administered using the Universities and other Tertiary Institutions Act, 2001. However, since it reverted to MWE, the College has operated without an enabling law/Act to guide its Forestry related training function. As a result the college has continued to operate without a governing council and this deprives the Institute strategic guidance.

Management indicated that the process of engaging the relevant stakeholders to put in place the enabling laws is on-going.

I wait the outcome of management’s efforts.

66.3.2 Lack of policy on internally generated revenue

A revenue policy outlines the principles of revenue management across the entity to ensure consistent and prompt identification, assessment and recording of revenue. The policy also specifies all the staff responsible for the recording and approval of revenue related activities in accordance with the Delegation and organizational structure of the entity.

Audit noted that the College lacked internally generated revenue policy and had no other documented procedures to guide revenue collection, recording and accountability. As result internal revenue collections were being done without proper guidance.

Management attributed absence of revenue policy to the transition from Ministry of education to Ministry of Water and Environment but promised to develop come with one.
I advised management to develop a revenue policy and in the meantime to come up with the guidelines for revenue collections.

67.0 Ministry of Tourism, Wildlife and Antiquities

67.1 Weaknesses in internal controls over management of NTR at Uganda Museum

An effective internal control system requires proper segregation of duties in the accounting function of the organization. However, a review of the revenue (NTR) management and collection system at the Uganda Museum revealed the following;

a) Irregularities in NTR collections at the Uganda Museum

An audit of the Uganda museum revenue collections revealed that revenue collected was not banked daily as required and banking was being done after a month or more leaving room for possible teeming and lading. The table below refers;

<table>
<thead>
<tr>
<th>Dates</th>
<th>DTB Bank/ URA</th>
<th>Dates of Banking</th>
<th>Delays</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st-31st July 2015</td>
<td>13,766,800</td>
<td>banked 8th August 2015</td>
<td>1Month</td>
</tr>
<tr>
<td>1st-31st August 2015</td>
<td>4,779,800</td>
<td>Banked on 18th Sep 2015</td>
<td>1 1/2 Months</td>
</tr>
<tr>
<td>1st-31st September 2015</td>
<td>3,678,800</td>
<td>Banked on 15th Sept 2015</td>
<td>1 1/2 Months</td>
</tr>
<tr>
<td>1st-31st Oct 2015</td>
<td>3,997,800</td>
<td>Banked on 13th Nov 2015</td>
<td>1 1/2 Months</td>
</tr>
<tr>
<td>1st-30th Nov 2015</td>
<td>2,147,800</td>
<td>Banked on 18th Dec 2015</td>
<td>1 1/2 Months</td>
</tr>
<tr>
<td>1st-2nd Jan 2016</td>
<td>2,275,800</td>
<td>Banked on 28th Jan 2016</td>
<td>1 1/2 Months</td>
</tr>
<tr>
<td>2nd -30Jan 2016</td>
<td>1,766,800</td>
<td>Banked on 11th March 2016</td>
<td>2 Months</td>
</tr>
<tr>
<td>1st-5th Feb 2016</td>
<td>1,700,800</td>
<td>Banked on 30th April 2016</td>
<td>2 Months</td>
</tr>
<tr>
<td>5th -31st march 2016</td>
<td>1,802,800</td>
<td>Banked on 30th April 2016</td>
<td>1 Month</td>
</tr>
<tr>
<td>1st April-30th April 2016</td>
<td>3,033,800</td>
<td>Banked on 14th June 2016</td>
<td>2 Months</td>
</tr>
<tr>
<td>1st May-31st May 2016</td>
<td>2,580,300</td>
<td>Banked on 28th July 2016</td>
<td>2 Months</td>
</tr>
<tr>
<td>1st June-1st July 2016</td>
<td>3,213,800</td>
<td>Banked on 28th July 2016</td>
<td>1 Month</td>
</tr>
</tbody>
</table>

b) Lack of segregation of duties

The cashier was found to be responsible for various cash related activities namely receipting, recording, banking and reconciliation. The practice is prone to abuse by the person responsible for these activities.

Management explained that the anomaly was caused by inadequate staffing and that a request was submitted to MOFPED for additional Accounts staff to bridge the staffing gap.
I advised management to consider reviewing staff responsibilities to ensure that related cash management activities are not handled by a single individual. The controls regarding the NTR management and collection of revenue at the museum should be strengthened.
**LAND SECTOR**

68.0 **Uganda Support to Municipal Infrastructure Development Program (USMID) Project**

68.1 **Under-absorption of Funds at the Project Management Unit**

Schedule 1 of the Project Financing Agreement stipulates the objective of the Program as enhancing the institutional performance of Program Local Governments (LGs) to improve urban service delivery. A review of the cash books and financial statements revealed that UGX.14,411,681,832 was not utilized at the project’s head office by the close of the financial year.

The failure to utilize the funds implies underperformance of the project in as far as activities for which the funds were provided for. Furthermore, such unutilized funds attract a service charge of 0.75% per annum, as per Article II, Section 2.04 of the project’s financing agreement.

Management in response stated that there were activities that had been planned for but not implemented such as renovation of MoLHUD headquarters and implementation of GIS.

I advised management to ensure that the project’s implementation matches the funding so as not to incur unnecessary service charge, which is a cost to the taxpayer.

68.2 **Under absorption of funds by the Municipal Councils**

Audit inspection carried out on 14 beneficiary Municipal Councils revealed that the Municipal Development Grants and Capacity Building Grants totaling UGX. 180,295,212,001 were available for utilization however as at the close of the financial year, funds amounting to UGX.94,783,335,602 (52.6%) hadn’t been utilized.

The unutilized funds were meant for settlement of VAT, Municipal development (Municipal Development Grants) and capacity building (Capacity Building Grants).
Under absorption of the project funds is indicative of implementation inefficiencies which could negatively affect the project progress.

In response, the Accounting Officer explained that the MoLHUD through Permanent Secretary/Secretary to Treasury (PS/ST) had guided the Municipalities to ensure enhanced funds absorption and timely delivery of urban development services as noted that:

(i) The Municipalities which executed the initial works and completed in time the infrastructure sub-projects under Phase 1A and already had other roads designed were able to procure new firms for phase 1B infrastructure by 30th June, 2016. These included Arua, Gulu, Lira, Entebbe and Masaka. Jinja Municipality completed in time but had not yet got a contractor as the designs were not in place for other sub-projects, it is expected that they will have the contractor for phase 1B on site by April, 2016.

(ii) The Municipalities of Mbarara and Kabale had failed to initially attract Contractors. They were supported throughout the process until they got the Contractors. The 2 Municipalities are moving very fast and shall have a very high absorption rate by 30th June, 2017.

(iii) The Municipalities of Tororo, Mbale, Soroti, Hoima and Fort Portal procured a common contractor whose performance eventually fell short of the required speed. The Municipalities were guided to apply liquidated damages to the Contractor, as a stage of enhancing the performance and eventually terminating the contract to pave way for a new procurement to complete any pending civil works.

(iv) Moroto Municipality receives little monies due to its demographic challenges, MoLHUD with guidance of the World Bank is to enhance Moroto with additional funds (from MoLHUD budget) to ensure that the bus terminal is completed by close of 2016/17.
I advised management to ensure that the Municipal Councils devise corrective strategies for the challenges encountered so as to absorb the funds and thus ensure project effectiveness.

68.3 Counterpart funding from government

Whereas the government’s contribution of USD.10 million was one of the conditions in the financing agreement, the issue of counterpart funding from government had not been made clear. Audit noted that government had not made any contribution as counterpart funding. This affects the funding of the project and it makes it difficult for the Municipalities to plan accordingly and make provisions in their budgets.

In response management indicated that the MoLHUD had contacted MoFPED to clarify on counterpart funding to the 14 Municipalities.

I await the outcome of this issue from MoFPED.

68.4 Late disbursements of VAT funds by the MoLHUD

The Ministry of Finance Planning and Economic Development (MoFPED) approved MoLHUD’s 2015/2016 budget of UGX 30 billion towards the project’s VAT payments. Audit however noted that funds amounting to UGX.12,664,023,460 were disbursed to the Municipal Councils at the end of June 2016.

Due to late disbursement, it was observed that all the Municipal Councils deposited the said funds in the project accounts as opposed to the Treasury Single Account and subsequently rolled over to the following financial year. The above was done without seeking for authority from the PS/ST, as required, implying that the rollover was illegal.

It was also noted that MoLHUD expensed the said funds during the financial year 2015/16 and yet the funds were not utilized in the year under review. This anomaly implies that the expenditure reported in the financial statements is overstated. Late disbursement of funds could have resulted in under-absorption of funds and delays in the implementation of the various project activities.
In response, the Accounting Officer explained that the funds were held pending accountability of the initial release of VAT funds and pledged to ensure that subsequent release of funds and accountability will be timely.

I advised management to ensure that written authority to retain funds after year end is always sought from the PS/ST before rolling over funds to the subsequent financial period and Make the necessary adjustments in the financial statements so as to match transactions with the periods in which they occurred.

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

A review of the project financial management system was carried out and it was observed that management instituted adequate controls to manage project resources except for the matter below:

a) **Lack of maintenance Plans at the Municipalities**

It was also pointed out by the 5th Programme Technical Committee that the programme implementation manual guidelines required the Municipalities to put in place maintenance plans for all investments made, with emphasis on enhancement of Owner Source Revenue (OSR), as a key indicator to success.

Whereas this issue is very pertinent to infrastructural sustainability, it was not concluded on and none of the beneficiary Municipalities had availed any plan regarding enhancement of OSR for the continuity of maintenance of the infrastructure after the expiry of the project.

Management reported that the Municipalities were yet to provide for future maintenance budgets after working out the budget item from the OBT. If nothing is done in this regard, there is likelihood that the gains achieved by the project will not be sustained in future.

In response, the Accounting Officer explained that the Capacity Building Fund had been utilized to enhance Own Source Revenue (OSR) mainly to support the Municipal Local Governments exploit the OSR potential for sustaining the infrastructure investment. Major interventions have mainly been in valuation of Properties and
update of the Register of major sources of OSR. The Operation and Maintenance (O&M) plan and execution is one of the key performance measures that the Municipal LGs are assessed on annually. The Municipal LGs have now grown in planning and executing the O&M plans.

I advised management to engage all the concerned stakeholders with a view of instigating sustainable planning and thus sustainability of the project gains.

68.6 Inspection

Inspections were undertaken and issues below were noted from some Municipal Councils (MCs):

a) Masaka Municipal Council

(i) Un-accounted for funds

During a review of the Masaka Municipal Council capacity building account, audit noted that the expenditure amounting to UGX.73,260,884 for various activities was not properly accounted for. In the circumstances, the authenticity of the activities could not be confirmed.

I advised management to ensure that funds are accounted for promptly and to institute recoveries from the defaulting officers.

b) Fort Portal Municipal Council

(i) Poor absorption of funds

MoLHUD disbursed funds amounting to UGX.1,448,459,730 to Fort Portal Municipal Council during the financial year 2015/16 for the purpose of settling VAT, however by the end of June 2016, only UGX.147,487,507 (10%) had been utilised.

Despite the low absorption capacity at the Municipal Council, the project management continued remitting funds as below;

<table>
<thead>
<tr>
<th>Details</th>
<th>Date</th>
<th>Vr. No.</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd disbursement</td>
<td></td>
<td>D015/06/16</td>
<td>516,760,966</td>
</tr>
<tr>
<td>3rd disbursement</td>
<td>23/06/2016</td>
<td>D183/6/2015-16</td>
<td>80,406,854</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,448,459,730</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: PMU records
It was also noted that although the PMU purported to have remitted UGX.80,406,854 on 23/06/2016, vide voucher number D183/6/2015-16, the funds were not received at the MC.

In addition it was also established that all the Municipal Councils did not capture the funds for the settlement of VAT in their respective budgets.

In their response management stated that Project management released funds based on contracts entered into and considering that Fort portal, like any other Municipal Local Government needed full funding of VAT component of the contracted civil works. MoFPED releases funds on a quarterly basis and expected the Project management to release the funds to the Municipalities accordingly.

I advised management to remit VAT funds to the Municipal Councils based on certified works. Meanwhile I await the accountability for funds purportedly remitted but not received at the Municipal Council.

(ii) **Delayed works**

A review of status of works in Fort Portal Municipal Council was done and it was noted that M/S Plinth Tech Works Ltd was awarded a contract to construct Nyakana and Kagote roads (1.059 kilometres) at UGX.4.625,184,079.

According to the special conditions of the contract G.C.C 1.1(ee), the start date of the contract was stated as 14 days after signature (ie 1st March 2015) or the date of payment of advance, whichever came first. The special condition GCC 17.1 set the intended completion date for all the works as 12 calendar months from the commencement date.

It was noted that the contract was signed on the 18th Feb, 2015, implying a completion date of 30th March 2016 (also stated in the Municipal Council work plan). By the time of the audit inspection however, the works were still incomplete.
Management is advised to ensure that the works are expedited so that the populace in the Municipal environs and beyond can reap benefits from the infrastructure.

c) **Mbarara Municipality Council**

(i) **Un-verified top-up**

The audit noted the MDG Account was credited with UGX.298,797,411 on 15<sup>th</sup> of July 2015 vide EFT 7610401000123 which was supposedly a top-up as a result of foreign exchange difference.

Although management explained that the top-up arose from foreign exchange differences, owing to remittances by Bank of Uganda in US dollars, the correspondences with leading/culminating to the decision and thereafter remittance of the said top-up were however not availed to the audit team for verification. In the absence of which, audit cannot confirm whether there was justification for the top-up and whether it was commensurate to the exchange loss.

The Project Management Unit should always accompany (justify) the top-up remittances with breakdown of the losses suffered arising from the exchange rate fluctuations to ease audit trail.

d) **Mbale Municipal Council**

(i) **Delayed Contract Works**

Mbale Municipal Council entered into a contract with Plinth Technical Works Ltd on 2<sup>nd</sup> June 2014 at an initial contract price of UGX.10,345,941,339 to rehabilitate Republic Street (0.832 Km), Pallisa Road (0.368 km), Bugisu Hill Road (0.500 Km) and Nabuyonga Rise Road (1.172 Km) all totalling to 3.083 kms for contract duration of 12 months ending 1<sup>st</sup> June 2015.

Owing to the project delay, extensions were sought to ensure adequate completion of the works, as below:-
<table>
<thead>
<tr>
<th>Addendum</th>
<th>Particulars</th>
<th>Period extension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>Contract extended for a period of 6 months (ref contracts committee minutes of meeting held on 26&lt;sup&gt;th&lt;/sup&gt; May 2015 - minute mmc/cc/147/15)</td>
<td>1/6/2015 - 31/12/2015</td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt; request</td>
<td>31/12/2015 - 31/3/2016</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt; request</td>
<td>31/3/2016 - 30/6/2016</td>
</tr>
<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>4&lt;sup&gt;th&lt;/sup&gt; request (ref: contracts committee meeting of 29&lt;sup&gt;th&lt;/sup&gt; June 2016).</td>
<td>30/6/2016 - 30/9/2016</td>
</tr>
</tbody>
</table>

Despite the four (4) extensions above, the contract works by the time of site inspection (26<sup>th</sup> October 2016), were still far from completion. The drainage works had not been adequately done on all the roads. It was further noted that the performance security expired on 31<sup>st</sup> August 2016 and had not been renewed, by the time of inspection.

The delay in works execution could have partially been as a result of engaging a contractor who was overstretched with other contracts. The same contractor had contracts with the Municipal Councils of Soroti, Tororo, Hoima and Fort portal and all the works were being undertaken concurrently.

This was a weakness at the time of procurement, where such capacity issues should have been raised and other contractors instead considered.

I advised management to always undertake due diligence and proper designs before construction works commenced to as to avoid halting of works. In the meantime the management should expedite the works.

(ii) **Extra cost incurred on road works**

As stated above, M/S Plinth Technical Works Ltd was awarded the road works contract at initial cost of UGX.10,345,941,339, however extra cost of UGX.1,969,296,209 was incurred resulting in increase in the total contract price by 19% to UGX.12,315,237,548.

This arose from delays due to the halting of works to enable the Council authorities conduct a design review. It was also noted that the initial engineering design on
these roads was not properly done as it caused the overflow of running water into shops and other residential buildings adjacent to the roads. Owing to the fact that the authorities ought to have undertaken proper design before commencing the construction, the extra cost of UGX.1,969,296,209 therefore is nugatory expenditure and a financial loss to Government.

The project management should always ensure that proper designs are done before projects are embarked on to avoid incurring extra costs.

e) **Lira Municipal Council**

(i) **Contract price variation**

Regulation 75(1c) of the Local Government PPDA Regulations, 2006 defines a material deviation or omission as one that if corrected would unfairly affect the competitive position of other tenderers presenting substantially responsive and compliant tenders. Regulation 120 (12) states that no individual contract amendment shall increase the total contract price by more than 15% of the original contract price without the prior approval of PPDA.

Contract was awarded to M/s Chonqing International Corporation (CICO) at a contract price of UGX.5,345,786,843 to rehabilitate Oyam road, Rwot-Aler road and Aroma Lane (0.985 Kms). The contract which was signed on 16<sup>th</sup> March 2016, clearly indicated that it was VAT inclusive.

It was however noted that the contracts committee sat on 14<sup>th</sup> September 2016 and approved a contract variation of UGX.962,241,631, which increased the contract price to UGX.6,308,028,474 to take into consideration the VAT element which was purported to have been erroneously omitted during evaluation. This increase represents a variation of 18% of the initial contract price, which necessitated authority from PPDA and the Solicitor General’s clearance. By the time of audit (20<sup>th</sup> October 2016), approvals had not been granted.

This casts doubt on the capacity of the district’s PDU as the omission ought to have been detected and corrected before the signing of the contract Agreement.
I advised management to ensure that contracts entered into are properly scrutinised before being signed.

(ii) **Diversion of Funds**

It was noted that funds worth UGX.7,722,000 vide voucher No PV-S01824 dated 30/3/2016 was spent by the Town Clerk as night allowance and 20 days out of pocket to attend a course on capacity building program on local administration for Uganda, from 3rd to 23rd April, 2016 in Seongnam and Wanju - Republic of Korea. This is contrary to the USMID operational manual sec 3.6 that states that courses must be undertaken in Uganda. Such expenditure is ineligible and is tantamount to diversion of funds.

The Accounting Officer should institute recovery measures from the concerned officer.

f) **Hoima Municipal Council**

(i) **Un-verified top-up**

The audit noted that the MDG Account was credited with UGX.226,768,899 which was supposedly a top-up as a result of foreign exchange difference (Ref: Vr D14/05/2015-16 dated 18/5/2016, transfer of USD.1,050,688.17 (equivalent to UGX.3,478,460,790).

Similarly the capacity building account received funds of UGX.27,566,199 as top up due to variation of exchange rate in respect of amounts disbursed in dollars – (Ref: Vr D/25/2015-16, dated 29/4/2016 of USD124.303, equivalent to UGX.413,685,356, at a rate of USD 1 = UGX 3,328.04).

The detailed calculation of the top up and correspondences culminating to the decision and thereafter the remittance of the said top-up funds were however not availed to the audit team for verification. In the absence of which, audit cannot

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1 Exchange rate of USD 1=UGX.3,310
confirm whether there was justification for the top-up and whether it was commensurate to the exchange losses.

I advised the Project Management to always accompany the top-up remittances with breakdown of the losses suffered arising from the exchange rate fluctuations to ease audit trail.
INFORMATION AND COMMUNICATION SECTOR

69.0 Ministry of Information and Communications Technology

69.1 Non Functional Studio for local content production

The Government of Korea donated a studio to the Ministry to help in production of local content which was received on 9th January 2016. However, it was noted that the studio has not been put to use since its launch and yet funds are spent in maintenance of the studio.

Management explained that the Ministry received a partial studio as a donation from the Government of Korea during FY 15/16. The studio is yet to be fitted with two professional studio cameras, two outdoor field cameras and an editing suite in order to be fully operational. Those components were supposed to be fitted by the Government of Uganda as its contribution. However, owing to budgetary constraints, the Ministry has started negotiations with the Government of Korea that will lead to acquisition of the required equipment.

I advised the Accounting Officer to ensure that the studio is put to use to help with the production of local content.
70.0 **Ministry of Foreign Affairs**

70.1 **Un-budgeted expenditure**

During the financial year, the Ministry expended UGX.398,598,113 on settlement of arrears for 2013/2014 and 2014/2015 F/Ys.

However, the funds had not been budgeted for and were instead re-allocated from other items without necessary authority. It was further noted that the arrears were not disclosed in the prior year financial statements. I explained to management that the practice undermines budgetary controls and affects implementation of the current year’s planned activities.

Management explained that these were outstanding bills of tickets that had to take first call on the Ministry’s release as per the PS/ST’s directive.

I advised management to liaise with the Ministry of Finance, Planning and Economic Development to ensure that funds are set aside for settlement of arrears in the budget. The arrears should also be disclosed in the financial statements as payables.
TRADE SECTOR

71.0 Ministry of Trade, Industry and Cooperatives

71.1 Outstanding obligations to International Organizations

The Ministry subscribes to a number of international organisation including World Trade Organization (WTO), Common Market for Eastern & Southern Africa (COMESA), United Nations Industrial Development Organizations (UNIDO) and The South Centre Secretariat (Geneva). In effect, Uganda is required to contribute to the subscribed international organizations annually.

It was observed that the country has not been paying the subscriptions as they fall due. As at the close of the financial year, obligations to international organizations amounting to UGX.7,918,721,256 were still outstanding.

The unfulfilled commitments of membership to regional and international bodies by the Government have been overdue for quite long.

There is risk that delays in making contributions will impact negatively on the image of the nation and may affect the relations with the member states.

Management explained that each financial year, the Ministry makes budgetary provisions for payments to International Organizations, but this item has been underfunded over the years. This has resulted into accumulation of arrears that are likely to reach unmanageable levels.

I advised management to continue liaising with the Ministry of Finance, Planning and Economic Development to have a sufficient budget provision for these arrears to enable settlement.
71.2 District Commercial Support Services (DICOSS)

71.2.1 Failure to implement planned project activities

The budget performance statement as at 31/12/2015 on page (11) to the financial statements, analyses the project budget against actual expenditure during the year. It was noted that (3) items which had been budgeted for worth UGX.186,042,001 were not implemented. See details in table below;

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budget (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Experts</td>
<td>69,000,000</td>
</tr>
<tr>
<td>Procurement Processing</td>
<td>3,004,001</td>
</tr>
<tr>
<td>Monitoring &amp; Evaluation</td>
<td>114,038,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>186,042,001</strong></td>
</tr>
</tbody>
</table>

There is a risk that the project may not be able to implement the above activities before the project closes. Failure to implement planned activities implies that the project may not have achieved some of its objectives.

Management explained that these activities will be undertaken after the close of the project life following approval of project extension for six months ending 31st December 2016.

I urged management to adhere to project implementation timelines; meanwhile, I await the project closure report to confirm implementation of the above activities.

71.2.2 Low absorption of funds

According to the budget performance statement on page (11) to the financial statements, the project had budgeted for UGX.3,138,674,507 on various items/activities.

However, only UGX.1,378,487,624 was spent leading to an under performance of UGX.1,760,186,883 representing 56%.

Management did not implement activities as scheduled.
Management explained that this was caused by the delays in the commencement of the project from January to August, 2012 when the implementing staff came on board. This in turn affected the speed at which activities were implemented.

I urged management to fast track the activities during the project extension period to enable achievement of project objectives.

### 71.3 Trade Capacity Enhancement Project (TRACE)

#### 71.3.1 Under Absorption of Funds

According to the fund accountability statement for the period under review, the project received USD 159,045 including balance brought forward from the previous year translating into UGX 524,899,324.

However, only USD 130,004 equivalent to UGX 417,621,140 was spent during the year leaving a balance of USD 29,041 equivalent to UGX 107,278,184 unutilized by the end of the year. This represents a performance level of only 82%.

Failure to utilize funds is an indicator that not all activities were implemented as planned.

Management explained that this affected only consultancies which were running over a period of time and payments were structured according to the agreements in terms of percentages. These have subsequently been paid with no cost extension.

I advised the Accounting Officer to ensure proper planning as a basis for requisitioning for fund releases from development partners and optimum utilization of funds during the implementation of project activities.
MISSIONS

72.0 Uganda Embassy, Addis Ababa

72.1 Unremitted Non Tax Revenue (NTR)
Embassies are required to collect NTR which should regularly be transferred to the Consolidated Fund intact. I noted that an amount totalling to UGX.45,157,384 collected as NTR remained unremitted at the closure of the financial year.

This implies that management did not fully adhere with the requirement to promptly transfer such funds to the Uganda Consolidated Fund (UCF), thus denying government revenue to implement its planned activities.

The Accounting Officer explained that the reason for the delayed remittance was that the collections had been received just before the closure of the financial year.

I advised the Accounting Officer to always ensure that all NTR collected is promptly transferred to the UCF.

72.2 Unauthorised expenditure on goods and services
Section 22 of the Public Finance Management Act (PFMA), 2015, states that the Minister may, upon request by an Accounting Officer, vary within a vote, the amount of money allocated to the vote. However, a review of the financial statements for the year revealed that actual expenditure on the following items exceeded the budget amounts;

<table>
<thead>
<tr>
<th>SN</th>
<th>Expenditure Item</th>
<th>Approved Budget - UGX</th>
<th>Actual Expenditure - UGX</th>
<th>Over Expenditure - UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employee Costs</td>
<td>1,303,874,093</td>
<td>1,328,520,338</td>
<td>24,646,245</td>
</tr>
<tr>
<td>2</td>
<td>Goods and Services</td>
<td>1,045,163,192</td>
<td>1,100,465,530</td>
<td>55,302,339</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2,349,037,285</td>
<td>2,428,985,868</td>
<td>79,948,584</td>
</tr>
</tbody>
</table>

I did not obtain evidence of authorization by the Minister as required by the PFMA, 2015. This brings about distortions in budgeted items, and is an indication of weaknesses in budgetary control.
In response, the Accounting Officer acknowledged the anomaly and committed to adhere to approved budget allocations in future. He however explained that the need for a virement becomes obvious in the last quarter of the financial year, making the timing very late to start the virement process.

I advised the Accounting Officer to always comply with the law and adhere to the approved budget, or else initiate virement procedures in a timely manner, in case of unavoidable circumstances, in accordance with the PFMA.

73.0 Uganda Embassy, Beijing

73.1 Un-utilized funds for purchase of land
US$.555,440 was released to the Embassy for purchase of land to construct the Mission facilities, however it was observed that the whole amount was refunded back to the treasury without applying it for the intended purpose. There is a risk that the objective may not be achieved if the Embassy does not pursue the matter vigorously.

In response management explained that they anticipated purchasing the land during the financial year but the offer was not presented due to delays by the authorities in Beijing.

I advised Management to follow up the matter with authorities with a view to ensuring that land is availed to the Embassy for construction.

73.2 Un-remitted Non-tax revenue
During the year under review, UGX.530,039,088 was collected as NTR, however only UGX.179,424,000 was remitted leaving a balance of UGX.350,615,088 outstanding and utilized at source. At the time of audit in September 2016, the outstanding amount had not been remitted contrary to section 29 2 (a) of the PFMA 2015 which provides that all revenue collected or received shall be paid into and shall form part of the consolidated fund.
Irregular utilisation of revenue at source hinders budget implementation strategies of government as planned revenue is not realised.

Management acknowledged the anomaly and explained they had now put in place the measures of collecting and remitting revenue i.e. introduction of the Point of Sale (POS) machine used by visa applicants to pay for visa fees thus no cash is received at the mission and all money sent to the NTR collection account is remitted to the consolidated fund on a quarterly basis.

I advised Management to provide accountability for the outstanding amounts as required by law and avoid use of NTR at source in future.

### 73.3 Unauthorized excess expenditure

I observed that RMB.1,597,987.08 (approximately UGX.803,476,992) was spent over and above the budgeted amounts on the specific items contrary to the established commitment control system that requires management to commit the mission only when funding was appropriated and has been confirmed. Details are as below:

<table>
<thead>
<tr>
<th>Budget Line Item</th>
<th>Narration</th>
<th>Approved</th>
<th>Releases</th>
<th>Actual</th>
<th>Funds Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>211103</td>
<td>Allowances</td>
<td>2,155,006.4</td>
<td>2,155,006.4</td>
<td>2,320,216.73</td>
<td>-165,210.33</td>
</tr>
<tr>
<td>211105</td>
<td>Mission staff salaries</td>
<td>720,523.87</td>
<td>720,523.87</td>
<td>749,162.65</td>
<td>-28,638.78</td>
</tr>
<tr>
<td>212201</td>
<td>Social security contribution</td>
<td>51,102.12</td>
<td>51,102.12</td>
<td>53,551.31</td>
<td>-2,449.19</td>
</tr>
<tr>
<td>213001</td>
<td>Medical expenses (to employees)</td>
<td>127,501.95</td>
<td>127,501.95</td>
<td>399,197.19</td>
<td>-271,695.24</td>
</tr>
<tr>
<td>221009</td>
<td>Welfare and Environment</td>
<td>40,881.60</td>
<td>40,881.60</td>
<td>65,200.44</td>
<td>-24,318.84</td>
</tr>
<tr>
<td>222001</td>
<td>Telecommunications</td>
<td>40,881.67</td>
<td>40,881.67</td>
<td>70,308.45</td>
<td>-29,426.79</td>
</tr>
<tr>
<td>223003</td>
<td>Rent 0 (Prod. Assets) to privat</td>
<td>4,974,574.14</td>
<td>2,795,267.21</td>
<td>3,613,385.40</td>
<td>-818,118.19</td>
</tr>
<tr>
<td>223007</td>
<td>Other utilities- fuel, gas f</td>
<td>93,998.96</td>
<td>79,147.57</td>
<td>138,763.57</td>
<td>-59,615.93</td>
</tr>
<tr>
<td>226001</td>
<td>Insurances</td>
<td>10,220.38</td>
<td>10,220.38</td>
<td>18,961.01</td>
<td>-8,740.63</td>
</tr>
<tr>
<td>227002</td>
<td>Travel abroad</td>
<td>159,592.06</td>
<td>149,404.91</td>
<td>339,178.07</td>
<td>-189,773.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>1,597,987.08</strong></td>
</tr>
</tbody>
</table>
Spending over and above budgeted items without authority is irregular and also affects the implementation of other budgeted amounts. Management attributed the anomaly to inadequate funding in some areas.

I advised management to avoid overspending and where extra funds are required on an item, authority should be sought as provided in the regulations.

74.0 Uganda Embassy, Berlin

74.1 Outstanding bills incurred by State House officers
State House requested the Embassy through the Ministry of Foreign Affairs to book on their behalf hotel accommodation and breakfast for 24 government officials on the delegation team accompanying H.E. the President for an official visit to Berlin in Hamburg Germany from 2\(^{nd}\) to 3\(^{rd}\) June 2016.

The delegation instead cancelled the booking without informing the Embassy. The service provider went ahead and billed the Embassy a sum of €2,469.35 for the night booked. At the time of inspection, the funds had been paid by the Embassy to avoid legal battles with the hotel. Since this was an anomaly caused by State House, these funds should have been refunded by them and not the Embassy. I find this an extra cost to the Embassy.

The Accounting Officer explained that given the deadline by the hotel to clear the payment, the Embassy had to settle the bill to avoid causing embarrassment to the Government of the Republic of Uganda.

I advised the Accounting Officer to follow up the matter with State House to have the funds refunded to the Embassy Account.

74.2 Irregular Health Insurance payments
During the period under review, a sum of €26,933.73 was paid to cover medical/health insurance for the embassy staff. Included in this amount is a prepayment of €244.00 on insurance premiums for the spouse of the Head of
Mission for the month of July 2016 that was paid well knowing that she had travelled back home in Uganda on the 11/6/2016. At the time of audit inspection in September 2016, a sum of €.488 had also been paid to cater for her medical insurance for the months of August and September 2016. I found this wasteful expenditure.

The Accounting Officer promised to follow up with the Insurance Agent and take action accordingly.

I advised the Accounting Officer to follow up with the insurance company and ensure that the policy is cancelled for the period she was absent in Germany.

74.3 Mischarges

During examination, it was observed that expenditure totaling €.18,039.82 was inappropriately charged on budget lines to fund activities that were not planned. There was no evidence that authority was sought from the PSST prior to the expenditure. The mischarge translates into misrepresentation of expenditure balances in the financial statements. I found this irregular.

The Accounting Officer explained that the mischarge resulted from the overlapping situation of having two Deputy Heads of Mission at station for the months of December 2015, January and February 2016. He further explained that this was due to insufficient funds on various budget items due to loss on poundage and late release of the supplementary.

I advised the Accounting Officer to streamline the budget process to ensure that sufficient funds are allocated to significant account areas and should there be need for reallocation, authority for virement should be sought before any reallocation is made.
75.0 The Permanent Mission of the Republic of Uganda to the United Nations and other International Organizations in Geneva

75.1 Court Case
A local staff who had been dismissed by the Embassy won a court case for unfair dismissal. The case was consequently appealed against based on the advice of the Attorney General. The appeal was lost and the plaintiff was awarded UGX.619,695,770 with interest of 5% per year and an amount of UGX.99,763,284 was paid as legal and court fees.

The Accounting Officer promised to engage the parent Ministry and the Ministry of Justice and Constitutional Affairs to have an appropriate settlement of the matter.

The matter requires urgent attention.

75.2 Attachment of Geneva Mission Bank Accounts
According to Treasury Accounting Instructions Chapter II paragraph 46, the Accountant General will make the supply of funds to the credit of the Accounting Officers’ expenditure bank accounts. The Mission operates eight bank accounts. At time of audit inspection of the Mission in September 2016, the bank accounts had been blocked and a total balance of UGX. 342,122,028 on the bank accounts could not be accessed.

The attachment of the bank accounts was a result of loss of a court case as reported above in 6.3.2. This hampered the Mission’s operations.

The Accounting Officer promised to engage all the stakeholders in the matter with an aim of resolving the impasse.

The matter requires urgent attention.
76.0 **Uganda Consulate, Guangzhou, China**

76.1 **Construction of the Consulate Premises**

During the year under review, the consulate effected payments amounting to UGX: 5,306,713,089 for purposes of finalizing the purchase of land for construction of the consulate premises. According to the implementation agreement signed on 9th September 2015 between the People’s Democratic Republic of China and Government of Uganda, Government of Uganda was expected to commence expected construction within 24 months from the date Government of Uganda received a certificate of hand-over which was 3rd March 2016.

The agreement also provides that in case of failure to start construction, the Government of the People’s Republic of China has a right to revoke the agreement. However, I noted that by October 2016, activities relating to procurement of services for design works had not been concluded.

There is a risk that construction may not commence within the stipulated time which may result into revocation of the agreement.

In response management explained that the procurement for consultancy services for design and supervision of premises had been initiated and technical and financial proposals were evaluated. Further, they stated that a technical team will be undertaking due diligence on the companies passed between 14th and 19th December 2016 and had requested for additional funds for the development of the plot in FY 2017/18 and written to the foreign service office to extend the period within which construction should take place by at least ten months.

I advised management to expedite the ongoing activities and ensure that adequate follow up is made with the Foreign Service office to avoid loss of Government funds.
77.0 Uganda High Commission, Kigali

77.1 Unapproved Supplementary Budget

A review of the Statement of Appropriation Account for the year ended 30th June, 2016 revealed a revised approved budget of UGX.5,892,795,031 from an initial budget of UGX.2,112,602,000, implying that the Mission obtained a supplementary budget of UGX.3,780,193,031.

I was however availed documentation confirming total supplementary of only UGX.996,151,026, and the balance of UGX.2,784,042,005 was not supported with any evidence of a supplementary approval. This implies that this amount as well as the related expenditure arising there from was not authorized by Parliament. This is contrary to the requirements under the PFMA, 2015.

Besides, I also noted that this amount constituted VAT refunds on capital expenditure in respect of the new Chancery, which was therefore irregularly spent at source.

In response, the Accounting Officer stated that the Mission received an initial budget of UGX.2,112,602,000 for FY 2015/16 and received additional supplementary funding of UGX.996,151,026 for wage and foreign service allowances, recurrent expenditure and development expenditure. The Mission retained funds at the close of FY 2014/15 of UGX.2,915,162,165 on the project account due to an existing multi-year commitment contract with the contractor, and the advanced nature of construction of the new Chancery and Apartments for the Uganda High Commission in Rwanda. Funds were utilised to settle payment certificates, as well as project expenditure related to the Chancery.

The Accounting officer added that the request for a supplementary budget of UGX.2,915,162,165.16 was duly made to the Permanent Secretary/Secretary to Treasury on 10th Feb, 2016, but the mission took long to get a response from Treasury. The mission deemed it unfair to wait for supplementary authority while keeping a contractor who had duly completed his work unpaid. The mission also
considered the potential financial impact of delayed payment in form of interest and legal costs as provided for in the contract.

I advised the Accounting Officer to always obtain prior authorizations before utilizing funds outside the appropriated amounts for the Mission.

77.2 **End of year Balances not Transferred to UCF**

A review of the Statement of Financial Position as at 30th June 2016 revealed opening cash balances of UGX.3,002,693,146, which was not transferred to the UCF in the previous financial year, and the closing cash balance of UGX.42,203,312 which were also not transferred by the time of the audit inspection (November, 2015).

This is contrary to the requirements under the PFMA, 2015. The presence of unspent balances not transferred to the UCF exposes such funds to risks of diversion and un-authorised utilisation.

The Accounting Officer explained that the opening cash balances of UGX.3,002,693,146 constituted committed balances in respect of capital expenditure, and omitting them as payables in the 2014/15 balance sheet was erroneous and regrettable. He added that this amount was to be transferred during FY 2016/17.

I have advised the Accounting Officer to always remit any un-expended bank balances at the close of the financial year to the consolidated fund, or else seek authorisation to retain such funds from the PS/ST.

77.3 **Misstatement of Arrears of Revenue**

A review of the statement of Arrears of Revenue in the Financial Statement for the year revealed that there have been arrears in respect of miscellaneous revenue of UGX.257,358,876 which were collected but not remitted to the UCF for two consecutive financial years of 2014/15 and 2015/16.

On inquiry, I was informed that the amount was in respect of VAT refunds, which were spent at source, having obtained authority from the Accountant General.
However, I did not get a proper explanation as to why the money spent at source, would still be reflected as arrears of revenue in the financial statement, if due authority was obtained. Under the circumstances, the continued reflection of the amount in question as arrears of revenue is misleading.

In response, the Accounting Officer stated that assistance from the Navision Team from the Office of the Accountant General for a comprehensive response and treatment had been sought and a response was still being awaited.

I await the outcome of management consultations with the Office of the Accountant General.

77.4 **Un-Budgeted for Non-Tax Revenue (NTR) Collections**

A review of the Embassy financial statements for the year ended 30\textsuperscript{th} June, 2016 (Statements of Appropriation) revealed that the mission collected NTR totaling to UGX.87,704,230 from Visa entry and other fees.

However, I was not availed with evidence that the amount had been budgeted for by the Mission. This rendered it impossible to assess the revenue performance of the mission in respect of NTR. Failure to budget for collection of NTR may potentially expose such NTR collections to a risk of misuse.

In response, the Accounting Officer acknowledged the audit observation and stated that in future, he will ensure that a comprehensive budget for the Mission that reflects the projected NTR collections for a given year shall be prepared.

I have advised the Accounting Officer to always ensure that the Mission budgets for NTR collections to enable proper accountability and assessment of performance in that regard.

In the meantime, I await the outcome of the commitment by the Accounting Officer.
77.5 **Unauthorised Expenditure on Employee Costs**

Section 22 of the Public Finance Management Act (PFMA), 2015, states that the Minister may, upon request by an Accounting Officer, vary within a vote, the amount of money allocated to the vote. A review of the financial statements for the year revealed that actual expenditure on Employee costs (UGX.1,163,695,123) during the year under review exceeded the budget amount (UGX.1,148,822,097) by UGX.14,873,026.

I did not obtain evidence of authorization by the Minister as required by the PFMA, 2015. This brings about distortions in budgeted items, and is an indication of weaknesses in budgetary control.

In response, the Accounting Officer acknowledged the audit observation with a commitment to comply with the law in future.

I advised the Accounting Officer to always adhere to the approved budget, or else initiate reallocation procedures provided for by the law, in case of unavoidable circumstances.

78.0 **Uganda Embassy, Kinshasa**

78.1 **Lack of guidelines for recruitment of local staff**

Section A-c (2) of the Uganda Public Service Standing Orders stipulates that Responsible Officers shall be guided by relevant Service Commission Regulations when preparing submissions on appointment to the Appointing Authority.

Kinshasa Mission employs home based staff and local staff. The home-based staff is recruited under the guidelines of the Uganda Public Service Standing Orders. It was observed that the Mission employs 15 local staff. The staff are appointed by the Head of Mission but I was not availed guidelines at the Mission to provide for the procedures followed in appointing the local staff.
Consequently, I could not ascertain the local staff employed at the Mission were of the required numbers, qualifications and relevant as per the Mission staffing structure.

The Accounting Officer explained that the Mission still awaits guidelines for recruitment of local Staff from the Ministry of Foreign Affairs.

I urged the Accounting Officer to liaise with the parent Ministry and ensure that the guidelines are issued.

78.2 Mission Charter
The Ministry of Foreign Affairs formulates Charters through which missions contribute to the achievement of its strategic objectives by way of implementation of well-defined and coordinated activities. This is intended to ensure that the Mission implements plans that are in line with those of the Ministry.

It was observed that the Embassy is operating with a Charter that has not been revised to match the Mission mandate and objectives. Whereas H.E the Ambassador submitted proposals on the Charter including its objectives, activities and the cost implications of the proposals, these have not been acted upon by the Ministry of Foreign Affairs.

The Accounting Officer explained that the challenge was that the charter did not relate to the Mission Mandate and the objectives were too ambitious for example serving 100,000 Ugandans in DRC, where the total number of Ugandans estimated in DRC are less than 3,000. The management of the Mission will make a follow up with the Ministry to ensure that a revised Charter is signed.

The promised action of the Accounting Officer is awaited.

78.3 State of the Chancery premises
An audit inspection of the chancery revealed that the building has not had major renovations of recent and as a result, it was in a state of disrepair requiring
substantial provision of money to have it renovated. There appears to be lack of routine and periodic maintenance activities.

The wall fence has collapsed on one side exposing the Mission to possible intrusion which is unsafe for both staff and property at the Mission. The other part of the wall fence which is still standing is also likely to collapse soon as huge cracks and general weaknesses were observed as shown in the pictures below:

![Cracked wall fence](image1)

![Weakened wall fence near Uganda Flag](image2)

Part of the collapsed wall fence exposing the Mission to possible intrusion

The dilapidated premises pose danger to the staff and property of the Mission and portray a wrong image of the Country.

The Accounting Officer explained that the Mission has been advised by the Ministry of Foreign Affairs to budget for consultancy services to draw up plans and bills of quantities to commence on the works on the chancery in FY 2017/2018.

I urged the Accounting Officer to follow up with the parent Ministry and ensure that the Chancery premises are renovated.
79.0 **Uganda High Commission, London**

79.1 **Budgeting and making payments on account 221018 - Exchange losses/(gains).**

The GoU with Chart of Accounts defines account 221018-Exchange gains/losses as an account associated with withholding/translation losses/(gains) arising from variations in exchange rates for transactions denominated in foreign currencies. However, it was noted that the account has been used as a budget item and payments for various activities directly charged on the same during the year.

In the case of the London High Commission, UGX.84,479,000 was budgeted for and payments amounting to UGX.106,419,668 charged on the account during the year.

The practice of budgeting, providing and charging of expenditure directly on the exchange loss/(gains) account is erroneous and misleading.

Management acknowledged the anomaly and pledged to engage MoFPED for advice and guidance on how to properly handle this item.

I advised the Accounting Officer to liaise with MoFPED to have the account locked for variations in exchange rates for transactions denominated in foreign currencies.

79.2 **Property at 58-59 Trafalgar Square, London WC 2 and its condition**

This building is used as the Chancery while part of it is rented out to Burundi Embassy and the Common Wealth Magistrates and Judges Association (CMJA), generating a total of £.48,200 in annual rent.

An audit inspection of the chancery revealed that the building was in fair condition but required extensive renovations to address the following:-

(i) Old gas system which was leaking at time of inspection
(ii) Leaking underground drainage system which causes flooding in the basement floors and affects the lift system.
(iii) Inside walling and floors
(iv) General outlook of the building both inside and outside.

79.3 **Condition of Property of 30 Ingram Avenue, Hampstead, Garden Suburb**

This property is used as the Official Residence for the Head of Mission and has had its roof renovated without tackling the other major affected areas, which include, among others;

(i) the old drainage system and the related fittings,
(ii) Walls,
(iii) Verandah and balcony areas,
(iv) Wall fence, and
(v) Compound.

Audit noted that the renovations were being undertaken in piece meal for both properties without addressing all required areas of renovation. This is done without detailed consultancy studies to underpin the causes and sources of problems to be addressed during the renovation. This leads to wastage of resources as the renovated areas are again affected after a short time.

I advised management to liaise with the Ministry of Foreign Affairs, and other technical government agencies such as MoWT to engage a consultant to undertake detailed studies which should form a basis for future renovations at the two properties. MOFA should also work out a plan of appropriating part of the NTR collected to fund basic maintenance of the two properties.

79.4 **Status of the Commercial Property at 189 Wardour Street (Freehold)**

This is a commercial property which had been leased out to a property agent Edgegrange Properties Limited in March 1996 for 20 years. A review of the lease and its management revealed the following:-
a) Default on payment of rent
According to the copy of unsigned lease agreement between the Government of Uganda (represented by the High Commission) and the Agent, Edgegrange Properties Limited was required to pay an annual rent of £70,000 in four quarterly installments of £17,500.

However, at the time of audit in October 2016, the company was in default on payments for one year (September 2015 to September 2016).

b) Expiry of the lease and default on payment of rent
The lease agreement with Edgegrange Properties Limited expired in March 2016. However, it was noted that no disengagement was done and the Agent continued to collect rent from the tenants and at the time of audit, rent for one year (September 2015 to September 2016) amounting to £70,000 had not been paid to the High Commission. This is despite the fact that the Accounting Officer was sending the quarterly bills to the known address of the Agent.

It is therefore highly probable that the defaulting of rent payment by the Agent could be premised on the expiry of the lease agreement. The Government could lose this money.

c) Unclear negotiations not following the PPDA laws and guidelines
After the expiry of the tenancy agreement, I noted that direct negotiations were commenced with Edgegrange Properties Limited under very unclear arrangements. It was not possible to establish the details of the team representing GoU and the High Commission on the negotiations. There was no documented guidance under which these negotiations were held and their Terms of Reference were not availed to me for audit review.

Such arrangements are contrary to the provisions of the PPDA Act and are prone to abuse. It can also lead to loss of revenue from the property as the negotiations are not properly and formally conducted.
d) **Uncooperative Agent**

There were incidences which indicated that the agent had become difficult to manage by the High Commission during the subsistence of the expired lease, among them the following:

(i) Edgegrange Properties Limited were not responding to the mails and phone calls of the Accounting Officer. They could also not be traced from their known/given physical address.

(ii) Some cheques issued in settlement of outstanding rent had bounced but the agent had taken no action to make them good despite being informed by the Accounting Officer through their known addresses.

(iii) Section 3.14 of the tenancy agreement required the tenant to permit the landlord or his agents, entry to examine and do repairs of the building at all reasonable hours in the day time on reasonable prior notice being given. In a meeting with the Valuer engaged by the High Commission to undertake the valuation of the property, it was established that it took long for the Valuer to get hold of the Agents representatives to allow him access to the building.

(iv) Equally, the draft contract for renewal which was sent to the company had spent over six months without any response.

e) **Lack of Insurance of the premises**

Section 3.19 covenanted the Tenant to insure the demised premises at all times during the term in the joint names and for the respective interest of the landlord and the tenant against loss or damage by fire and other risks normally covered by property owners insurance.

However, there was no evidence that Edgegrange Properties Limited did insure the property.

Management explained that the Mission lawyer was consulted over the matter who then advised them to insure the Property to avoid loss in case of any un
foreseen events, since Edgegrange Properties had cut off all communication Channels with the Mission.

f) **Unresolved claim on the property**
Details on the file show that there was a claim on the property by DFCU through their letter of 3\textsuperscript{rd} December 2010 on behalf of former shareholders of NYTIL, to be compensated with part of the money earned from the property.

Although there is an internal Memo highlighting the events surrounding the ownership of the property over years, there was no evidence that the issues raised were ever addressed. There is a risk that the claim was not properly followed up and therefore the compensations claims may be still outstanding.

Management explained that the Commission had contacted the Ministry of Foreign Affairs to ascertain the current state of the dispute concerning the ownership of the building.

g) **Status of the building (Repairs and Decoration)**
Section 3.6.1 and 3.6.2 obligated the Tenant to from time to time and at all times during the term well and substantially to repair, cleanse, maintain, amend and keep the demised premises in good and substantial repair and condition. The tenant was also obligated to paint with two coats of paint of suitable colour quality and type previously approved in writing by the Landlord. This was supposed to be done every five years of the lease term.

An audit inspection of the premises (limited to only outside front view), revealed that the tenant had not honored his obligation and the building required extensive renovations.
Breach of the terms and conditions of tenancy agreement is a sign of contract management challenges.

I advised management to:

(i) Institute recovery measures to recover the outstanding rent from Edgegrange Properties Limited.

(ii) Consider disengagement from the Agent and plan to procure another one on commission basis other than leasing.

(iii) Discontinue the current unclear negotiation arrangements and use a more transparent method following PPDA procedures.

(iv) Consider undertaking repairs of the building as the current state may attract penalties from the City Authorities.

(v) Engage the Ministry of Foreign Affairs to consider handing over the property to the Uganda Property Holding Company, which is already managing other four well-maintained, Government of Uganda Properties through a commission agent. This will allow the High Commission staff to concentrate on their core activities in the implementation of the Mission Charter.
80.0 **Uganda High Commission, Nairobi**

80.1 **Non-Tax Revenue (NTR) collection**

Examination of the Mission’s NTR collection and accountability records revealed the following;

a) The HC collected a total of UGX.1,087,879,890 as NTR (Rent from Uganda House - UGX.967,728,114; Administrative fees & Licences (i.e. Visas, and travel documents) - UGX.107,270,961; and Miscellaneous Revenue - UGX.12,880,815). This was far above the estimated amount of UGX.500,000,000, which may be an indication of under budgeting of NTR. Under budgeting for NTR exposes the Mission to a risk of misuse of collected surplus revenues.

The Accounting Officer explained that the Mission has strengthened the budgetary process through increased internal consultations on the budget through the Finance Committee and additional consultations with Ministry of Finance, Planning and Economic development on budget systems and the new Programme Based Budgeting System currently under implementation.

The Accounting Officer is advised to strengthen the Mission’s budgetary processes to ensure that appropriate estimates for NTR are made to avoid significant discrepancies between planned and actual performance.

b) It was noted that out of the collected NTR (UGX.1,087,879,890), only UGX.500,801,759 (rent - UGX.420,229,688 and Administrative fees - UGX.80,572,071) was remitted to Treasury, thus occasioning a shortfall of UGX.587,078,131 in the year under review. This contravened Section 29 (2) (a) of the PFMA, 2015, which requires revenue collected to be paid into the Consolidated Fund. I did not get a proper explanation from the Accounting Officer explaining the irregularity.

However, scrutiny of the financial statements indicated that a sum of UGX.583,905,074 was cash-in-Transit.
I was not provided with supporting documentation to verify the accounting assertion.

I advised the Accounting Officer to ensure that NTR collected is always promptly transferred to UCF and acknowledgment obtained.

c) Rental Income from Uganda House (UH) is recognized as NTR when it is actually received, in accordance with Government/Mission Accounting Policies. However, I noted that the HC engaged a private firm, to manage UH, including the collection of rent. The Firm remits net income after deducting operational costs and its management fees. The operational costs and management fees are not independently examined by an independent auditor contrary to the provisions in the Management contract between the firm and the HC.

The books of accounts of UH maintained by the firm have not been audited since 2013. There is a risk that the revenue and expenses declared by the firm may be misstated, thus leading to under declaration of the rent remitted to the HC, which eventually affects NTR declaration in the HC accounts.

The Accounting Officer explained that the Mission was in the process of procuring the services of an independent auditor to audit the UH accounts.

I advised the Accounting Officer to expedite the process of the appointment of the independent auditor to audit Uganda House accounts in order to obtain assurance that the revenues and expenses reported therein are accurate and properly reflect the amount due to the HC.

d) I further noted that there was less compliance by tenants in payment of all the rent due. At the time of inspection (September, 2016), the Property management firm had outstanding rent due from tenants of KSH.5,074,226 (equivalent to UGX.177,597,910). Delayed collection of all amounts due affects the NTR position of the HC.
The Accounting Officer indicated that he had directed the property management firm to collect all rent arrears.

I advised the Accounting Officer to ensure that the property management firm collects all rent arrears due without any further delay.

e) I also noted that the rental income declared by the management firm in the un-audited financial statements of UH is not reconciled with the NTR from rental income recognized in the books of account of the HC. My effort to have the two reconciled was in vain due to the challenge of the non-coterminous reporting periods of the two sets of accounts. According to the obtained copy of the draft accounts of UH for the period February, 2013 to February, 2016, it was indicated that the financial year of UH ends in February of every year, yet the GoU accounting year ends in June. The non-conterminous reporting periods leads to reconciliation challenges.

The Accounting Officer explained that she had noted my observation and will align the accounting period to the Government of Uganda in the new contract.

I advised the Accounting Officer to institute quarterly reconciliations of the revenue collected by the property management firm and the amounts received by the HC, and in addition, consider aligning the accounting period of UH accounts with that of government.

80.2 Delayed remittance of revenue to UCF
A review of the Statement of Arrears of revenue revealed that the HC has continued to collect revenue and not remit it to the UCF in a timely manner. At the end of the financial year, this amount had accumulated to UGX.844,526,418 as indicated in the table below;

<table>
<thead>
<tr>
<th>Arrears of Revenue</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance brought forward from previous Year</td>
<td>257,448,287</td>
</tr>
<tr>
<td>NTR not remitted in the year (2015/16)</td>
<td>587,078,131</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>844,526,418</strong></td>
</tr>
</tbody>
</table>
Non-remittance of revenue collected contravenes Section 29 (2) (a) of the PFMA, 2015, which requires revenue collected to be promptly paid into a Consolidated Fund. In addition the practice deprives Government of resources to deliver its planned activities.

The Accounting Officer explained that the funds were remitted to UCF but not reflected at MoFPED. However, I noted that only UGX.567,897,857 was remitted vide receipt number 42219 on 8th August, 2016 after the closure of the financial year. The balance of UGX.276,628,561 still remained outstanding at the time of finalizing the report.

I advised the Accounting Officer to ensure that revenue collected is always promptly remitted to the Consolidated Fund in accordance with the provisions of the PFMA, 2015, and also ensure that the outstanding amount is remitted without further delay.

81.0 Uganda High Commission, New Delhi

81.1 Review of achievability of deliverables under the mission charter

A mission charter provides the guidance indicating priorities for mission’s focus based on Ministry of Foreign Affairs considerations. It provides clearly spelt out tasks that constitute major expected annual measurable deliverables. This is translated and operationalised in the annual work plans (PFMA, 2015, sec. 45(3)) which binds the Accounting Officer.

These deliverables, therefore, are meant to also serve as basis for evaluation of performance of the Accounting Officer and mission staff. Some of the key quantifiable deliverables of Delhi mission and output achieved in the year are:

a) Promotion of trade, tourism and Investment in India, Sri Lanka, Singapore, Bangladesh, Nepal and Maldives. The annual output expected is increased number of investors and overall Foreign Direct Investments (FDI) of up to US$400 million from India and countries of accreditation. Achievement by the mission in the year of reporting under this objective is not clear.
b) Increased export of Uganda to India and accredited countries of up to US$200 million. Not clear to what extent this was achieved by the mission in the year of reporting.

c) Increased number of tourists from India and accredited countries of up to 1,000 tourists. The annual report indicates 577 visas issued, which reflects 57.7% performance level.

d) Promote Technology Transfer and Exchange with the expected annual output being increased technical assistance from India and accredited countries to Uganda, especially in agro-processing, oil and gas, energy, medical, ICT, Diary, Pharmaceuticals industry among others; Not clear to what extent this was achieved by the mission in the year of reporting.

e) Increased level of training for Ugandan scientists and increased collaboration between Ugandan and Indian scientists. Not clear to what extent this was achieved by the mission in the year of reporting.

f) The expected annual output under Protocol, Diaspora and Consular services is to handle at least 100,000 consular services and remit at least UGX 300 million in Non-tax revenue from visas. The annual report, however, indicates shs. 160,072,392= generated, which reflects 53% performance level.

g) Under strengthening the High Commission, the expected annual output was to have installed security machines in the High Commission and official residence, engage Ministry of External Affairs of India to allocate land for Uganda High Commission at Dwarka Diplomatic enclave. No clear annual achievement was reported in regards to installation of security machines in the High Commission and official residence.

Audit established that Mission annual reports both financial and others, except for those captured above, did not clearly show the extent to which the annual targets were achieved.
The planned activities to deliver the planned outputs, as indicated by management, appear to reflect that the mission staffs are able and well placed to fully implement and deliver on the activities without need for any prioritization.

The resources available to achieve the targets are 6 (six) home based staff and 11 (eleven) contract staff at a funding level of 2.765 billion. Analysis of the mission funding revealed that up to about 70% is on fixed costs relating to employees maintenance and rents.

A further review of Management meeting minutes and reports and interviews with key staff revealed that the mission cannot put in place minimum establishment to translate those high targets of the charter into reality. The mission mainly is engaged in what could be termed routine diplomacy of representations.

The consequences of setting high targets not capable of being achieved in the circumstances may be impressive but demotivate staff despite hard work because this could still translate to poor appraisal for non-delivery of targets. While the high expectations of citizens for improved service delivery arising from high inflows of investments attracted by the missions may not be realised.

This could pose the risk of increased anxiety among expectant citizens. National investment forecasts based on such exceptionally high capital inflows may be unattainable and pose huge planning and implementation challenges for the entire country.

Failure of mission management to prioritize their activities to match the limited resources could imply that they are able to utilize the limited resources to achieve all planned deliverables. This presentation complicates the Accounting Officer’s justification for commensurate resources to the high commission.

The likely cause for the generation of the charter with exceptionally high targets is because minimal input and involvement of the mission staff based in New Delhi were solicited. Yet those are the staff fairly knowledgeable in operational realities of the countries of accreditation and could provide realistic insight.
The head of mission with the support of the Accounting Officer should continue with the engagement started with the Ministry of Foreign Affairs to scale down the charter to a practically achievable target which should be spread over realistic years.

Achievable targets motivate staff to work towards and easy to monitor for practicality of achievements. Even the national projections can then reflect fairly achievable targets.

The mission management should, as well, initiate prioritization process of key activities to maximally utilize the limited resources available other than spreading thin the resources to cover all areas as if adequate to achieve all deliverables.

81.2 **Expenditures efficiencies to achieve cost benefit considerations in regard to remittance of Non Tax Revenue (NTR) to Uganda Consolidated Funds account (UCF):**

Missions are required under section 30(1) of PFM Act 2015, to remit NTR to consolidated fund which has largely been complied with. However, analysis of the cost benefit for missions given the cost of compliance in regards to bank charges and foreign exchange losses revealed that remittance of NTR of UGX.232,847,750 to UCF and re-remitting equivalent fund to the mission as treasury remittance amounted to UGX.22,965,188 (Bank Charges and Foreign exchange losses) which amounts to about 10% of the value of the transaction. This unnecessary cost to taxpayers could be avoided within the same law. A comparative analysis of other missions also accredited similarly based on credible information revealed that they are avoiding these costs.

The reason for incurring this expense is simply the need to comply with the requirements of the law in effort to avoid the risks of spending unappropriated funds by collecting entities.

The consequence of this is that the objective of achieving effective revenue collection has been outstripped by the costs associated with complying with this
requirement. This amount spent is equivalent to paying one month’s rent for official residence or one month’s salary of the local staff if the cost could be avoided.

Alternatively the amount could effectively organise small scale Uganda event capable of facilitating attraction of tourists and providing useful information to investors at least in New Delhi.

The Head of Mission with the support of the Accounting Officer should take up this matter with the Ministry of Foreign Affairs authorities who should further engage the Accountant General in the Ministry of Finance Planning and Economic Development to present to Parliament to consider allowing the mission to offset NTR collected against releases from UCF funds as appropriated in accordance with section 29 (3a) of PFM Act 2015 to avoid this unnecessary cost to Ugandan taxpayers.

81.3 Weakness within internal controls on Payments

The Accounting officer, in accordance with section 45(2) of PFMA, 2015, is responsible for putting in place effective systems and internal control in respect to all resources and transactions of the vote. Also be responsible for authorizing any commitments made by the vote (section 45(1b) of PFMA, 2015).

Audit detected weak internal controls in the payments system. Some payment requisitions without authorization by the Accounting Officer were used to support payments made. System transfers between bank accounts lacked supporting evidence of due authorization required for formal financial transaction:

<table>
<thead>
<tr>
<th>Date</th>
<th>Ref</th>
<th>Descript</th>
<th>Narration</th>
<th>Rupees</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>7th Jan 2015</td>
<td>TT-115</td>
<td>Transfer</td>
<td>Transfer from bank 7 to bank 13</td>
<td>6,314,432.04</td>
<td>No document because within the system</td>
</tr>
<tr>
<td>7th Jan 2015</td>
<td>TT-116</td>
<td>Transfer</td>
<td>Transfer from bank 8 to bank 14</td>
<td>2,014,632.96</td>
<td>No document because within the system</td>
</tr>
<tr>
<td>7th Jan 2015</td>
<td>TT-119</td>
<td>Transfer</td>
<td>Closing balance transfer to the ne A/C</td>
<td>1,162,917.82</td>
<td>No support document because within the system</td>
</tr>
</tbody>
</table>
Although management explained that this was a transfer within the system and did not reflect outflow of resources, and that it was recommended by the NAVISION support team. This transaction presents information which is intended to be understood by other stakeholders in government operations and presents no exception for authentic authorization and documentation.

Since this falls in the category of other non-cash outflow information, it is normally documented and adequately narrated like other journalised transactions.

There was no documentation presented for audit to indicate the policy position for such system transactions to be undertaken without due authorization while singling out those which requires prior authorizations.

The consequence of such unexplained transaction is that it presents difficulty for independent verification team to confirm correctness and the intention of such transactions.

This makes knowledge of such official transactions personal to those officers who carried the transactions. It presents risk of distortion of financial information to reflect compliance yet could be contrary to reality.

The Accounting officer should proceed to develop a system which will ensure formal accounting transactions are dully authorised, can be independently verified by other stakeholders including audit team, in effort to ensure that financial transactions meet the measure of transparency required in government operations. This matter will be kept in view for subsequent monitoring of implementation.

82.0 **Uganda Embassy, Paris**

82.1 **Remittance of unspent balances and NTR**

In accordance with the requirement of Section 30(1) of the Public Finance Management Act 2015, all revenues or other money raised or received for the purpose of Government, shall be paid into and shall form part of the Consolidated Fund. Section 17(2) also requires that a vote that does not expend money that
was appropriated to the vote for the financial year shall at the close of the financial year repay the money to the Consolidated Fund.

It was observed the embassy collected NTR totaling €110,788.70 during the period under review however at the time of inspection (October 2016) a sum of €580,140.51 (€13,509.60 worth of NTR collections and €566,630.91 of unspent expenditure balances) that had not been spent at the close of the year had not been remitted to the consolidated Fund. I explained that management risks spending these funds at source against the requirements of the law.

<table>
<thead>
<tr>
<th>Details</th>
<th>Amount in Euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances on expenditure account</td>
<td>566,630.91</td>
</tr>
<tr>
<td>NTR + 40% of EATV</td>
<td>13,509.60</td>
</tr>
<tr>
<td><strong>Total balance due to the consolidated account</strong></td>
<td><strong>580,140.51</strong></td>
</tr>
</tbody>
</table>

The Accounting Officer explained that permission was sought from the Ministry of Finance, Planning and Economic Development to retain €306,891.05 for the renovation of the chancery. Management had expressed concerns in various communications that the mission cannot enter into contractual obligations without at least 50% of the cost of renovation on the account.

The Accounting Officer further explained that balance of NTR €13,509 had not been remitted to Consolidated Fund because awaiting closure of books of accounts for the financial year. The funds have since been remitted to BOU Kampala.

I explained that although permission was sought, it ought to have been granted. I advised the Accounting Officer to follow up the approval with PSST. In case permission is not granted, the unspent balances should be transferred back to the Consolidated Fund in line with PFMA.

82.2 **Irregular payments out of the revenue account and unaccounted for €4,000.00**

A sum of €28,661.20 was transferred from the mission expenditure account to the mission revenue account to cater for staff salaries, rent and other recurrent expenditure. I found this irregular. It was further observed that the embassy went ahead and over spent the funds transferred by €4,000.00. At the time of inspection, these funds could not be accounted for.
It was also observed that a sum of €756.20 was mistakenly transferred to Revenue Account from Expenditure Account. Details are in the table below. This was could have been caused by intermingling of releases to cater for expenditure with revenue collection funds.

<table>
<thead>
<tr>
<th>Posting Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>07/02/15</td>
<td>June’15 monthly Salary Spire Mukasa</td>
<td>1,950.00</td>
</tr>
<tr>
<td>07/08/15</td>
<td>Cash for farewell party</td>
<td>300.00</td>
</tr>
<tr>
<td>07/10/15</td>
<td>Disturbance, climatic &amp; consolidated baggage allowance and part payment to MC</td>
<td>1,000.00</td>
</tr>
<tr>
<td>07/15/15</td>
<td>Funds unaccounted for by outgoing accountant</td>
<td>4,000.00</td>
</tr>
<tr>
<td>07/31/15</td>
<td>Heating costs for TS’s residence</td>
<td>62.00</td>
</tr>
<tr>
<td>07/01/15</td>
<td>MC/AO return air ticket to Milan</td>
<td>332.00</td>
</tr>
<tr>
<td>10/20/2015</td>
<td>3 months deposit, 1/2 months’ rent for MC resident G. Lauren</td>
<td>13,661.00</td>
</tr>
<tr>
<td>8/28/2015</td>
<td>August ’15 monthly salary_ Allen Kamooga</td>
<td>1,500.00</td>
</tr>
<tr>
<td>8/28/2015</td>
<td>August ’15 monthly salary_ Isreal Kiberu</td>
<td>2,000.00</td>
</tr>
<tr>
<td>9/2/2015</td>
<td>August ’15 monthly salary_ Shanti Singh</td>
<td>1,500.00</td>
</tr>
<tr>
<td>9/1/2015</td>
<td>August ’15 monthly salary_ Eileen Lokolimoe</td>
<td>1,500.00</td>
</tr>
<tr>
<td>8/28/2015</td>
<td>August ’15 monthly salary_ Spire Mukasa</td>
<td>1,950.00</td>
</tr>
<tr>
<td>Total</td>
<td>Funds mistakenly transferred to Revenue Account from Expenditure Account</td>
<td>756.20</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>32,661.2</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that the funds could not be accounted for because there was disharmony at the mission during the period under review resulting in gross financial mismanagement. The Accounting Officer consequently wrote to MoFA seeking intervention since she had been hindered in the discharge of her duties and she could not be held liable for actions of the Accountant who had been employed as a local staff and was making unilateral decisions on financial matters of the mission in disregard of the regulations.

Therefore €4,000 unaccounted for was withdrawn irregularly by the former accountant to pay a shipping company for his personal effects without the knowledge of the mission. This matter was brought to the attention of MoFA inspection team and the Embassy is awaiting guidance on this matter.

The Accounting Officer further explained that due to persistent irregular payments from the Recurrent account, the Mission had to transfer Staff Salaries to Revenue Account as an interim measure for safe custody. Salaries were thus paid out from the revenue account.
Transferring of funds to and from NTR account has since ceased and will never be repeated. The €756.20 was erroneously transferred by the bank and will be refunded promptly.

I advised the Accounting Officer to draw the attention of the matter to Accountant General and ensure recovery of €4,000 from the Accountant.

82.3 **Unaccounted for funds on expenditure account**

Section 7.2.1 of Bank Account Management guidelines for Missions Abroad issued by the Accountant General in August 2015 require all Mission Bank Accounts to have the Accounting Officer and the Financial Attaché' as co-signatories and the two must sign to effect any transaction from the Mission Bank Accounts. In the event the Accounting Officer is absent, an alternate signatory shall be designated by the Accounting Officer as guided by section 7.2.2 of the same guidelines.

Three (3) payment vouches relating to payments from the expenditure account to a tune of €57,245.29 were neither signed nor approved by the Accounting Officer as required by the Instructions. The vouchers were raised and passed by the Accountant. Besides, there were no supporting documentation as evidence of accountability for these funds. I could not therefore confirm whether these funds were put to their intended purpose. Government risks losing funds in the event that the guidelines are ignored. Details are in the table below.

<table>
<thead>
<tr>
<th>Posting Date</th>
<th>Document No.</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/04/15</td>
<td>PV-3690</td>
<td>Funds unaccounted for by outgoing accountant</td>
<td>30,387.85</td>
</tr>
<tr>
<td>07/31/15</td>
<td>PV-3689</td>
<td>Funds unaccounted for by outgoing accountant</td>
<td>17,962.76</td>
</tr>
<tr>
<td>08/11/15</td>
<td>PV-3412</td>
<td>Funds unaccounted for by outgoing accountant</td>
<td>8,894.68</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>57,245.29</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that the former Accountant in a number of instances signed solely on Mission accounts and in several occasions transacted on accounts without the knowledge and authority of the Accounting Officer. Such was the case in the unaccounted-for funds.

The anomaly as mentioned earlier has been brought to the attention of the inspection team and guidance is awaited on this matter. Secondly recognising that
there was a risk that such irregularity was open to abuse, a letter was written seeking intervention and guidance. The Embassy is yet to be advised.

I have explained that undeniably the funds are unaccounted for and since the former Accountant is still an employee of government, he should be tasked to refund the money. In the meantime, an investigation into the matter is awaited.

82.4 Cash imprest
During the period under review, the mission spent a sum of €32,685 as imprest to cater for official expenditures. Overall cash withdrawals were properly accounted for. I however observed instances where cash was paid to cater for salary to a local staff (€1,950.00 per month) instead of use of cheques. I found this irregular

The Accounting Officer explained that payment of cash to service providers is as a result of refusal by these entities to accept Embassy cheques, particularly the travel agency who supply travel services. Secondly the Embassy employs undeclared employees who cannot be paid by cheques for they have no Bank Accounts. On various occasions the mission draws cash for payment of their salaries.

I advised that the Accounting Officer relooks into the matter to avoid any eventual risks.

82.5 Closure procedure
Barclays Bank PLC ended business relationship with the Embassy of Uganda in Paris and closed the Revenue Account number 73012570801 held by them. In their communication to the Embassy dated 2nd December 2014, it was clear that all services related to the Account should be terminated after a period of 60 days from the date of communication i.e. 2nd February 2015 upon which the Bank will be instructed where to transfer the remaining credit balance. A review of the closure procedures of this account revealed the following;
a) A quick review of expenditure out of the account for the period 2013/2014 and 2014/2015 revealed that seven (7) cash withdrawals termed as either ‘cash in transit’ or ‘Uganda Embassy Paris-Expenditure’ and two (2) deposits that appeared unusual in the cash book. Table below refers. There was no proper explanation provided at the time of audit.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Unusual deposits (+) and withdrawals (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>28/3/2013</td>
<td>Cash in transit</td>
<td>-20,000.00</td>
</tr>
<tr>
<td>28/3/2013</td>
<td>Uganda Embassy Paris-Expenditure</td>
<td>-20,000.00</td>
</tr>
<tr>
<td>3/7/2013</td>
<td>NTR money used as Imprest pending reimbursement</td>
<td>-20,000.00</td>
</tr>
<tr>
<td>3/7/2013</td>
<td>Cash in transit</td>
<td>-20,000.00</td>
</tr>
<tr>
<td>3/7/2013</td>
<td>Cash in transit</td>
<td>20,000.00</td>
</tr>
<tr>
<td>3/7/2013</td>
<td>Uganda Embassy Paris-Revenue</td>
<td>20,000.00</td>
</tr>
<tr>
<td>3/7/2013</td>
<td>Cash in transit</td>
<td>-20,000.00</td>
</tr>
<tr>
<td>3/7/2013</td>
<td>Uganda Embassy Paris-Revenue</td>
<td>-20,000.00</td>
</tr>
<tr>
<td>14/10/2013</td>
<td>Cash in transit</td>
<td>-3,000</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that the postings made in the system by the former accountant were to debit the mission expenditure account and credit cash in transit account (in system), this implies that he was transferring money collected from visa collections to the expenditure account (in the system) for reasons unknown to the Accounting Officer. Access to bank statements for that particular period to verify if these transactions were effected in the bank was not possible. We have nonetheless written to the bank to avail us records related to these particular transactions.

b) A sum of €.40,072.00 was indicated as ‘transfer to Embassy Paris-Rev2’ on 1st April 2015 according to the cash book. This transfer was confirmed as having been effected on the newly opened Revenue account. However I was not provided with the reconciliation to confirm that indeed this was the only amount due.

The Accounting Officer explained that the transaction was effected on the newly opened revenue account (in the system) but the actual bank statement for the month of April 2015 does not reflect such a transaction. The Accounting Officer cannot explain this anomaly as the former accountant had stubbornly refused to do reconciliations notwithstanding the many advises.
c) A sum of €17,999.00 was indicated as a ‘transfer to treasury’ on 2nd April 2015 as per the embassy cash book. The receipt to confirm that indeed treasury received the funds was not provided to me at the time of inspection. I could not confirm that the funds did hit the Consolidated Fund.

d) Lastly, a deposit of €405.00 was made on 5th April 2015 several days after the Ambassador had instructed that cash balances be transferred to a newly opened revenue bank account and also three (3) days after the cash balances had been transferred to Treasury. The status of the deposit could not be confirmed at the time of audit because the reconciliations were lacking.

The Accounting Officer explained that the reason as to why the former accountant was still transacting on an account which had been closed was best known to him and not the Accounting Officer.

The nature and purpose of the funds withdrawn from the old NTR account cannot be established.

I advised the Accounting Officer to institute an investigation into the matter to establish the extent the abuse

82.6 Outstanding rental bill

In July 2014, a former local staff at the Embassy signed a rental contract on behalf of the Embassy with a view of accommodating him during his stay in the house. This officer however terminated the contract and left the rented house without paying rent for the period 1st September 2014 to 31st August 2015. At the time of inspection, the landlord had communicated to the embassy of an outstanding amount of €32,025.50 in respect of the rented property, renovation works and garbage collection fees not paid broken down as follows;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Details</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rent from 1st September 2014 to 31st August 2015</td>
<td>€19,080.00</td>
</tr>
<tr>
<td>2</td>
<td>Un paid three months’ notice (€1,590*3)</td>
<td>€4,770.00</td>
</tr>
<tr>
<td>3</td>
<td>Renovation works</td>
<td>€10,983.50</td>
</tr>
<tr>
<td>4</td>
<td>Garbage collection tax</td>
<td>€192.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td><strong>€32,025.50</strong></td>
</tr>
</tbody>
</table>
The following was observed;

(i) The officer should not have entered into a contract on behalf of the Embassy. Ideally, this is a responsibility of the Accounting Officer.

(ii) The outstanding bill had not been included as an outstanding arrear in the financial statement of the embassy on grounds that this was not a commitment of the embassy. However, from the communications seen, the landlord is likely to sue the embassy incase this bill is not settled and is likely to tarnish the country’s image abroad.

The Accounting Officer explained that the employee was a local staff and not entitled to accommodation thus the Embassy could not have entered in any contractual obligation for his accommodation. This was done illegally. Undeniably the situation is precarious as the landlord might decide to seek legal redress.

I have advised management to seek for technical advice from the Attorney General/Solicitor General before any decision to pay is made.

82.7 **Shipping of Officers property back to Uganda**

Standing orders 24 (E-e) stipulates that where an officer sends his or her baggage from the country to which he or she has been accredited to another country or back to Uganda by surface, he or she will make arrangements for transportation and shipment of the baggage with a suitable local agent whose bills should be settled by the office.

It was observed that a local accountant was hired as a local staff pending Government policy to post Financial Attaches to Missions. Well knowing that he was not entitled, the officer went ahead and hired a local shipping company that invoiced €13,234.00 which was paid vide 2 cheques 8579538 (€5,234.00) and 8579539 (€4,000.00) and also through a cash withdrawal (€4,000.00) purportedly without the knowledge of the Accounting Officer. The circumstances under which this payment was effected could not be explained. I found this irregular.
The Accounting Officer explained that this was carried out without the knowledge and authority of the Accounting Officer. The former accountant could transact alone and effect payments on mission accounts without authority.

I advised that Accounting Officer that since the officer is still in government servant, he should be followed up with a view of recovering that said amount.

83.0 Uganda Embassy, Washington D.C

83.1 Review of Mission charter implementation
A mission charter is the guiding document that prescribes priority focus areas for each diplomatic mission. It is issued by the Ministry of Foreign affairs headquarters and has both qualitative and quantitative targets.

It was however noted that the mission charter and activities are not aligned with the budget allocation and release of funds. The practice hinders evaluation of achievement of targets against the resources availed. This matter was also pointed out in the previous year.

A review of the implementation of the Washington mission charter revealed the following status:

I advised management to follow up the mitigation measures and consider implementing recommendations aimed at enhancing performance of the mission.
<table>
<thead>
<tr>
<th>No.</th>
<th>Activities</th>
<th>Achievements</th>
<th>Challenges</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Engage United States to be supportive of various peace-building initiatives/processes of interest to Uganda and the Great Lakes Region</td>
<td>Mission held 24 high level meetings with US Department of State to lobby for support to Uganda’s peacekeeping initiatives in the region</td>
<td>The legacy of the Anti-Homosexuality Act (AHA) continued to portray Uganda in bad light within the US Administration The challenges of the 2016 elections in Uganda at times overshadowed the gains the country has made in democratization process and human rights.</td>
<td>Continued effort to sensitize the American public that the AHA was repealed Improvement in use of public diplomacy to inform of positive changes in Uganda’s democratization process</td>
</tr>
<tr>
<td>2.</td>
<td>Lobby United States' understanding and appreciation of Uganda's position on various issues including; social, political, cultural etc.</td>
<td>Held meetings with Department of State and 5 meetings with influential members of Congress to seek USA’s understanding of contentious cultural issues especially Anti-Homosexuality Bill.</td>
<td>Negative publicity from AHA legislation Inadequate funding to facilitate outreach to other States</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Lobby World Bank and IMF for at least US$ 500m of development assistance per year.</td>
<td>Continued to lobby for the $90 million loan to improve Uganda’s health sector. Followed up on the meetings between the Prime Minister and officials at the World Bank</td>
<td>Negative publicity from some of Uganda’s stand on cultural matters</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Lobby annual inward transfer of at least US$ 500m worth of investment from the United States.</td>
<td>The Mission engaged Over 10 companies which showed interest in investing in Uganda and were advised on the available investment opportunities and connected to UIA and Ministry of Trade.</td>
<td>Poor coordination between MDAs at home causing frustration among potential investors Inadequate funding to reach out to other States especially the mid-west and west-coast areas.</td>
<td>-Building stronger networks among line MDAs -Proper budgetary allocation</td>
</tr>
<tr>
<td>5.</td>
<td>Promote at least US$ 50m worth of Uganda exports to the United States.</td>
<td>Mission engaged with Embassies of AGOA eligible countries to lobby the USA to support African countries in enhancing her capacity to manufacture and supply goods and services to the USA market.</td>
<td>• Weaknesses from the supply side. • Quality standards that limit Ugandan exports to USA • Lack of awareness of the existing opportunities under AGOA among Ugandan producers</td>
<td>Embassy continuing to work with relevant MDAs to ensure a coordinated approach in exploiting AGOA and other trade opportunities Lobbying for inclusion of products such as coffee and tea in AGOA eligible products list.</td>
</tr>
<tr>
<td>6.</td>
<td>Engage Ugandan Diaspora in the United States to actively</td>
<td>Co-organized the 2015 annual Convention of Ugandans in North America</td>
<td>Limited resources for outreach to all 50 States where Ugandans live</td>
<td>Proper budget allocation</td>
</tr>
<tr>
<td></td>
<td><strong>contribute to development at home (i.e. through remittances, direct investment, partnerships building, skills etc.)</strong></td>
<td>America (UNAA) in New Orleans, Louisiana. Facilitated the return of at least 100 Ugandans who wanted to retire and invest in Uganda.</td>
<td>Poor coordination with MDAs such as UIA, URA and Ministry of Trade in matters of facilitating the diaspora who want to invest in Uganda</td>
<td>Use of ICTs in coordination</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
| 7. | **Facilitate attraction of at least 100,000 tourists to Uganda.** | • Mission issued at least 15,600 visas for tourists coming to Uganda in addition to referring at least 8,190 tourists to obtain the visas at the port of entry in Uganda.  
• Engaged the Africa Travel Association (ATA) to consider Uganda as a top African destination  
• Instituted a web-based visa application platform to make it easy for potential tourists to acquire tourist visas  
• Put in place an online feedback system meant to help visitors feel comfortable and refer their friends to visit Uganda  
| 8. | **Handle at least 300,000 requests for consular services per year.** | • Processed 1221 passports (renewals and replacement of lost passports) for Ugandans in North America  
• Conducted 8 consular visits to Ugandans in prisons across the United States.  
• Continued to upgrade the Mission website with up-to-date information of relevance to the diaspora (dual-citizenship etc)  
|   |   | • Negative publicity in the mainstream media portraying Uganda as a war zone or intolerant to LGBT  
• Underdeveloped infrastructure in major tourist attraction areas that hinder many tourists from visiting again  
• Inadequate resources for a sustained advertising campaign  
|   |   | Use of online application platform for visas  
|   |   | Increased presence on social media and online platforms as a form of outreach  
|   |   | Proper budgeting  
|   |   | Proper budgeting  
|   |   | Increased use of ICTs  
|   |   | Engagement of resident Honorary Consuls in key cities across the United States  
<p>|   |   | 344 |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9.</td>
<td>Identify and facilitate acquisition, development and maintenance of at least one Government property in Washington DC per year.</td>
<td>• Continued the renovation of the 2 chancery buildings and the Official Residence at • Identified land for the new chancery at the Foreign Missions Center (FMC) and successfully negotiated with the US Department of State for an acre of land.</td>
<td>• High cost of maintaining old buildings • Extreme weather conditions which increase the rate of wear-and-tear • Inadequate funds to do comprehensive repairs which increases the cost of maintenance • Uncertainty over funds for purchase of an acre of land at the Foreign Missions Center (FMC)</td>
</tr>
<tr>
<td>10.</td>
<td>Lobby for at least 30 American scholarships annually for Ugandan students especially in areas of technological innovation, health, oil and gas, agriculture, research, etc.</td>
<td>• The Mission participated in the popularization of the Washington Fellowship (YALI) under which 19 Ugandans were selected for 2015.</td>
<td>• American institutions/government prefer to work directly with their Embassies abroad rather than engaging foreign governments on matters of scholarships</td>
</tr>
</tbody>
</table>
**84.0 Uganda Embassy, Copenhagen**

**84.1 Budgeting and making payments on account 221018 - Exchange losses/(gains)**

The GoU Chart of Accounts defines account 221018 - Exchange gains/losses as an account associated with withholding/translation losses (gains) arising from variations in exchange rates for transactions denominated in foreign currencies. However, it was noted that the account was used as a budget item and payments for various activities directly charged on the same during the year.

In the case of the Copenhagen Embassy, UGX.100,035,000 was budgeted for and payments amounting to UGX.158,389,990 charged on the account during the year under review.

The practice of budgeting, providing and charging of expenditure directly on the exchange loss/(gains) account is erroneous and misleads the users of the financial statements as the reported balances are not reflective of the intended use of the account.

The Accounting Officer acknowledged the anomaly and explained that during the year MoFPED budgeted for loss of poundage funds on the account code 221018 and the Embassy had to directly charge the code in order to utilize the funds.

I advised the accounting officer to, in liaison with MoFPED, have the account locked for only variations in exchange rates for transactions denominated in foreign currencies.
85.0 Uganda Embassy, Rome

85.1 Nugatory Expenditure

Audit noted that the Embassy expended EURO 26,727.59 on legal fees, severance and liquidation costs for consistent wrongful termination of local staff which could otherwise have been avoided.

The practice amounts to wasteful expenditure and is attributed to recruitment/hiring of local staff without approval and/or valid contract agreements as well as wrongful dismissal of staff. This affects implementation of planned activities and hence achievement of the mission targets and objectives.

Management explained that the Embassy paid severance to staff that lost employment in the year under review as well as liquidation fees for staff whose contracts expired during the year.

I advised Management to ensure that un-necessary expenses to the embassy are avoided henceforth.
SECTION TWO: COUNCILS, COMMISSIONS AND STATUTORY AUTHORITIES

AUDITED ENTITIES

Under this section, 16 entities have been included. A list of entities and their respective opinions is included at the appendix.

<table>
<thead>
<tr>
<th>No</th>
<th>Entity</th>
<th>Category</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Electoral Commission</td>
<td>Commission</td>
<td>Administration</td>
</tr>
<tr>
<td>2.</td>
<td>Education Service Commission</td>
<td>Commission</td>
<td>Education</td>
</tr>
<tr>
<td>3.</td>
<td>Uganda Aids Commission</td>
<td>Commission</td>
<td>Health</td>
</tr>
<tr>
<td>4.</td>
<td>Health Service Commission</td>
<td>Commission</td>
<td>Health</td>
</tr>
<tr>
<td>5.</td>
<td>Uganda Human Rights Commission</td>
<td>Commission</td>
<td>JLOS</td>
</tr>
<tr>
<td>6.</td>
<td>Judicial Service Commission</td>
<td>Commission</td>
<td>JLOS</td>
</tr>
<tr>
<td>7.</td>
<td>Uganda Law Reform Commission</td>
<td>Commission</td>
<td>JLOS</td>
</tr>
<tr>
<td>8.</td>
<td>Uganda Registration Services Bureau</td>
<td>SA /SE</td>
<td>JLOS</td>
</tr>
<tr>
<td></td>
<td>- Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Uganda Registration Services Bureau</td>
<td>SA /SE</td>
<td>JLOS</td>
</tr>
<tr>
<td></td>
<td>- Liquidation Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Uganda Land Commission</td>
<td>Commission</td>
<td>Lands &amp; Housing</td>
</tr>
<tr>
<td>11.</td>
<td>Parliamentary Commission</td>
<td>Commission</td>
<td>Legislature</td>
</tr>
<tr>
<td>12.</td>
<td>Public Service Commission</td>
<td>Commission</td>
<td>PSM</td>
</tr>
<tr>
<td>13.</td>
<td>Local Government Finance Commission</td>
<td>Commission</td>
<td>PSM</td>
</tr>
<tr>
<td>14.</td>
<td>Kampala Capital City Authority</td>
<td>SA / SE</td>
<td>PSM</td>
</tr>
<tr>
<td>15.</td>
<td>Uganda National Roads Authority</td>
<td>SA / SE</td>
<td>Works</td>
</tr>
<tr>
<td>16.</td>
<td>The Uganda Road Fund</td>
<td>SA /SE</td>
<td>Works</td>
</tr>
<tr>
<td>17.</td>
<td>National Agricultural Advisory Services</td>
<td>SA / SE</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>

The detailed audit findings are presented below.
DETAILED AUDIT FINDINGS

WORKS SECTOR

86.0 Uganda National Roads Authority

86.1 Kalangala Infrastructure Services (KIS)

a) Lack of binding agreement between UNRA and KIS

Kalangala Infrastructure Services (KIS) operates ferry transport services between Bukakata landing site in Masaka and Luuku landing site in the Island of Kalangala District under a Public Private Partnership arrangement with the Government of Uganda. On 20th April 2012, GOU through MoFPED and KIS signed an agreement to exclusively run and operate the ferry transport services on this water route and additionally maintain in motorable and all weather condition 38Km of roads on Bugala Island and 66 Km of roads in Bwendero. The concession granted to KIS was for 13 years starting January 2012.

A review of the payments to KIS, Memorandum of Understanding and implementation agreements between GOU and KIS revealed the following:

(i) The agreement between GOU and KIS does not make mention of UNRA as the GOU agency through which the funds would be budgeted and paid out. In the circumstances, UNRA is facing challenges in resolving certain questionable transactional events due to this inadequacy.

(ii) UNRA paid UGX.28,183,799,997 during the year under audit to KIS. In the last 5 years, UNRA has been making both quarterly payments and full annual payments to KIS in respect of road upgrading and ferry operations without any established control and supervision mechanisms by the Authority and yet UNRA is expected to account for these funds.

UNRA’s mandate provided for in the UNRA Act empowers it to construct and maintain the national roads of Uganda. This mandate includes the roads and
ferry operations under KIS as well. It is therefore critical that UNRA is part of the arrangement between KIS and GOU.

Management explained that the contract between UNRA and KIS is the “Right to Use Agreement” and the subsequent Amendment that gave KIS priority to use the UNRA landing site. Further, management explained that the right to use agreement was not in the best interest of UNRA or Government and also noted that at the time of signing, UNRA had raised objections to the Agreement but had been involuntarily compelled to sign by the supervising Ministry of Works and Transport. Management also stated that they were compelled to pay the invoices for the year 2015/16 in order to avert paralyzing transport to and from the island. Going forward, management was in an attempt to streamline the agreements wrote to the Attorney General on the 10th November, 2016, requesting for guidance on the challenges noted in the Agreements.

I advised management to establish the best operating relationship with KIS through the guidance of MoFPED and the Attorney General to ensure service delivery at the least cost.

b) Lack of Value for money in KIS payments

During the year under review, UNRA budgeted UGX.10 billion for the full operation of its 9 Ferries across the country. In contrast, UNRA remitted a total of UGX.14,030,718,000 to KIS for operations of the 2 ferries between Luuka and Bukakata in Kalangala islands.

I find this amount exorbitant as compared to the amount UNRA spends for the operations of its 9 Ferries. UNRA is expected to continue remitting to KIS annually which amount increases exponentially at 40% per year. This contract is meant to run for 13 years and is currently in its 5th year of implementation. According to an interview with the UNRA Ferry master, the cost of acquiring a similar ferry like the one operated by KIS in the market on estimate is around UGX14-18 billion.
Management acknowledged that the payments made to KIS are too high to only cover reimbursements for running the ferries.

Further in the agreements signed by GOU and KIS, it is indicated that KIS obtained loans for the investments in the partnership with interest which is being financed by Government of Uganda.

However, the payments being made to KIS do not provide for any component that relates to the recovery of the capital invested in the project and a review of the Ferry license agreement between GoU and KIS clearly states in paragraph 6.3.3 that “The Licensee is the owner of the vessels and in no event shall the termination, revocation or expiry of the license affect the ownership of the Vessels by the Licensee”.

This means that even at the end of the concession period (13 years), the Government will not possess the Vessels being operated by KIS. It’s not clear as to why Government seems to be paying interest on loans which were purportedly used for capital investment by KIS.

I advised the Accounting Officer to review the contracts and MoUs and advise government on the appropriateness of the venture.

c) **Loss of maintenance funds through garnishment by URA – UGX.1,755,190,306**

URA garnished funds to the tune of UGX.1,755,190,306 from two UNRA stations’ bank accounts i.e. Mubende Station Account and Fort Portal Station Account. Each station was garnished UGX.877,595,153 of its maintenance funds because the entity did not deduct withholding tax from a payment of UGX.24,790,823,522 advanced by UNRA to Eutaw Construction Company for the construction of Mukono-Katosi road. UNRA later reimbursed these garnished funds to the respective stations using funds from the Treasury Single Sub-Account which I considered a loss.

My observation is that the activities in the UNRA stations were delayed and planned outputs could not be achieved.

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Management explained that Eutaw Company was paid an advance as per the contract and UNRA objected to the assessment on grounds of non-deduction of tax from advance payments and taxation of fraudulent earnings but URA went ahead and garnished the Bank Accounts by Agency Notice.

I advised the Accounting Officer to consider appealing the matter through Tax Appeals Tribunal.

86.2 Road Sector Support Project (RSSP II)

(a) Funds Re-Allocation

During the financial year under audit RSSP-2 received UGX 29,520,834,474 from other projects (Mubende-Kakumiro-Kagadi, Kapchorwa-Suam & Badea). The cumulative amount in this respect including prior years amounted to UGX 61,539,476,896. Further, it was noted that total reallocations from RSSP-2 towards other projects from prior years of UGX 13,845,909,138 remained outstanding. These funds were in respect of GoU counterpart funding.

The table below refers.

<table>
<thead>
<tr>
<th>Project</th>
<th>Balances at 30.06.2014</th>
<th>During the year 2014/2015</th>
<th>Balance at 30.06.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport corridor</td>
<td>1,236,724,904</td>
<td></td>
<td>1,236,724,904</td>
</tr>
<tr>
<td>Nyakaita-Ibanda</td>
<td>650,143,338</td>
<td></td>
<td>650,143,338</td>
</tr>
<tr>
<td>FortPortal – Bundibugyo</td>
<td>171,367,763</td>
<td></td>
<td>171,367,763</td>
</tr>
<tr>
<td>Consultants</td>
<td>6,859,800</td>
<td></td>
<td>6,859,800</td>
</tr>
<tr>
<td>Kampala-Gayaza-Zirobwe</td>
<td>1,601,339,826</td>
<td></td>
<td>1,601,339,826</td>
</tr>
<tr>
<td>1037 - Mbarara-Kikagati</td>
<td>4,795,591,925</td>
<td></td>
<td>4,795,591,925</td>
</tr>
<tr>
<td>0954 - Muyembe-Nakapiripirit-Moroto</td>
<td>1,203,697,700</td>
<td></td>
<td>1,203,697,700</td>
</tr>
<tr>
<td>0265 - Atiak-Moyo Road</td>
<td>747,738,089</td>
<td></td>
<td>747,738,089</td>
</tr>
<tr>
<td>Project Description</td>
<td>Amount (USS)</td>
<td>Total (USS)</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>--------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>1274 - Musiita-Lumino-Busia-Majanji Road</td>
<td>3,837,600,607</td>
<td>3,837,600,607</td>
<td></td>
</tr>
<tr>
<td>0957 - New Nile Bridge</td>
<td>3,659,704,636</td>
<td>3,659,704,636</td>
<td></td>
</tr>
<tr>
<td>1277 - Kampala-Northern Bypass Phase2</td>
<td>11,152,780,626</td>
<td>11,152,780,626</td>
<td></td>
</tr>
<tr>
<td>0953 - Kawempe Luwero-Kafu</td>
<td>2,955,093,208</td>
<td>2,955,093,208</td>
<td></td>
</tr>
<tr>
<td>Mubende-Kakumiro-Kagadi</td>
<td>-</td>
<td>20,756,614,177</td>
<td></td>
</tr>
<tr>
<td>Kapchorwa - Suam</td>
<td>-</td>
<td>6,000,000,000</td>
<td></td>
</tr>
<tr>
<td>Badea</td>
<td>-</td>
<td>2,764,220,297</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32,018,642,422</strong></td>
<td><strong>29,520,834,474</strong></td>
<td></td>
</tr>
</tbody>
</table>

I was not availed with the necessary approval documents for the transfer of funds to the project.

There is a risk that this diversion of funds could result in delayed implementation of these high priority projects.

Management explained that funds were re-allocated by management to enable completion of the RSSP-2 project although documentary evidence could not be traced at the time of the audit.

I advised management to ensure that any re-allocations are undertaken in accordance with the regulation and should be adequately supported.

86.3 **Road Sector Support Project (RSSP III)**
(a) Road works on a Section Measuring 8.9 kms not undertaken

On 25\textsuperscript{th} September 2013, an addendum No. 1 to the original contract agreement for upgrading of Nyakahita – Kazo road to paved (Bituminous) standard was signed between UNRA and China Communications Construction Company Ltd for upgrading of Rushere Access Road measuring 10 kms at a cost of UGX.15,055,196,872.

I noted that a large section of the road was not worked on. Measurement taken using car odometer revealed that the contractor only tarmacked 1.1kms of the road section starting from Rushere Trading center. The rest of 8.9 Kms of the road section was not tarmacked.

According to the Management, the contract was terminated, however, I was not provided with documentation to that effect.

In their response the Management revealed that the addendum was for 10.9kms. This was reduced to 4kms and there is no liability arising out of the adjustment. Four (4kms) were tarmacked and not only 1.1kms. The four kms comprised of Rushere town road, access to Rushere community hospital and Rushere Cathedral.

However, I was not able to confirm the works as stated by management since there were no certificates availed for verification.

I advised management to ensure proper documentation for the works undertaken.

(b) Claim of interest for unpaid certificates- UGX.1,469,299,178

I noted that the contractor for Nyakahita – Kazo road had lodged a claim of UGX.1,469,299,178 for interest resulting from the delayed payments of certificates. There is a risk of incurring penalties that can be avoided by settling these obligations in time.

Management responded that delayed payments of IPCs were due to limited availability of funds and that a circular on timely payment of contractors and
other providers was issued to all staff and Management is committed to reducing the challenge of delayed payments.

I advised the Management to ensure that payments are made according to contract terms in order to avoid interest charges.

86.4 **Transport Sector Development Project For The Seven (7) Month Period Ended 31st January 2016**

(a) **Compliance with the Financing Agreement and GoU Financial Regulations**

It was observed that management had complied in all material aspects with the financing agreement and GoU financial regulations except for the following matters;

i. **Inter-project transfers without adequate authorization**

I noted un-authorized inter-project transfers from GoU grants amounting to UGX. 10,365,145,000 from TSDP allocated funds to settle obligations of other projects implemented by UNRA.

Use of project funds for non-project activities could result into delayed implementation of activities.

Management explained that it was true some of the money meant for the Project was used to pay compensation to PAPS on other projects. This was largely because of the slow land acquisition processes that many times result into idle funds on some projects and shortage of funds on others. Management transferred the funds to relieve pressure on the projects to which the funds were used.

I advised Management to ensure that all project funds are spent in accordance with Project guidelines or authority is obtained for the transfers.

ii. **Implementation of World Bank supervision recommendations**
I noted that Management had not implemented 6 out of 36 World Bank supervision report recommendations especially social safeguards and environmental issues as indicated below;

<table>
<thead>
<tr>
<th>Section Issues</th>
<th>No. Implemented</th>
<th>Issues Implemented</th>
<th>Not Implemented</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>13</td>
<td>4</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Safety</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Environmental</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Resource mobilization</td>
<td>3</td>
<td>-</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Financial</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total issues</strong></td>
<td><strong>30</strong></td>
<td><strong>6</strong></td>
<td><strong>6</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

The non-implementation of the World Bank recommendations may have been a major cause of the suspension of the Project funding.

Management explained that the 'Not Fully Compliant” issues include Compensation and Grievance redress, Workplace Accidents and Work Permits for Foreign Personnel. Management further explained that they instructed the contractor to make the outstanding payments to accident victims as per the insurance report.

I wait the outcome of Management’s efforts to ensure proper social and environmental safeguards during project implementation.

**iii. Non-compliance with the Financing Agreement**

During the year under review, I noted that Management did not comply with the financing agreement in the following ways;

- Project guidelines require that Management submits quarterly reports not later than 45 days after the reporting period. However, a review of the quarterly Interim Financial Reports (IFRs) to the development partners revealed that IFR quarter 2 was submitted May 5, 2016 together with quarter 3 instead of February 15, 2016.
- Failure to set up National Roads Safety Authority (NRSA).
- Management had not fully rectified the social and environmental issues that resulted into the cancellation of funding IDA.
Non-compliance with the financing agreement may have partly led to the suspension of Project funding and subsequently negatively affected achievement of the project objectives.

Management explained that the Set-up of National Roads Safety Authority required enacting a Law to establish the authority, however, Cabinet did not approve the proposal to set up of a new authority within the Ministry of works. Management further explained that UNRA had vigorously rectified most social and environmental issues and the matrix to address them had been implemented.

I advised Management to ensure that implementation of Projects is done in accordance with the requirements of Financing Agreements.

(b) **General Standard of Accounting and Internal Control**

A review was carried out on the system of accounting and internal control. It was noted that management had instituted adequate controls to manage project resources except for the following matters;

i. **Lack of control accounts for advance payment, recoveries and IPC retention from contractors**

It was noted that UNRA did not maintain control accounts for advance payments, recoveries and Interim Project Certificates (IPC) retentions from the contractor’s payments. Lack of control accounts causes reconciliation problems especially the contractor’s accounts.

I noted differences in the retention recomputed amounting to UGX. 201,355,318 which was recorded as audit adjustment.

Management regretted the error in computation of retention. Management further explained that the project has been completed and recovery is no longer possible. Management further explained that the Project was in the process of acquiring a Project Management module under new financial
Management reforms which would help to keep track of project transactions such as advance recoveries and retentions.

I advised management that it is important to maintain control accounts for all contractors to track advance payments, recovery and retentions for proper monitoring and recording in the financial statements.

**ii. Inconsistencies in PAP Expenditure Records**

I noted some bounced LPC payments to PAPs which were not reconciled to Valuation reports and ledgers. These bounced payments were also not communicated to Land acquisition department.

Under the circumstances, PAPs may not be compensated on time which may delay project implementation.

Management explained that Payments to PAPS are made whenever funds are released. Management further explained that in cases were payments bounce back, the project ensures that the transactions are investigated and corrected.

I advised Management to continue to reconcile PAPs payments to Valuation records and general ledger and communicate the bounced payments to land acquisition department on time.

**87.0 Uganda Road Fund**

**87.1 Non-collection of designated funds**

Audit review of the URF sources of funding revealed that the entity was not collecting road user charges as a source of its financing but was rather dependent on transfers received from the treasury contrary to section 21 of the Uganda Road Fund Act, 2008, that mandates the Fund to collect road user charges as one of the sources of funding.
It was also noted on the other hand, that this was inconsistent with section 14 of the Uganda Revenue Authority (URA) Act that mandates URA to collect all Government revenues.

Non collection of this revenue has constrained URF from implementing its mandate as manifested by the road maintenance backlog of 107,020 Km with an annual maintenance need estimated at US $ 637.7m. Further, inadequate road maintenance or non-maintenance will lead to loss of the annual investment in roads constructed.

In his response, the Accounting Officer attributed the inability to collect road user charges to the pending amendment of Section 14 of the URA Act given the Solicitor General’s guidance that section 21 (3) of the URF Act could not be lawfully implemented unless section 14 of the URA Act and the first schedule thereto are duly amended.

He further explained that they are in liaison with the supervising Ministry for Finance and other stakeholders but efforts had been futile.

I advised the Accounting Officer to continue liaising with the Minister responsible to forge a way forward in harmonizing section 14 of the URA Act which has constrained Uganda Road Fund from implementing its mandate.

### 87.2 Inadequate funding for emergency interventions

Paragraph 7 (e) of the URF Network management paper analyzing the need for special works budget allocation (special intervention/emergency funding) requires the URF team to be accompanied by the relevant District/Municipality Engineer for the District urban and community access roads (DUCAR) network and some members of District Roads Committee whilst undertaking verification visits on emergency sites. Further, Paragraph 7 (f) of the same paper requires that all application for emergencies by the districts and urban councils should be preceded by verification visits involving the district roads Committee.

My review of the URF road interventions revealed that the districts’ request for emergency interventions was UGX.19,433,143,955 against a budget of
UGX.3,000,000,000, an indication that the budget on the item was inadequate thus leading to the low funding. Further, I established that UGX.2,045,280,000 was sent to various districts and urban councils as emergency funding for road maintenance, however, the following matters were noted;

a) **Criteria for the Payments:**
   It was noted that while there was a set criteria documented to determine the amounts payable to districts and urban councils, this was not followed and thus subjective judgment was used to determine payments leading to districts getting different amounts without clear justification for each release.

b) **Value for Money element on releases:**
   It was noted that on average UGX.30,000,000 was released to various districts and urban councils per quarter as emergency. I was of the view that value for money would be better achieved by concentrating on a few and having substantial roads worked on and completed rather than spreading out which may have little impact.

Inadequate releases for emergency interventions lead to overspreading of the intervention without much impact on road maintenance as some districts needs may be more severe and demanding more resources than others.

In his response, the Accounting Officer explained that during the year, the Fund received 137 requests for emergencies/special interventions and that due to the numerous requests and budgetary constraints they rationalize and allocate “Seed money” to tackle key elements of the emergency and the agencies are advised to budget for the remaining components within their annual budget.

I advised the Accounting Officer to draw the attention of MoFPED to the issue of the funding gap for possible consideration and also consider
prioritization of the more severe emergency cases to achieve value for money rather than allocating a uniform amount unilaterally.

**JUSTICE LAW AND ORDER SECTOR**

88.0 **Judicial Service Commission**

88.1 **Case Backlogs**

The Judicial Service Commission (JSC) is mandated under Article 147(a) to receive people’s complaints and recommendations concerning the Judiciary and the administration of justice and generally to act as a link between the people and the judiciary. Upon receipt of public complaints, the Disciplinary Committee for judges is expected to immediately hear such cases for administrative action.

The Commission’s Client Charter prescribes that all complaints shall be investigated within 60 days and the disposal of such complaints expedited as soon as possible.

However, as noted in my previous audit report, the Commission has been slow in handling cases brought against judicial officers. At the closure of the previous year the backlog was 780 cases.

According to the Commission’s annual report, 2015/2016 the Commission registered 102 cases, bringing the total number of cases to 882 but only 26 cases were concluded, while another 307 cases were being investigated. The outstanding number of cases at the closure of the year was 856. Delays in clearing case backlog impair the timely administration of justice.

Table below refers:

<table>
<thead>
<tr>
<th>Cases B/F from 14/15</th>
<th>Cases Registered 15/16</th>
<th>Total cases in the year</th>
<th>Cases Concluded 15/16</th>
<th>Cases C/F to 15/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>780</td>
<td>102</td>
<td>882</td>
<td>26</td>
<td>856</td>
</tr>
</tbody>
</table>
It was further noted that the Commission has no formulated policy on prioritizing the cases to be handled. In the circumstances, some cases may remain unattended to over years. This matter has been brought to the attention of management in my previous reports but no action has been registered.

The Accounting Officer explained that the failure to stop case load growth is mainly because the Commission expired midway the financial year. In addition the part-time nature of the Commission also leads to the relatively slow pace of disposal of the cases.

I advised the Accounting Officer to follow up the appointment/ renewal of the commission with the appointing authority.

89.0 Uganda Law Reform Commission

89.1 Implementation of activities

The Public Finance Management Act, 2015 section 45(3) requires an Accounting Officer to enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a financial year submitted.

However, analysis of the Commission Performance report together with budget revealed that some activities were not implemented despite release funds. The table below refers:
Table showing Commission of Performance

<table>
<thead>
<tr>
<th>Item description</th>
<th>Planned outputs/Quantity</th>
<th>Amount (UGX) budgeted</th>
<th>Amount released (UGX)</th>
<th>Actual output/Quantity</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>125201- Reform and simplification of laws</td>
<td>Study Reports and draft bills on the following: Explosives Act Proceeds of Crime Succession Laws (Phase II)</td>
<td>4,719,128,103</td>
<td>4,394,522,693</td>
<td>A simplified Contracts Act Data gathered for the review of the Explosives Act Field consultation report for Informal Justice mechanisms Draft study report on Succession Laws (Phase II)</td>
<td>Draft bills for; Explosives Act, Proceeds of Crime and Succession Laws (Phase II); not yet completed. Study Report for Explosives Act not yet completed.</td>
</tr>
<tr>
<td>125202- Revision of Laws</td>
<td>Compile and produce Compendia of; Enactments relating to the Courts, Evidence, Criminal Law and Civil Procedure (grey book) Electoral laws A draft revised Subsidiary Laws contained in the 2000 edition</td>
<td>851,070,000</td>
<td>840,647,300</td>
<td>Revised subsidiary laws produced; A grey book produced Volume 1 (Civil Laws) was produced 2 volumes of Statutory Instruments peer reviewed A draft Compendium of former Constitutions Compendium</td>
<td>Compilation and production of Compendia not yet completed; Enactments relating to the Courts, Evidence, Criminal Law and Civil Procedure (grey book) were not yet achieved.</td>
</tr>
<tr>
<td>125205-Advocacy for Law Reform</td>
<td>Revision of Principal Laws</td>
<td>686,285,000</td>
<td>673,274,912</td>
<td>Newspaper supplement on Witness Protection</td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------------------</td>
<td>-------------</td>
<td>-------------</td>
<td>------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Radio Talk Shows</td>
<td></td>
<td></td>
<td>Advocacy workshops on Witness Protection</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 newspaper supplements</td>
<td></td>
<td></td>
<td>held</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assorted branded products, brochures and banners</td>
<td></td>
<td></td>
<td>A radio talk show on Witness Protection</td>
<td></td>
</tr>
</tbody>
</table>

Revision of Laws still ongoing not completed at time of audit.

Unimplemented activities negatively affect the achievement of the entity’s mandate.

The Accounting Officer explained that most projects have a life span of 18 months. This is because the review of most projects requires research and consultations with the public before proposals for reform are considered.
I advised the Accounting Officer to ensure that all planned activities are implemented timely.

90.0 Uganda Human Rights Commission

90.1 Activity Performance

Examination revealed that the entity budgeted a sum of UGX.741,797,336 and spent UGX.731,693,417. This represented a 98.6% performance of in terms of expenditure of the total receipts for the period.

Although there was a good performance in utilization of the funds, a comparison of planned outputs and actual outputs revealed that some planned activities were not implemented. For details the table below refers:

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>Annual performance target</th>
<th>Achievements for the F/Y 2015/2016</th>
<th>% Achievements out of 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>National civic education policy formulated</td>
<td>1</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Citizens provided with IEC materials on human rights (materials)</td>
<td>50,000</td>
<td>39,680</td>
<td>79%</td>
</tr>
<tr>
<td>Citizens reached out through media programs (programs)</td>
<td>32</td>
<td>25</td>
<td>78%</td>
</tr>
<tr>
<td>Human rights barazas held</td>
<td>235</td>
<td>196</td>
<td>83%</td>
</tr>
<tr>
<td>Functional school human rights clubs formed / reached</td>
<td>168</td>
<td>127</td>
<td>75.5%</td>
</tr>
<tr>
<td>Security agents trained on different human rights</td>
<td>2800</td>
<td>2,598</td>
<td>92.8%</td>
</tr>
<tr>
<td>Public dialogues held at the local, regional and national level</td>
<td>5</td>
<td>2</td>
<td>40%</td>
</tr>
</tbody>
</table>

The underperformance for some activities negatively impacted on the achievement of the URHRC mandate.

The Accounting Officer explained that the variance in the annual performance target and actual performance was due to funding constraints. The core activities of Commission are funded by Development Partners whose funding is uncertain.
The Commission undertakes its planning based on the strategic investment plan (SIP) but the related funding from Development Partners may come specifically for certain activities which may not be in the work plan and at times less than anticipated. This has affected the Commission in achieving its targets.

I advised the Accounting Officer to ensure realistic budgeting to ensure that all planned activities are implemented.

91.0 Uganda Land Commission

91.1 Compensation arrears
A review of the Land compensation schedule which was completed after valuation of the land to be compensated, indicated that the amount of UGX.116,775,488,324 was not disclosed in the statement of financial position, thereby understating the Commission’s obligations.

Management explained that the Internal Audit had not verified the figure and therefore could not be captured in the financial statements.

I advised the Accounting Officer to always make the necessary provisions for arrears in a timely manner and to make full disclosures in the financial statements.

91.2 Non-operationalization of the Land Fund
Section 41 of the Land Act CAP 227 provides for the establishment of the Land Fund to be managed by the Commission. A review of the Strategic Plan for 2014-2019 indicated that among the priority interventions that the Commission intended to undertake was to lobby for the establishment of the Land Fund, and assigning a Commissioner specifically charged with providing oversight of this Fund.

The activities were to be accomplished by the 1st quarter of 2016.
By the time of writing this report, the fund had not been established. Failure to operationalize the Fund impairs attainment of the Commission’s strategic objectives.

Management explained that they had made a request for additional funding of UGX.10 billion from Ministry of Finance, Planning and Economic Development (MoFPED) to establish the fund but had received no response.

I advised the Accounting Officer to fast track the establishment and operationalization of the Land Fund.

91.3 Subjective Criteria for compensation of claimants/absentee landlords

The Land Compensation procedures and guidelines under the land fund provide that claimants are to be compensated, with priority given to applicants from Kibaale and then on first come first serve basis.

A review of the land compensation schedule showed that UGX.15,972,198,000 was spent on land acquisition/compensation. Whereas some recent claimants had been paid, others whose claims dated way back to the financial year 2012/2013 had not been settled.

This was indicative of a criterion that was subjective rather than being based on first come first serve, as required.

Selective compensation undermines the transparency principle and can cause disruption of the process.

The Accounting Officer explained that in addition to the stated criteria, priority was also given to those that were directed for payment by other authorities.

In addition, there were special cases of Land Compensation claimants who were indisposed and required immediate financial support.

I advised the Accounting Officer to follow the compensation criteria indicated in the land compensation procedures and guidelines.
PUBLIC SECTOR MANAGEMENT

92.0 Local Government Finance Commission

92.1 Budgeting for Item code 221006 (Commissions and related charges)

UGX.343,124,000

Item code 221006 (Commissions and related charges) under general expenses in the GOU chart of accounts is to be charged with costs incurred to cater for commissions and other charges payable to third parties for services rendered such as commissions paid to URA for revenues collected, retention fees to contractors for revenues collected and others.

A review of the Local Government Finance Commission Policy Statement, approved budget estimates and financial statements revealed that commissioners’ expenses were budgeted and approved under line item 221006 (commissions and related charges), instead of using various line items on travel inland, sitting allowances and other appropriate budget lines.

This distorts the GOU financial statistics system and misrepresents financial statements during consolidation, as the item code totals from Commissions financial statements would be representing other expense items.

Management explained that the Commission will adhere to the advice by the Ministry of Finance, Planning and Economic Development (MOFPED) to ensure that budgeted commissioners’ costs are to be expensed under the Allowances Account Code commencing financial year 2017/18.

I await the outcome of Management’s efforts in addressing this matter.

93.0 Kampala Capital City Authority

93.1 Legal costs

During the year under review, the Authority budgeted UGX.6,099,000,000 for legal costs. However, a review of payments revealed that the Authority spent
funds totaling UGX.11,799,768,822 thus exceeding the budgeted expenditure by UGX.5,700,768,822 (93%).

A review of the statement of financial position revealed that management disclosed a sum of UGX.26,719,950,359 as provision for legal costs for the period under review. This represents a decline of provisions on legal costs by UGX.1,428,482,773 (5%) from the prior year. It was also noted that taxes and interest costs on a number of these cases were yet to be determined by court. There is a possibility for further increases in the legal costs payable.

Furthermore Management disclosed possible/contingent liabilities amounting to UGX.100,789,450,678 in the financial statements an indication that there is a possibility that the legal costs may severely constrain the activities of the Authority in the near future. Delays by the Authority to offset interest bearing judgments in a timely manner may lead to incurring more penalties in terms of interests arising from delayed payments.

Management explained that the excess expenditure on legal costs during the year was due to Garnishee Orders placed on the revenue collection accounts and the delay to settle interest bearing judgments in a timely manner, majorly due to inadequate funding provisions.

I advised Management to prioritize payments for legal costs which have high interest clauses with a view of avoiding nugatory expenditure.

93.2 Shortfall in Government Grant

It was observed that the Authority estimated to receive UGX.160,548,184,124 grants from the Central Government during the year under review. However, only UGX.126,515,323,029 was received creating a short fall of UGX.34,032,861,095. Failure by Government to release all budgeted funds to the Authority stalled implementation of some programs thereby denying services to the beneficiary communities.

Management explained that the short fall in release of budgeted funds by Government affected implementation of planned activities for the year especially construction works. Management has continuously engaged
Government to release all budgeted funds in order to fully implement the approved Work Plans and a response from PS/ST is awaited. I advised Management to continuously engage Ministry of Finance, Planning and Economic Development for the deficit and ensure that planned activities are fully funded.

93.3 **Youth Livelihood Programme**

The youth livelihood Programme (YLP) is a rolling government of Uganda Programme, targeting the poor and un-employment in all the districts in Uganda. The programme is being implemented under the Ministry of Gender, Labour and Social Development. The funds for the programme are advances to the Youth Interest Group (YIG) in form of a revolving fund in order to increase outreach and enhance sustainability of the programme. A review of project reports and accountability revealed the following issues;

a) **Low absorption**

During the year under review, KCCA received a sum of UGX.500,898,870 for subsequent disbursement to the youth groups. It was however observed that at the end of the year only 34 groups out of the expected 47 had benefited from the total disbursements of UGX.182,039,949 which represents 36.34% of the total actual release thus leaving a balance of UGX.308,145,036 on the account at end of the year. There is a risk that the program is not achieving its objectives.

Management explained that the low absorption of funds was majorly due to the fact that KCCA received funds three months to end of the financial year and the process of identifying beneficiary groups up to the level of disbursement is quite lengthy. Management further explained that most youth groups delayed to open bank accounts; some groups submitted unsatisfactory accountabilities while others withdrew from the project due to disagreements within the groups and as such funds were automatically recovered.

I advised the Accounting Officer continue sensitizing the youth in order to boost funds absorption by the beneficiary communities.
b) **Low recovery and management of funds**
The review of the project reports indicated that funds were advanced to the youth in form of a revolving funds and recovery is supposed to be effected within one year after which a service fee of 5% is charged on the outstanding loan after one year.

I noted that the Authority made cumulative disbursements of UGX.1,222,349,899 to 139 groups appraised from the inception of the project up to 30th June 2016. However, only UGX.186,359,751 was recovered which represents only 12.1% recovery rate. Failure to recover funds disbursed to groups denies other potential beneficiaries of funds to improve their livelihoods.

Management explained that the set guidelines had issues specifically related to recovery but pledged to liaise with Ministry of Gender and Social development to improve on the Youth Livelihood Programme guidelines.

I await the outcome of Management’s efforts to enhance the benefits of the Youth livelihood Programme in Kampala.

### 93.4 Human Resource Management

**a) Unapproved Human Resource Manual**

Section 45(2) of the Public Finance and Management Act 2015 requires an accounting officer to put in place effective systems of risk management and internal controls in respect of all resources and transactions.

It was observed that the Human Resource policy was still in draft form pending approval. Operating without approved human resource policy may result in irregular recruitments and selective application of human resource standards may not apply to all staff thus hindering achievement of the Authority’s strategic objectives.

Management stated that the proposed KCCA Human Resource Manual was submitted to the Ministry of Public Service for compliance assurance with the applicable laws, regulations and approval as per the mandate given to
the Ministry under KCC Act 2010 section 25 (4). Management is continuously engaging with the Ministry to ensure that the Human resource Manual is approved.

I await the outcome of Management’s efforts to have the Human resource Manual approved.

b) **Staffing**
I noted that the KCCA appointed overstaff on temporary basis to perform duties in various departments whose contracts were renewable every three to four months. Some of the officers were in senior positions. Having temporary staff in senior positions may demotivate them and they may pay less attention to risk control since they are not certain of their future.

Management explained that the main reason for appointment of staff on temporary appointment was the cap on recruitment that arose from the failure by the Ministry of Finance to confirm funds to facilitate the appointment of staff on permanent terms. Going forward, plans are underway to start filling vacant positions in January 2017, upon confirmation of availability of funds.

I advised management to liaise with MOFPED for the required funding to ensure the filling of its structure for purposes of meetings its mandate. I await further action by Management.

94.0 **Kampala Institutional and Infrastructure Development Project (KIIDP 2)**

94.1 **Budget Performance –Low absorption of funds**
The approved Project expenditure estimates for the period under review amounted to US$26.662m and US$.36.739m was received. However, only US$.11.961m was spent during the year, representing an absorption capacity of only 33% of the available funds. Low absorption is likely to attract
commitment fees charged on undrawn amounts and also negatively affects implementation of planned activities.

The Accounting Officer explained that low absorption of funds was mainly due to delays in compensation for Project Affected Persons (PAPs) which hampered the progress of civil works.

I advised the Accounting Officer to expedite the implementation of the project activities to avoid extra administrative costs associated with project extensions.

94.2 Government Co-funding contribution
A review of the KIIDP 2 budget revealed that the Project budgeted US$.5,915,896 as Government contribution to cater for the compensation of Project Affected Persons (PAPS). However, only US$.3,993,455 (68%) released as at 30th June 2016. As a result, the project lacked sufficient funding to compensate PAPS on time and this is likely to affect the progress of the project.

The Accounting Officer explained that they will continue to engage the Ministry of Finance, Planning and Economic Development to ensure that the Government meets its co-funding obligation.

I await the outcome of management’s efforts on this matter.

94.3 Implementing Resettlement Action Plans
The Project Appraisal Document (PAD) requires the recipient through the Project implementing entity to open a Project escrow account into which all counterpart funds required for the Project shall be deposited and maintained until required to pay for PAP compensation costs.

KIIDP-2 Project implementation involved compensations to the tune of UGX.17,481,357,773 to 190 persons who were to be affected by road works. During the year under review, the project paid UGX.2,397,677,671 as compensations to 24 PAPs.
A review of the official grievance management register revealed that a number of grievances had been lodged, however, some cases had not been resolved for a period of about one year. Unresolved compensation problems are likely to delay the completion of the project and could cause legal complications if not resolved.

The Accounting Officer explained that KCCA will strengthen the grievance management mechanisms to ensure that grievances are resolved within the shortest time possible.

I await the Accounting Officers implementation on the matter.

94.4 Delayed completion of Works at Key Road Junctions and Links under Batch-1

According to the contract agreement for civil works, the contractor may request for a variation in unit costs (rates) in the Bill of Quantities to cater for changes in costs of material 18 months after contract signing.

A review of the monthly progress report by the consultant firm M/s Korea Engineering Consultants Corporation on the construction of roads and Junctions under Batch 1 of KIIDP-2 for the month of November 2016, was undertaken.

It was noted that the contractor had delayed to complete the works at six sites despite having requested for extension.

Out of the total contracted works of UGX.88,585,529,217 for various sites, only works to the tune of UGX.37,037,443,056 had been certified as completed averaging 42% completion level. All the works except one, had performed below expected timelines.

Delays in completing the works may result into contract cost variations by contractors due to rising costs of materials and labour, and extra administrative costs to monitor the projects. Furthermore, the community is denied services which would improve their livelihood.
The Accounting Officer explained that the delays were a result of factors beyond the contractors control such as relocation of utility lines, unresolved claims for compensation and weather conditions. The project is anticipated to be completed within the extended period.

I advised the Accounting Officer to ensure that efforts are made to coordinate and plan for project activities in a timely manner in order to avoid delayed project implementation, under-absorption of budgeted funds and cost overruns.

95.0 Electoral Commission

95.1 Unbudgeted expenditure on Taxes

Section 123 of the Income Tax Act CAP 340, requires a withholding agent to pay to the Commissioner any tax that has been withheld or should have been withheld under the Act within fifteen days after the end of the month in which the payment subject to withholding tax was made by the withholding agent.

However, between 2006 and 2011, the Commission failed to remit to URA taxes in form of WHT on goods and services and PAYE on allowances and motor vehicle benefits to its employees. As a result URA computed a total of UGX.1,991,143,949 as a principle sum and imposed an interest charge of UGX.2,744,317,389 in March 2016.

Management explained that a request for a waiver of the interest had been made with MoFPED and a response is awaited.

Management further explained that the principal sum was paid using balances on the various account codes after all the budget activities had been finalised in order to avert the risk of garnishing the Commission Accounts by the tax body.

I advised the accounting officer to always ensure that all taxes are recovered and remitted to the Tax body in accordance with the provisions of the Income Tax Act.
LEGISLATIVE SECTOR

96.0 Parliamentary Commission

96.1 Budgeting for Item code 221006 (Commissions and related charges) – UGX.12,975,969,172

Item code 221006 (Commissions and related charges) under general expenses in the Government of Uganda chart of accounts is to be charged with costs incurred to cater for commissions and other charges payable to third parties for services rendered, that is; commissions paid to URA for revenues collected, retention fees to contractors for revenues collected and others.

Review of the Parliamentary Commission Policy Statement, approved budget estimates and financial statements revealed that services of the Parliamentary Standing Committee were budgeted and approved under line item 221006 (commissions and related charges), instead of various line items on travel inland, sitting allowances and others.

This distorts the GOU financial statistics system and misrepresents financial statements during consolidation as the item code totals would be representing other expense items thus misleading the users of both statements.

Management explained that this practice was historical when the budget for Committee operations was lumped under one item code, 7010 (Committees, Councils and Board Expenses) before the new chart of accounts was introduced and as such the most appropriate code to replace the old one was item code 221006 which has been in use.

Management further explained that following the Auditor Generals concerns, there is an intention to create a new programme under the vote for Committee operations which will enable correct distribution of committee operations to the relevant budget lines from which payments will be made with effect from 1st July 2016.

I await management’s effort on the matter.
96.2 **Budget performance – unimplemented activities**

Review of the budget performance for the year revealed that some targets were partially or not achieved despite release of funds to the vote functions. Details are in the table below:

<table>
<thead>
<tr>
<th>Item description</th>
<th>Planned outputs/Quantity</th>
<th>Amount (UGX) budgeted</th>
<th>Amount released (UGX)</th>
<th>Actual output/Quantity</th>
<th>Remarks</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td>155172- Government building and administrative structure</td>
<td>Consultancy services long-term. New chamber, additional offices, hall of honour.</td>
<td>8,964,532,000</td>
<td>8,964,532,000</td>
<td>-No consultancy was done No construction of new chambers</td>
<td>Constructio n of new chamber has not started due to delays in procurement despite receiving money for the first phase which later was taken back to Consolidated fund</td>
<td>Although UGX 8,964,532,000 was released to fund construction of a new Parliamentar y Chambers, the funds could not be utilized and were returned to the Treasury because a contractor had not been procured to undertake the construction.</td>
</tr>
<tr>
<td>155177- Purchase of specialized machinery and equipment</td>
<td>Acquisition of machinery like digitization software, library security system, physical file tracking system and EDMS, serves and TRIM records</td>
<td>3,884,000,000</td>
<td>3,884,000,000</td>
<td>Procurement still in process</td>
<td>No acquisition was done due to delays in the procurement process.</td>
<td>UGX 3,884,000,000 which was for purchase of various items namely; digitization software,</td>
</tr>
</tbody>
</table>
library security system, physical file tracking system and others was released during the 4th Quarter of the financial year.

The procurement of the items could not be concluded before the close of the financial year. Consequently, the funds were returned to the Treasury.
Non implementation of planned activities affects the achievement of the objectives of the appropriating authority.

I advised the Accounting Officer to ensure that planned activities such as procurements are undertaken early enough to ensure timely implementation of the Commission’s activities.

97.0 Parliamentary Pension Scheme

97.1 Delayed remittances of contributions

Section 69(2) of URBRA Act, 2011 requires the employer to remit the contribution in respect of his or her employee to the retirement benefits scheme before the fifteenth day of the following month.

Section 69(3) stipulates that an employer, who fails to remit the contributions within the prescribed time, commits an offence and is liable to make the remittance already due, and in addition pay a fine of not less than ten percent of the total contribution that remains unpaid for each month or part of each month the default continues.

Contrary to the above requirement, members’ contributions for some months were remitted to the scheme late as illustrated in the table below;

<table>
<thead>
<tr>
<th>Month</th>
<th>Type of contribution</th>
<th>Amount</th>
<th>Due date</th>
<th>Date of remittance</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2015</td>
<td>MPS-30%</td>
<td>1,281,228,000</td>
<td>15 August 2015</td>
<td>07 October 2015</td>
</tr>
<tr>
<td>July 2015</td>
<td>Staff-30%</td>
<td>460,906,413</td>
<td>15 August 2015</td>
<td>07 October 2015</td>
</tr>
<tr>
<td>Aug-2015</td>
<td>MPS -30%</td>
<td>1,281,228,000</td>
<td>15 September 2015</td>
<td>07 October 2015</td>
</tr>
<tr>
<td>Aug-2015</td>
<td>Staff-30%</td>
<td>460,906,413</td>
<td>15 September 2015</td>
<td>07 October 2015</td>
</tr>
<tr>
<td>March-2016</td>
<td>MPS -30%</td>
<td>1,267,812,000</td>
<td>15 April 2016</td>
<td>03 May 2016</td>
</tr>
</tbody>
</table>
By the time of audit the following contributions were still outstanding.

<table>
<thead>
<tr>
<th>Month</th>
<th>Type of contribution</th>
<th>Amount</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 2016</td>
<td>Staff contribution</td>
<td>2,581,008</td>
<td>Outstanding</td>
</tr>
<tr>
<td>March 2016</td>
<td>Staff contribution</td>
<td>1,006,178</td>
<td>Outstanding</td>
</tr>
</tbody>
</table>

Further, Section 61c (ii) stipulates that a custodian, trustee, administrator or fund manager of a benefits scheme shall report to the Authority, as soon as reasonably practicable any contribution supposed to be paid into the scheme which remains due for more than thirty days from the date of payment. I was unable to see such reports.

Such delays to remit the members’ contributions not only contravene provisions of URBRA Act, 2011 but also impair timely investment of funds which denies members a chance to earn a return.

Management explained that the practice is that the Parliamentary Commission remits the contributions within the stipulated 15 days after month-end. For the months highlighted above, the funds were received from the Parliamentary Commission after the 15th day of the following month and these delays were brought to the attention of the sponsor for action. Specifically the staff contributions of UGX.2,581,008 and UGX. 1,006,178 not remitted in the months of February and March respectively have now been fully received in August 2016.

I advised management to always ensure that employee contributions are promptly remitted to the Scheme and where delays are inevitable, management should report to URBRA as required by Section 61(C) (ii).
97.2 **Income Tax computation**

The scheme has investment income subject to 20% withholding tax (Government securities interest and dividends on shares) thus subject to the treatment as stipulated in section 122 of the Income tax Act, when computing final tax for the scheme.

It was observed that during the income tax computation for the year under review, Section 122(e) was not being applied as all scheme expenses were applied as a deduction.

Where withholding tax is a final tax, Sec 122(e) stipulates no deduction is allowed for any expenditure or losses incurred in deriving the income.

Failure to comply with the above section may lead to wrong tax computation, penalties and interest may be imposed on the scheme.

Management promised to implement the provisions of section 122 of the Income Tax Act according to the observation and advice made.

I advised management to put in mechanisms of complying with section 122(e) of Income Tax Act in regard to expenses attributable to investment income where withholding tax is a final tax.

97.3 **Investment Policy Statement (IPS) update**

It was observed that the IPS had not been updated in line with Parliamentary Pensions (amendment) Act, 2015. Examples;

(i) Lump sum payment to retiring qualifying member is 33 1/3% per Act, IPS still has 25%.

(ii) Qualifying retiring member should have 10 continuous years but IPS still has 5 years.
Failure to update IPS may contravene the rules and procedures of amended PPS Act.

Management explained that the amendments of the Parliamentary Pension Act, 2015 were published in February 2016 and the Scheme shall revise the Investment Policy Statement during financial year 2016/17 to incorporate the new sections of the act.

I advised management to amend all scheme documents in line with the PPS Act.

97.4 Governance
During the audit exercise, I noted that the following Trustees served without valid licenses from URBRA. These were;

(iii) Representative of Parliamentary Commission
(iv) The Clerk to Parliament.

I also noted that whereas Sec 44 (2) of URBRA Act stipulates that an application for renewal of trustee license shall be made at least 3 months before expiry of licence, by the time of audit no application had been made since the licenses of scheme’s trustees expired on 17th July 2016 and in this regard applications were supposed to have been made by April 2016.

Serving as a Trustee to the scheme without a valid license contravene section 40 of 2011 URBRA Act.

Management explained that upon confirmation of appointment of trustees, the scheme submits the application to URBRA for the trustee’s licence. During the year, the membership of the Board of Trustees was envisaged to change following the general election cycle, and therefore management withheld the process pending the full confirmation of the new trustees upon election of the 10th Parliament.
The renewal of licence for the confirmed members has now been submitted to URBRA, awaiting issuance of the renewed license.

The application for license for the representative of Parliamentary Commission was received by URBRA on 8th April 2015.
However during the period when URBRA was still in the process of verifying her documents, she was appointed a cabinet Minister of Internal Affairs, and thereby ceased being a member of the Board of Trustees. At that time URBRA still needed additional information before they could issue the trustee license, and therefore no license was issued for her.

The Clerk to Parliament became a trustee after the publication of the Amendment Act 2015, and the Scheme has since initiated the process of obtaining a license from URBRA and this is envisaged to be complete by second quarter of 2016/17.

I advised management to ensure that all serving Trustees to the scheme have valid licenses in order to comply with URBRA Act and PPS Act.

**AGRICULTURAL SECTOR**

98.0 **National Agricultural Advisory Services (NAADS)**

98.1 **Delivery of inputs not verified by Operation Wealth Creation (OWC) Officers-UGX.2,979,493,972**

Examination of payment records together with attached Delivery Notes, Goods Received Notes, acknowledgement letters from Chief Administrative officers and technical reports from District Agricultural Officers of the beneficiary District Local Councils revealed that deliveries of inputs to the tune of UGX.2,979,493,972 for supply of bean seeds, soya beans, layers chicks and hybrid maize were not verified and counter signed by Operation Wealth Creation (OWC) officers contrary to Standing orders of procedure (SOP) 7.7 (iii) and SOP
8.2 of operation wealth creation 2015 that requires OWC officers to supervise delivery and distribution of strategic interventions to beneficiary households. Failure to supervise deliveries renders the payments doubtful as compensatory controls to confirm receipt of inputs are not applied.

Management acknowledged the anomaly and explained that they will endeavour to emphasize the requirement in future.

I advised management to draw the issue to the attention of both OWC officers and suppliers for rectification and ensure no further payments are made without the required verifications.

98.2 **Commitments through Local Letters of Credit**

It was noted that management transferred funds amounting to UGX.5,698,334,050 to Bank of Uganda as commitments to open Letters of Credit (LCs) between 22nd and 23rd June 2016 for procurement of strategic intervention. A review of the payments revealed the following:

(i) Opening of Letters of Credit (LC’s) at year end was an indication that management did not adequately plan for the procurements. The procurements were in the work plan and management should have prioritized the process in July 2015 so that deliveries and payments are made before financial year end.

(ii) There were outstanding LCs from financial years (FY) 2013/2014 and 2014/2015 to the tune of UGX.4,068 billion (UGX.260.938 million and UGX.3.807 billion for FYs 2013/2014 and 2014/2015 respectively) that had failed to perform for more than twelve months and required extension.

(iii) The 2015/16 transfers attracted transaction commissions worth UGX.56,983,340 (1% of value) and outstanding LCs opened in the previous financial years (2013/14 and 2014/15) attracted additional renewal/extension
costs of UGX.10,170,000 which would have been avoided had the process been undertaken earlier and goods delivered timely.

The commissions, bank charges and renewal fees are avoidable costs which reduce funds meant for service delivery. Further, delayed deliveries of strategic interventions hamper service delivery as planned outputs may not be realized, given that some of the technologies like crops depend on planting seasons.

Management explained that during the FY 2015/16 the two letters of credit in respect of imported tractors and milk coolers were late due to the complex and lengthy importation process. As for Tractors the required funds were only available in the budget for FY 2015/16 and being a Presidential pledge, it was inevitable that they had to reserve the funds through opening an LC.

Management also attributed the non-performance of prior year LC’s to challenges of implementation procedures, mix in the specifications of the delivered piglets, disputes between suppliers and NAADS, failure to supply due to increased prices in the market and late preparation of sites for machine installations.

I advised management to adequately plan for procurements to avoid such year-end rush. Further, management should invoke contractual provisions against non-performing contractors as remedy for late deliveries or non-performance.

98.3 **Loss of motor vehicles**

A review of the NAADS Fixed Asset Register revealed that two motor vehicles with original cost of UGX.120,000,000 registration numbers UAJ 594X and UAR 622X procured in 2011 were stolen by unknown persons from the NAADS compound in December 2014. By the time of writing this report no information regarding their location had been ascertained. Interview with responsible officers revealed the following;

(i) **Failure to report loss of motor vehicles to the Secretary to Treasury**
To date no internal report had been made by management to the PS/ST detailing the nature of the loss, the amount involved, the place, time of discovery of the loss and the exact circumstances in which the loss arose contrary to the requirement for reporting on losses as per Appendix K of.

(ii) **Lack of insurance indemnity payment**

It was noted that though the vehicles were insured with yearly premiums of UGX.2.4 million, two years down the road no indemnity has been paid to NAADS. Loss of Government assets without subsequent investigations could lead to more losses.

Further, service delivery is hampered due to inadequate logistical support to undertake program activities.

Management acknowledged the omission to report the matter to the PS/ST and promised to bring the matter to the PS/ST.

They further explained that they are engaging the insurers to make good of the compensation.

I await the outcome of management’s efforts.

**98.4 Non-execution of Performance Security- UGX.4,002,062,399**

A review of a sample of call off orders issued by NAADS for agricultural inputs interventions and value addition (Motorized Knapsack Sprayers) revealed that procurements amounting to UGX.39,724,623,998 and UGX.296,000,000 had no performance securities worth UGX.3,972,462,399 and UGX.29,600,000 respectively.

These were executed contrary to section 12(4) of the PPDA (contracts) regulations, 2014 that requires execution of a performance security equivalent to ten percent of the value of a call off order in the case of framework contracts.
It was also observed that the requirement was provided for in the special Conditions to the Contract (GCC 18.1) for all these contracts executed by NAADS in the form of Bank Guarantee/Insurance Guarantees.

Non-execution of performance securities exposes the entity to a risk of under-performance or non-performance by the contractor which would leave management without any fall-back position thus delaying service delivery and creating unnecessary costs.

Management acknowledged the anomaly but explained that this was due to the challenges faced by the agricultural sector whereby suppliers pointed out that it was difficult to receive credit facilities due to lack of agricultural financing in Uganda as most banks are reluctant to extend agricultural facilities and loans to farmers. To mitigate this risk, it was agreed that the NAADS technical team verifies the agricultural inputs availability with suppliers before call off orders are issued to provide assurance that a supplier will supply a particular season thus ensuring contract performance.

I advised Management to enforce contractual obligations to ensure protection from contractual costs.

98.5 Delegated procurement to Kabale District Local Council
The Accounting officer of NAADS delegated the procurement of ten million (10,000,000) tea seedlings valued at UGX 4,500,000,000 to Kabale District Local Government on 12/10/2015. Subsequently Kabale District Local Government Contracts Committee sat on 1/3/2016 and through Minute No 61/2015/16 awarded contracts to several Nursery Operators to supply tea seedlings to the District beneficiary farmers by issuance of tender notification letters on 02/3/2016.

Review of the payment vouchers and the respective supporting documents for the procurement of the tea seedlings revealed that Kabale District Local

However, the following issues were noted.

a) **Supplies made before delegation of procurement function and award of contracts**

The Secretariat delegated the procurement function to the District in October 2015, the District completed the procurement by signing contracts with suppliers of tea seedlings between 3/3/2016 and 9/3/2016. However, some distribution sheets which served as evidence of delivery and counter signed by the District Internal Auditor and District Production Officers have dates of May, June, October, November and December 2015.

Further, the verification report confirming that the District team visited the Nursery sites and verified the Nursery beds of the suppliers to ensure that the tea plantlets were mature, hardened and conforming to good Phytosanitary requirements was written by the Senior Agricultural officer on 11/2/2016 and received by the District Production officer on 12/2/2016.

This raises doubt as to genuineness of distributed seedlings relating to the months of March 2014, May 2015, December 2015 and January 2016.

This implies that the payments were made for seedlings supplied and planted before the delegation of the procurement. I could also not rule out double payments for these deliveries.

b) **Contract signing after delivery**

Review of the procurement revealed that the contracts between the District and the suppliers were signed on 3/3/2016 and 9/3/2016. However, the review of the supply records indicated that tea seedling suppliers distributed tea seedlings to beneficiary farmers between December 2015 and January 2016.

I found this contrary to PPDA regulations on contracts. Further, the contracts between the District and the suppliers did not indicate the sub county local
c) **Doubtful deliveries of exact quantities**

It was noted that the totals in the verification report of each Nursery operator was exact total that was supplied irrespective of some seedlings being spoilt during transportation.

d) **Retrospective approval of documents**

It was noted that Goods Received Notes were issued in the sequential numbers following the alphabetical order of the names of tea seedlings suppliers implying that suppliers of tea seedlings distributed seedlings to farmers without the knowledge of the District officials and NAADS Secretariat and eventually the two Government offices retrospectively issued GRN's and signed contracts validating supply of tea seedlings.

e) **Unclear procurement method**

The purported method of procurement carried out at the District that requires nursery operators to deal directly with farmers by supplying and planting prior to approval of procurement is not provided for under the PPDA regulations nor was there any authority from PPDA for a waiver availed.

Payments under this arrangement may lead to flouting of commitment control procedures as over supplies cannot be ruled out. The practice also makes it difficult to verify the planted seedlings.

Management explained that signing contracts after delivery have practical advantages such as helping in ensuring timely planting, preventing overgrowing of the tea seedlings in the nurseries. This has however presented several challenges, notably being inherently against the procurement law which requires that supply should be preceded by contracting and not the other way round,
possible abuse by actors and stakeholders, difficulties in verifying the tea planted, difficulties in clearing the accumulated backlog as a result, this often distorted official annual budget plans and over production of tea seedlings by nursery operators beyond allocated/available budget.

Management also stated that as a way forward they had recently informed the concerned District Local Governments that henceforth policy guidance for extension service provision, including engagement of service providers such as the lead agency in this case, would be provided by the Directorate of Extension under the reformed extension service system.

Management action on the matter is awaited.

98.6 Field inspection of tea interventions
Inspection of a sample tea seedling beneficiary in Kabale and Mitooma Districts revealed several findings ranging from doubtful supply of tea, un-planted tea, dried tea seedlings, plantation of tea in wetlands, un-plucked matured tea, inadequate maintenance of gardens, gap filling shortages and late delivery of seedlings.

a) Doubtful supply of tea- Makanga Golf Tea Plantation (Kabale)
Audit inspection revealed that Makanga Golf Tea Plantation has more than ten (10) acres of tea of more than three years old. In the year 2015, the tea plantation was supplied 35,000 tea seedlings worth UGX.15,750,000 by a local company and confirmed receipt as per Goods received Note 1219.

Inspection revealed that the tea plantation had tea plants of more than one year old casting doubt whether the procurement and supply of the said tea seedlings as indicated during the year was ever supplied. I could not verify whether the tea supplied during the year rendering the supply doubtful.
Management explained that the issue of doubtful supply is a common feature in the supply model‘ within the Lead Agency arrangement and it is often difficult to verify the tea planted under a particular procurement as often such tea is reportedly planted over several seasons in different years.

I advised the Accounting Officer to review the lead urgency procurement model in order to avoid such scenarios and use the annual procurement procedures of contracting, delivery, verification and payment against the delivered schedules just as is the norm with the other crop interventions.

## b) Dried tea seedlings

Interview with the farmers in Bitereko Sub County, Mitooma District revealed that the dry season affected the planted tea seedlings and most of the seedlings dried up. Sample farmers mortality rates were on average at 37.5% as tabulated below;

<table>
<thead>
<tr>
<th>Name of Farmer visited</th>
<th>Seedlings received</th>
<th>Approximate Seedlings that matured</th>
<th>Mortality rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Musoke Remigio</td>
<td>10,000</td>
<td>6,000</td>
<td>40%</td>
</tr>
<tr>
<td>Mugisha Venna</td>
<td>16,000</td>
<td>8,000</td>
<td>50%</td>
</tr>
<tr>
<td>Alex Rubahika</td>
<td>25,000</td>
<td>15,000</td>
<td>40%</td>
</tr>
<tr>
<td>Tibunyeba Margret</td>
<td>25,000</td>
<td>20,000</td>
<td>20%</td>
</tr>
</tbody>
</table>
Management explained that they had contacted the District Production Officer who attributed the high mortality rates to the short March-May rain season and in an effort to address this issue, the District had resolved to limit the planting of the tea seedlings in the relatively longer September-December rain season.

I advised the Accounting Officer to work closely with the District Production Officers in future to adequately guide farmers and ensure distribution of inputs in the wet season.

c) **Unplanted 20,000 tea seedlings**

It was established that the tea seedlings that were allocated and given to Mr. Kamugisha Jackson of Bitereko Sub County, Mitooma District during the month of September to October 2015 were not planted and my inspection found them still lying in the Banana plantation. Interview with Kamugisha Jackson and his family members revealed that Kamugisha Jackson was interested in tea growing while his wife and the children were interested in Coffee growing and this resulted into a family misunderstanding and the tea seedlings were not planted as evidenced below;
In such circumstances, the tea seedlings are wasted, program objectives not achieved and government losses registered.

Management explained that selection, preparation and guidance of farmer beneficiaries for the tea seedlings is a responsibility of the respective beneficiary District Local Government and a follow up will be made with a view to getting a solution for seedlings generally lying idle.

I advised the Accounting Officer to ensure OWC officials work closely with the beneficiary farmers during selection of technologies to ensure that only interested farmers are given inputs. Further, such seedlings should be identified at earliest opportunity for re-distribution to interested farmers.

d) **Tea plantation in wetlands**

A review of the lead agency planning documents on tea interventions revealed that tea was to be planted on hilly acidic fertile soils for good survival. However, my inspections revealed that several acres of the Tea Plantations were located in wetlands as below;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Farmer</th>
<th>Supplies received</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kabasharira Tea Demonstration Garden/ Reverend Father Kabasharira</td>
<td>Rubanda East Constituency</td>
</tr>
<tr>
<td>2</td>
<td>Kinioga Catholic Demonstration Garden</td>
<td>Ndorwa West Constituency, Rubaya Sub county</td>
</tr>
</tbody>
</table>
Inspection revealed that approximately fifteen (15) acres out of the fifty (50) acres of Kabasharira Tea Demonstration garden was in the Wetland. This has resulted in several tea seedlings drying up thus requiring more supply of tea seedlings to the farmer for gap filling (replacing of the dried ones). It was noted that through the two Goods Received Notes a total 120,194 Tea seedlings were supplied and used for replacing the dried tea plantlets at the above plantation as below;

<table>
<thead>
<tr>
<th>S/n</th>
<th>Supplier/Nursery Bed Operator</th>
<th>GRN</th>
<th>Quantity supplied</th>
<th>Value of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Abigaba Jacob</td>
<td>1202</td>
<td>34,882</td>
<td>15,696,900</td>
</tr>
<tr>
<td>2</td>
<td>Byaruhanga Gervasio</td>
<td>1214</td>
<td>85,312</td>
<td>38,390,400</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>120,194</strong></td>
<td><strong>54,087,300</strong></td>
</tr>
</tbody>
</table>

Furthermore, the District Local Government and the Lead Agency in Kabale district had not stopped the wasteful planting of tea seedlings in wet lands despite confirming that some of the tea seedlings that were planted in wetlands were drying up. Nursery operators and tea farmers are continuing to plant tea seedlings in the wet lands as evidenced below;

It is likely that tea plantations in the wet land will not survive over a long time and survival rates will be minimal in the short term.
Management explained that after noticing the high mortality of seedlings planted in wetlands, the NAADS technical team has previously advised their counterparts in Kabale District Local Government to discourage planting of tea in wetlands.

I advised the Accounting Officer to ensure OWC officials develop strict guidelines on allocation criteria for the intervention that includes among others certification of planting area which must not be a wetland.

e) **Un-plucked mature tea**
My inspection of various farmer gardens revealed several acreage of grown up Tea plantations which had not been plucked and tea sold contrary to objectives of the interventions that are meant to benefit the farmers by improving household incomes through the OWC model. These were identified in Hakegyezi Tea Plantation, Rubaya Sub county Tea Demonstration Farm and Kinioga Catholic Demonstration Garden. For instance, Twenty (20) acres of the Rubaya Sub county Tea Demonstration farm had grown up tea of more than two years but the District had never plucked tea leaves nor sold any product as evidenced below;

The District Local Government together with other beneficiaries might not have benefited from that tea as a result of not selling the tea leaves. Continuous supply of seedlings without subsequent sales is a waste of government resources.
Management explained that in Districts where there is a Lead Agency arrangements for promoting tea growing like the case of Kabale District Local Government, one of the responsibilities of the Lead Agency is providing marketing services for the green leaf as per the MOU. For Kabale district, plans are underway to construct a tea factory with funding through Uganda Development Corporation.

I advised the Accounting Officer to ensure District Production Officials sensitize tea farmers to dispose off mature tea and avoid further distribution of tea seedlings to them.

f) **Inadequate garden maintenance**
Agricultural interventions must be well maintained with proven scientific guidance as to spacing, planting weather season, weeding, weed spraying etc. in order to have well managed survival rates.

My inspection of various farmer gardens revealed that Tea Plantations were not properly maintained contrary to proven scientific maintenance models. These were identified in Hakegyezi Tea Plantation and Rubaya Sub county Tea Demonstration Farms. For instance, Hakagyezi Tea demonstration Farm which is approximately fifty (50) acres had only about Ten (10) acres along Kabale-Kisoro road that was well maintained with the rest of the large section (about 40 acres) poorly maintained. There was no evidence of recent weeding, slashing and weed spraying along the tea plantation as evidenced below;
Inadequately maintained gardens are wastage of government funds as seedlings supplied are suffocated by weeds. Further, government service delivery programmes are affected as planned inputs may not be realized for value addition.

Management explained that Districts with Lead Agency arrangements like the case of Kabale District Local Government, one of the responsibilities of the Lead Agency, is to mobilize and provide advisory/extension and related training services to farmers on proper agronomic practices among others jointly with technical staff of the District Local Government.

I advised the Accounting Officer to ensure OWC officials undertake close collaboration with the Local Governments for provision of effective extension services to the tea farmers.
9) **Gap filling shortages**

Inspections revealed that some big sections of the tea plantations required gap filling but this had not been carried out by the time of inspections. These gap filling shortfalls were noted in Kinioga Catholic Demonstration Garden in Kitumba Sub County along the Kabale – Katuna Road and Zadoki Mwarimu’s Tea Plantation in Kanyabwanga Sub County-Mitooma as evidenced below;

![Left: A Sections that require gap filling in Kinioga Catholic Demonstration Garden](image1)

**Right: Zadoki Mwarimu’s Tea Plantation planted during the months of Sept – Oct 2015 in Kanyabwanga Sub County-Mitooma**

This may result into low tea production per acre by the farmers in the future.

Management explained that a follow up of the beneficiary farmers will be done as soon as possible.

I advised the Accounting Officer to ensure OWC officials in conjunction with district officials follow up beneficiary farmers with a view of providing more seedlings for shortfalls noted provided they were not due to negligence on the part of farmers.

**98.6.1 Field inspection of other technologies**

Audit inspection carried out on various technologies in the beneficiary districts revealed that the implementation of these activities was in some cases not properly undertaken. The following highlights were noted;

a) **Supply of Heifers**
Inspection of sample heifer beneficiaries in Kabale, Rukungiri, Shema and Mukono districts revealed two key findings as below;

(i) **Supplies not commensurate with orders**

Paragraph 7.6(ii) of the Standing Orders of Procedure (SOP) for Operation Wealth Creation, 2015 requires various officials to ascertain quantity, quality and deliveries of inputs.

Contrary to the above, my inspections in various sub-counties of Kabale, Rukungiri and Shema districts for supplies amounting to UGX.778,304,600 revealed that although the call off orders were raised for in-calf heifers of 18-24 months of age each at UGX.2,200,000, i observed that 61 (58%) out of the 106 heifers inspected were not in-calf. Most of the farmers informed my team that calves of about 8 months were actually supplied despite the call off order specification. Summary details are as below;

<table>
<thead>
<tr>
<th>District</th>
<th>Procurement reference-Supplier</th>
<th>Amount</th>
<th>No. of heifers</th>
<th>Sampled inspections</th>
<th>Number not commensurate with order</th>
<th>age (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kabale</td>
<td>NAADS/BSKT/SUPLS/13-14/FRM1-M/s Rutaborwa</td>
<td>229,929,600</td>
<td>100</td>
<td>17</td>
<td>11</td>
<td>65</td>
</tr>
<tr>
<td>Rukungiri</td>
<td>NAADS/BSKT/SUPLS/13-14/FRM1-M/s Rutaborwa</td>
<td>329,875,000</td>
<td>145</td>
<td>70</td>
<td>39</td>
<td>56</td>
</tr>
<tr>
<td>Shema</td>
<td>NAADS/BSKT/SUPLS/13-14/FRM1-M/s Rutaborwa</td>
<td>218,500,000</td>
<td>95</td>
<td>19</td>
<td>11</td>
<td>58</td>
</tr>
</tbody>
</table>

778,304,600 340 106 61

Heifers supplied were thus over-priced the fact that they were under age and not in-calf.

Management explained that technical teams consisting of staff drawn from MAAIF, National Animal Genetic Resource and Data Bank (NAGRC&DB), National Animal Diseases Diagnostic and Epidemiology Centre (NADDEC) and NAADS identified and selected the heifers based on the specifications. Further, on delivery to the District headquarters, the District Veterinary Officers also carried
out further examination of the heifers to guarantee that they conform to the specifications before they were accepted and the payment was based among others on the subject matter specialist report (by a DVO).

I advised management to institute investigations on the supplied heifers and where misuse is confirmed, recovery measures be enforced.

(ii) **Sickly heifers**

Interviews with beneficiaries revealed that the animals were sickly, with some being tick infested and this resulted into beneficiary farmers incurring excessive payments for treatment. In Rukungiri eleven (11) heifers and in Shema four (4) heifers had succumbed to several illnesses and died. Further, interview with the Mukono District local government OWC officer revealed that out of the fifteen (15) cattle supplied, five (5) had died representing mortality rate of 33% and the beneficiary farmers also confirmed that they did not receive any care from specialists. As a result of the above, the interventions could not meet the planned targets as inferior supplies may have been made by the suppliers.

Management explained that at the time of identification and selection, all the heifers were healthy and did not show signs of clinical disease and were moved under valid movement permit issued by the District Veterinary Officer of the district of origin. Further, at the time of delivery to the beneficiary District, District Veterinary Officers examined the heifers and found them as per the subject matter specialist report.

I advised the Accounting Officer to ensure that beneficiary Districts put in place adequate follow up mechanisms with farmers so that the investments do not go to waste.

b) **Payment for supply of Boer Goats –UGX.88,500,000**
During the year under review, NAADS contracted a local supplier to supply three hundred (300) Boer goats to three districts of Isingiro, Mbarara and Kiruhura with one hundred (100) goats each at a contract sum of UGX.88,500,000 and the funds were subsequently paid in June 2016. I sampled the 100 goats supplied to Mbarara District and revealed the following anomalies;

(i) **Non-verification by district team**

There was no record confirming receipt of the technologies at the district. Similarly, the District Production Officer had no knowledge about the supply made. This significantly contradicts the distribution guidelines issued by the NAADS Secretariat which directs Local Governments to inspect and check the livestock to ensure that they meet the required standards as a quality assurance procedure.

(ii) **Lack of acknowledgement by beneficiaries**

The goats were received by one beneficiary farmer who verbally informed my team that the technologies were subsequently allocated to other farmers. Though the goats were meant for 10 different beneficiary farmers with each getting 10 goats, there was no documentation indicating otherwise.

(iii) **Purported allocations outside the District**

My inspection revealed that none of the 100 goats could be traced in the District. My team was taken to Kiruhura district where 30 goats were inspected. The farmer verbally informed my team that the other 70 goats were taken by the farmers (names of which were not known) to other districts in search of water and pastures. It should be noted that Kiruhura District had its own allocation although these were not independently inspected. As a result, none of the supplies made to Mbarara district could be independently verified.
Management explained that this support was provided under a special intervention and therefore the 100 goats were received by NAADS Secretariat staff and handed over to the chairperson of the youth group on one farm in Mbarara district in accordance with call-off order. Materials provided under such special allocations are not registered at the district level.

I advised the Accounting Officer to ensure that all funds expended under the NAADS vote are fully accounted for. Further, investigations should be instituted to confirm receipt by the intended beneficiaries.

c) **Inspection of Manafwa Dairy Farmers Cooperative Society-Milk Cooler**

The Milk Cooler was supplied in Bubulo District under NAADS with a capacity of 3000 litres and was inspected in August 2016. Some key issues were noted as below;

(i) **Unreliable power supply and mal-functioning generator**

At the time of inspection the machines were Idle due to unreliable electricity in the area and the generator charging system was not functional for a week.
(ii) **Inadequate generator security**

Inspection of the structure that houses the generator revealed that the security of the equipment could not be guaranteed as the structure was so inappropriate. Photographic evidence as below;

<table>
<thead>
<tr>
<th>Photographic evidence</th>
<th>remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Milk cooler under-utilized due to irregular power supply" /></td>
<td>Milk cooler under-utilized due to irregular power supply</td>
</tr>
<tr>
<td><img src="image2.png" alt="Poor quality generator house/shelter" /></td>
<td>Poor quality generator house/shelter</td>
</tr>
</tbody>
</table>

Idle equipment supplied to beneficiaries is wastage of public funds and no value for money spent is achieved.

Management explained that they had not been informed of the problem of the generator charging system and committed to make a follow up to address the problem. Further, they stated that post installation security for the generator and indeed for the entire equipment is a responsibility of the beneficiary group and promised to follow up on this matter.

I advised the Accounting Officer to undertake due diligence on beneficiaries and where capacity is insufficient then another group is identified.

**d) General Management of Technologies**

The following general observations were noted;
(i) **Transfer of Inputs to other Districts:**

I noted that some of the technologies distributed were not actually planted in the locality. A point in case is the OC Prison Buwanya Sub County (Masaka district) who was allocated 200 mango seedlings but only 100 seedlings were planted. Interview with the OC Prison revealed that she requested and received 200 seedlings with intentions of planting 100 seedlings at Prisons garden and the other 100 seedlings were planted at her home garden in Kyotera County in Rakai District. Of the planted seedlings, I observed they were properly maintained.

(ii) **Lack of clear guidelines on Technology allocation**

Paragraph 8.2(i) of the SOP of OWC 2015 requires the CAO and DPO to coordinate the planning selection and prioritization of enterprises and ascertaining of beneficiaries. In Lwengo district, I noted that management at the district headquarters had no clear allocation guidelines of technologies in regard to quantities received by the districts. Accordingly, upon receipt, inputs were directly advanced to OWC officers to distribute to the sub counties. Besides, inputs were given out randomly not adhering to the acreage rations.

(iii) **Lack of Technical Guidance**

I further observed that some of the beneficiary farmers undertook mixed cropping with a number of crops such as cassava, bananas, coffee, mangoes and citrus competing for the same nutrients. I also observed that farmers did not plant according to the guidelines issued by the secretariat. It was observed that in case of citrus seedlings, farmers adopted a spacing of 5ft by 5ft against the required 6m by 6m. In other cases, I noted that the inputs had totally dried up as shown below.
<table>
<thead>
<tr>
<th>S/N</th>
<th>Issue</th>
<th>Photographic evidence</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mixed cropping</td>
<td><img src="image1.jpg" alt="Image" /></td>
<td>Mixed cropping, cassava, banana, coffee, mangoes and citrus in one plantation - Lwengo District</td>
</tr>
</tbody>
</table>
| 2   | Dried up inputs            | ![Image](image2.jpg)                                                                  | **Left:** Withered citrus farm belonging to Kwijuka Justus in Kalisizo Parish - Lwengo District  
**Right:** Withered seedlings - Buwunga s/c - Masaka district |
| 3   | Inadequate spacing         | ![Image](image3.jpg)                                                                  | Poorly spaced seedlings for citrus - Buwunga s/c - Masaka district                                                                           |
Huge investments in agricultural interventions without clear guidance to the beneficiary farmers are wastage of resources and no value for money is achieved. Further, lack of clear allocation guidelines may disadvantage some districts and beneficiary farmers at the expense of others.

I advised the Accounting officer to draw up clear allocation guidelines to avoid instances of allocations of one district, sub-county, parish and village being utilised by another. Further, beneficiary districts extension staff should be sensitised on the urgency of farmer advisory services if the interventions are to have any meaningful impact.
SECTION THREE

STATUTORY CORPORATIONS AND STATE ENTERPRISES

99.0 STATUS OF ACCOUNTS AUDITED DURING THE YEAR

A total of 102 audits were undertaken in Statutory Corporations, Commissions, Boards, Circuits and Institutes during the period 1 January to 31st December 2016. Accordingly, separate audit reports have been issued for each of them. Out of the 102 accounts audited, 81 had unqualified opinions, 19 were qualified opinions while 2 were disclaimer opinions. The bases used to arrive at the audit opinions are described in the separate reports issued on the individual accounts. Details are in Appendix 1.

Figure 1: Proportion of Audit Opinions in the period under review:

99.1.1 Types of Opinions explained

(i) Unqualified Opinion

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

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

(iii) **Disclaimer of Opinion**

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

(iv) **Adverse Opinion**

The Auditor shall express an adverse opinion when the Auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

100.0 **KEY AUDIT FINDINGS**

A summary of the key audit findings arising from audit of Statutory Agencies and State Enterprises is highlighted below;

100.1 **Implementation of NAADS program**

The government through the Cabinet gave a directive that implementation of NAADS be changed from the Agricultural Technology and Agribusiness Advisory Services Project (ATAAS) project mode of provision of agricultural extension services to procurement of inputs for distribution. During the year, UGX.151.818Bn was spent on inputs but a number of challenges were faced by the program including inadequacies in the procurement of seeds, lack of proper verification of the distributed inputs, quality of inputs, delays in the delivery of inputs, failure to plant inputs and low germination rates.

There is need for government to review the entire supply chain of the inputs with a view of developing measures to mitigate the challenges.
100.2 Lack of guidelines for strategic investments

Government through the Uganda Development Corporation is undertaking investments countrywide in the areas of fruit processing and others and set up industries in Soroti, Luwero, Kabale and Kisoro districts. These investments cumulatively amounted to UGX.26.6Bn. However, I noted that there was no policy guideline to guide the establishment of these investments. Some of the investments have been undertaken without feasibility studies on marketability and commercial viability. There is need for government to develop the policy guidelines on how the strategic projects should be brought on board.

100.3 Utilization of Land at Namanve Industrial Park

Uganda Investment Authority (UIA) has over the years acquired and allocated over 2000 acres of land for industrial development across the country. I noted some matters regarding the utilisation of land at Namanve Industrial Park. These included; unutilised land totalling to 387.5 acres allocated to 88 investors, reallocation of 1,116 acreage of land reserved in the entire park to serve as a green belt recreation area, waste management area, roads, wetlands and residential housing reallocated to investors to set up industrial businesses. Further, it was noted that government handed over to Uganda Investment Authority an approximate area of 1006 hectares (about 2,485.83 acres). However, physical verification conducted by land surveyors reported only 896 hectares (about 2,214.02 acres) of land exists out of the 1,000 hectares handed over. This implies that currently UIA owns less land than originally allocated.

There is need for government to closely monitor the use of land at Namanve for it to achieve the intended objectives.

100.4 Costly arrangement for ferry operations

In April 2012 government signed a contract with Kalangala Infrastructure Services (KIS) to operate ferry transport services between Bukakata landing site in Masaka and Luuku landing. KIS was to also exclusively run and operate the 2 ferries on this water route and additionally maintain in motorable and all weather condition 38Km of roads on Bugala Island and 66 Km of roads in Bwendero. The concession granted to KIS was for 13 years starting January 2012.

During the year, Uganda National Roads Authority (UNRA) budgeted UGX.10 billion for the full operation of its 9 Ferries across the country. In contrast, UNRA remitted a total of UGX.14Bn to KIS for operations of the 2 ferries between Luuka and Bukakata in Kalangala islands which I find high as compared to the amount UNRA spends for the operations of its
9 Ferries. UNRA is expected to continue remitting to KIS annually which amount increases exponentially at 40% per year and the contract is currently in its 5th year of the 13 implementation period.

According to UNRA, the cost of acquiring a similar ferry like the one operated by KIS in the market on estimate is around UGX.14 to 18Bn. Management acknowledged that the payments made to KIS are too high to only cover reimbursements for running the ferries. There is need for government to review the appropriateness of this venture.

100.5 Delayed Expansion of the National Backbone Infrastructure (NBI) to support the provision of internet services to MDAs

National Information Technology Authority Uganda (NITAU) had signed an MoU with 74 MDAs for the provision of bandwidth services, billed government UGX.6,611,038,220 for the provision of the internet services and collected UGX.4,946,067,169. However, despite the revenue generated, the Authority has delayed to expand coverage of its wide internet services to include upcountry stations. As a result a number of MDAs had to incur extra costs to acquire internet bandwidth from private operators which would have been avoided if the Authority had fulfilled its mandate. As at the close of the financial year, a sum of UGX.9.053Bn had been paid to private service providers by three (3) of the government institutions alone to obtain internet services.

Low coverage of internet services hampers communication and service delivery in the affected entities and results into extra expenditure by MDAs on the internet services for upcountry offices.

There is need for government to facilitate the Authority to expedite the process of providing internet services countrywide in order to achieve its objectives of providing e-government services.

100.6 Under remittance of Gross Annual Revenue (GAR) Levy

An MOU was signed between Uganda Communications Commission (UCC), Ministry of Information and Communications Technology (MoICT) and National Information Technology Authority, Uganda (NITA-U) where UCC was required to remit 50% of the total Levy to the Consolidated Fund while other 50% were to be shared among four (4) ICT sector entities with RCDF taking 50% and the balance was to be shared by three (3) ICT entities in the proportions of UCC 30%, MoICT 25% and NITAU 45%.

During the year, total GAR levy collected by UCC amounted to UGX.46.3Bn and UCC was to release 31.2Bn to ICT sector entities and the Consolidated Fund. However, only UGX.17.6Bn was remitted leaving a balance of UGX.13.6Bn. According to management, the legality of the MOU was questionable as it can be seen as a form of appropriation of public
funds contrary to the Constitution of the Republic of Uganda, the Uganda Communications Act 2013 and the Public Finance Management Act 2015 and RCDF regulations, hence the reluctance to implement the MOU. Failure to release the funds hindered the implementation of activities of the intended beneficiary entities thereby affecting their planned targets.

There is need for the Attorney General and the Ministry of Finance, Planning and Economic Development to intervene in order to have the matter resolved.

100.7 Defaulting by the concessionaire of Kilembe Mines Ltd
I noted that the Concessionaire of Kilembe Mines Ltd assets has defaulted on key operational terms of the Concession agreement such as, non-payment of annual concession fees of USD 1,760,000, failure to invest the minimum capital expenditures totalling to USD 175 million by December 2016, non-provision of Unconditional Exploration bank guarantee and failure to submit acceptable Feasibility Study Reports on the Smelter and Tailings Pond Project.

Despite a default notice by government as provided in the agreement, no evidence of corrective action has been taken on the part of the concessionaire. In the circumstances the concessionaire’s ability to comply with the commitments under the agreement are doubtful, implying that the intended objectives of boosting the mineral production, provision of local employment and revenues to the government may not be realised.

100.8 Analysis of Performance of State Enterprises
Analysis of the performance of 22 state enterprises revealed the following status;

- Only ten (10) of the enterprises were profitable of which only one (1) declared dividends to the government during the year of audit.
- The liquidity of National Housing and Construction Company, Nakivubo War Memorial Stadium, Uganda Posts Limited and Mandela National Stadium was below the standard threshold of 1. This is an indicator that the enterprises may not be able to cover their current obligations from their current assets.
- Other than Kilembe Mines Limited, the New vision printing and publishing corporation, NEC construction works and engineering limited, and NEC Luweero Industries Limited the rest of the state enterprises had varying degrees of negative Return on Assets
- Seven (7) enterprises had debt ratios of more than 50% implying that most of their assets are financed by debt.
I advised government to review the operations of poorly performing enterprises with a view of turning them into profit making organizations as envisaged at their establishment.

**100.9 Funding constraints at the Examinations Board**

Review of UNEB’s approved budgets since FY 2012/13 to F/Y 2015/16 revealed that the board had continuously operated with a nil development budget from Government. Consequently, the Board incurs high fixed costs of UGX.500 million annually on hiring storage space in Industrial Area and Communications House.

I further noted that the board had accrued payables of UGX.1,922,936,935 as at 30\textsuperscript{th} June 2016 of which UGX.310,866,625 relates to unremitted PAYE and WHT to the Uganda Revenue Authority thereby exposing the entity to the risk of penalties.

The Board also had funding shortages in 2015/16 of UGX.6,483,625,000 and the projected shortfall for 2016/17 is UGX.8,092,591,000.

As a result of the funding constraints the Board has resorted to short term credit facilities, consequently increasing payables and the cost of managing examinations.

I advised government to ensure timely and adequate funding for the national exams.

**100.10 Performance of NEC Headquarters and Subsidiaries**

National Enterprise Corporation (NEC) was established by an Act of Parliament in 1987 with its own Board of Directors. NEC has established several subsidiaries through which it carries out activities in fulfillment of its Mission as set out in the Statute.

It was observed that the government has capitalized the companies to a tune of UGX.44.5Bn to finance their operations. However, the companies over a period of time have continued to make losses. The accumulated losses over the period amount to UGX.31.4Bn. A review of the objectives for which these companies were established indicates that the companies have not achieved their objectives. This was majorly attributed to inadequate structures and resources to support the activities of these companies.

There is need for government to review the operations of these companies with a view to establishing whether the initial objectives are still relevant and design strategies to overcome challenges currently faced by the companies.

**100.11 Sustainability of RCDF projects**
Government created the Rural Communications Development Fund (RCDF) to support communications interventions in areas that are underserved with the overall goal of ensuring that those areas get access to communications services that are comparable to those in the served areas. In doing this RCDF supported basic ICT integration in the schools and health centres in various districts across the country.

I observed that RCDF spent a sum of UGX.61Bn and UGX.114.9Bn to cater for digital migration and ICT subsidies such as computers and related software to schools and health centres. However, the sustainability of the projects appears to be difficult as the beneficiaries of the computers lacked; the ability to manage and operate computers, reliable internet connectivity and speedy integration of ICT into user activity. In addition, high student computer ratio in schools and high costs of internet reduced the impact of implementation of the Fund.

With the above implementation challenges, the Fund may not achieve the intended objectives.

I advised government to engage the relevant authorities with a view to develop a strategy that will sustain the Fund’s ICT initiatives in schools and health centres by funding internet and computer maintenance services.

100.12 Outstanding advances to contractors – UGX. 765,673,455,447

Receivables in form of advance payments to road contractors to the tune of UGX.765,673,455,447 remained outstanding in UNRA records at the close of the financial year. I noted that some of these receivables have been outstanding for more than two years which is a reflection of slow moving projects. I informed management that huge outstanding receivables for advance payments tie up government road funds in slow moving projects that would have been utilized for clearance of outstanding certificates. I advised government to consider reducing the percentage of advance payment to contractors to an acceptable level since they are evaluated on financial capacity (liquidity) and passed during evaluation. Further, the advance recovery period should be reduced to ensure that contractors do not delay the works.

100.13 Winding up of activities of DAPCB

Departed Asians Properties Custodian Board (DAPCB) was established to take over and manage all assets transferred to it by virtue of section 13 of the Assets of Departed Asians Decree of 1973. On 19th December 2014, cabinet directed the winding up of DAPCB.
However, it was noted that the winding up process had not been undertaken to-date. I noted a number of pending activities that need to be undertaken and yet the Board has not acted upon them. These activities include; valuation of properties, preparation of books of accounts and appointment of officers to manage the Board activities during the winding up process. The continued operation of the DAPCB without appropriate structures could lead to loss of the remaining properties.

There is need for government to develop a clear roadmap outlining the activities to be undertaken in the process of winding up and ensuring their implementation.

100.14 Failure to establish Cotton Revolving Fund

Government directed that a revolving fund be created to ensure that Cotton Development Authority (CDO) procures lint bales and store in a buffer to allow adequate supply and stability in the cotton prices. Subsequently, government released UGX.10Bn to secure cotton buffer stocks for value addition. It was observed that government has not realized minimal sales from the buffer stock and the revolving fund has not been put in place as envisaged. I advised that government follows up the matter with a view of achieving the intended Fund objectives.

100.15 Delayed implementation of the study findings on drought and mortality impact assessment in Uganda Coffee Agriculture

In October 2015, Uganda Coffee Development Authority (UCDA) commissioned a study on "Drought and Mortality Impact Assessment in Uganda Coffee Agriculture" to analyze and assess the impact of drought and associated risks on coffee production as well as the adaptation strategies used by coffee farmers to manage the risks. The study came up with recommendations which were presented and approved by the Board. These include water harvesting, irrigation technologies, use of shed trees and development of drought resistant varieties. The cost implication for both the studies and proposed options to manage impacts of drought in coffee production was estimated at UGX.39.1 billion.

I noted that management had not implemented the recommendations of the study. A review of the findings and experience from field inspections revealed that UCDA had spent UGX.70 billion on the replanting of coffee in the last two years.

I advised government to consider the recommendations to improve coffee

100.16 Special audit on Uganda Broadcasting Corporation (UBC)

UBC is a State Corporation established by the Uganda Broadcasting Corporation Act, 2005. A forensic investigation into its operations revealed mismanagement of the Corporation. I
noted that for a long period of time from (2011 to 2014) the corporation did not have a functional Board despite the provision in the law. There was no substantive CEO, and no clear mechanism for providing direction. The absence of a functional Board during that period created a power vacuum and deprived the Corporation of a dedicated oversight body that was supposed to govern the organization. As a result, there were no approved management policies, such as Human Resource Policy, Financial Management Policy, Recruitment & Promotions policies, among others. This left most of the decisions at the discretion of a few individuals, thus leading to anomalies which included: employment of staff with inappropriate qualifications; prolonged stay of staff in acting capacity; revenue mismanagement leading to fraudulent charging of sales commission by UBC staff totalling to UGX.432 million and loss of future revenue of about UGX.2.5 billion; payment of suppliers through staff personal bank accounts, among others. In addition, a number of Corporation assets, especially from up-country, were not properly managed.

I advised Government to look into the matters noted in my report and have all persons culpable held responsible.

100.17 Discrepancies between ordered and delivered medicines

Section 2.3 of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS) requires NMS to procure the aggregated requirements of the health facilities and distribute them against orders submitted by the health facility in compliance with the published schedule. However audit inspection of various health facilities in the 50 Districts revealed that National Medical Stores did not supply all the medicines ordered. An engagement with NMS revealed that there were many considerations that determine the quantities delivered like; Facilities procurement plans, approved budgets of the facilities, Funds available to the facilities, and availability of the essential medicines and health supplies at the time of order processing. There is need to further enhance the entire medicines supply chain to enable citizens access essential medicines in a timely manner.

100.18 Non disposal of expired medicines

Section 1.1.1 (f) of the Memorandum of Understanding (MoU) between the Government of Uganda (GoU) and the National Medical Stores (NMS) requires the Ministry of Health to communicate mechanisms of reducing expiries, carry out periodic collection and disposal of expired medicines from the districts and health facilities in collaboration with Ministry of Local Government and National Medical Stores. However, it was observed that there were expired medicines in 46 districts that had not been collected for disposal for a period
ranging from 6 months to 2 years. This creates a risk that the expired medicines may end up on the market and be misused. I advised government to ensure that the expired medicines are disposed off promptly.

101.0 **SUMMARY OF GENERAL AUDIT FINDINGS**

101.1 **Analysis of Performance of State Enterprises**

(a) **Dividends payment**

The Government of Uganda owns shares in a number of State Enterprises which are independently managed. These enterprises are required to operate in a profitable manner and pay dividends to Government. I noted that only one state enterprise paid dividends to its shareholders in the year under review as shown in table 1 below:

Table 1: Dividends payment

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Shareholding</th>
<th>Profit/Loss</th>
<th>Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kilembe Mines Limited</td>
<td>100%</td>
<td>35,250,843,952</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>National Water and Sewerage Corporation</td>
<td>100%</td>
<td>24,883,704,000</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Electricity Generation Company Limited</td>
<td>100%</td>
<td>13,507,712,000</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Nile Hotel International Limited</td>
<td>100%</td>
<td>12,283,114,012</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>National Housing and Construction Company</td>
<td>51%</td>
<td>5,874,187,000</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>The New Vision</td>
<td>53.3%</td>
<td>4,927,793,000</td>
<td>3,825,000,000</td>
</tr>
<tr>
<td>7</td>
<td>NEC Luwero Industries Ltd</td>
<td>100%</td>
<td>2,299,007,311</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Post Ltd</td>
<td>100%</td>
<td>1,010,253,759</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>NEC Construction works And Engineering Ltd</td>
<td>100%</td>
<td>246,913,340</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Wildlife Education Centre</td>
<td>100%</td>
<td>44,227,377</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Uganda Energy Credit and Capitalization Company Limited</td>
<td>100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Nakivubo War Memorial Stadium</td>
<td>100%</td>
<td>-23,681,723</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>NEC Farm Katonga Ltd</td>
<td>100%</td>
<td>-44,680,894</td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>NEC TRACTOR PROJECT</td>
<td>100%</td>
<td>-126,393,672</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>NEC Tractor Hire Scheme Ltd</td>
<td>100%</td>
<td>-304,321,615</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Mandela National Stadium</td>
<td>100%</td>
<td>-323,544,532</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Uganda National Cultural Center</td>
<td>100%</td>
<td>-432,030,685</td>
<td>0</td>
</tr>
<tr>
<td>18</td>
<td>Uganda Air Cargo</td>
<td>100%</td>
<td>-1,539,035,851</td>
<td>0</td>
</tr>
<tr>
<td>19</td>
<td>Uganda Broadcasting Corporation (UBC)</td>
<td>100%</td>
<td>-2,162,630,779</td>
<td>0</td>
</tr>
<tr>
<td>20</td>
<td>Uganda Railways Corporation</td>
<td>100%</td>
<td>-4,128,730,000</td>
<td>0</td>
</tr>
<tr>
<td>21</td>
<td>Uganda Electricity Distribution Company Limited</td>
<td>100%</td>
<td>-9,283,713,000</td>
<td>0</td>
</tr>
<tr>
<td>22</td>
<td>Uganda Electricity Transmission Company Limited</td>
<td>100%</td>
<td>-20,768,000,000</td>
<td>0</td>
</tr>
</tbody>
</table>
I also noted that most of the enterprises made losses from their operating activities. The shareholders are advised to review the operations of these enterprises with a view of turning them into profit making organizations.

(b) **Liquidity assessment**

I undertook the assessment of government enterprises’ liquidity positions to determine their ability to use their current assets to pay off their current obligations and still be able to fund their ongoing operations. The higher the liquidity ratio the more an enterprise is able to meet its current obligations.

I however noted that the liquidity of National Housing and Construction Company, Nakivubo War Memorial Stadium, Uganda Posts Limited and Mandela National Stadium was below the standard threshold of 1. Table 2 below refers. This is an indicator that most of the enterprises are not able to cover their current obligations and continue operating.

Table 2: Liquidity assessment

<table>
<thead>
<tr>
<th>No</th>
<th>ENTITY</th>
<th>CURRENT RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NEC TRACTOR PROJECT</td>
<td>41.65</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Broadcasting Corporation (UBC)</td>
<td>11.88</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Electricity Distribution Company Limited</td>
<td>6.30</td>
</tr>
<tr>
<td>4</td>
<td>New Vision</td>
<td>4.50</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Energy Credit and Capitalisation Company Limited</td>
<td>3.80</td>
</tr>
<tr>
<td>6</td>
<td>Kilembe Mines Limited</td>
<td>3.60</td>
</tr>
<tr>
<td>7</td>
<td>Nile Hotel International Limited</td>
<td>3.30</td>
</tr>
<tr>
<td>8</td>
<td>NEC Tractor Hire Scheme Ltd</td>
<td>2.19</td>
</tr>
<tr>
<td>9</td>
<td>National Water and Sewerage Corporation</td>
<td>2.06</td>
</tr>
<tr>
<td>10</td>
<td>NEC Construction works And Engineering Ltd</td>
<td>1.94</td>
</tr>
<tr>
<td>11</td>
<td>Uganda Electricity Generation Company Limited</td>
<td>1.80</td>
</tr>
<tr>
<td>12</td>
<td>Uganda Air Cargo</td>
<td>1.51</td>
</tr>
<tr>
<td>13</td>
<td>Uganda Electricity Transmission Company Limited</td>
<td>1.30</td>
</tr>
<tr>
<td>14</td>
<td>Uganda National Cultural Center</td>
<td>1.10</td>
</tr>
<tr>
<td>15</td>
<td>NEC Farm Katonga Ltd</td>
<td>1.09</td>
</tr>
<tr>
<td>16</td>
<td>NEC Luwero Industries Ltd</td>
<td>1.05</td>
</tr>
<tr>
<td>17</td>
<td>Uganda Wildlife Education Center</td>
<td>1.00</td>
</tr>
<tr>
<td>18</td>
<td>Nakivubo War Memorial Stadium</td>
<td>0.76</td>
</tr>
<tr>
<td>19</td>
<td>Mandela National Stadium</td>
<td>0.42</td>
</tr>
<tr>
<td>20</td>
<td>National Housing and Construction Company</td>
<td>0.02</td>
</tr>
<tr>
<td>21</td>
<td>Uganda Post Ltd</td>
<td>0.00</td>
</tr>
<tr>
<td>22</td>
<td>Uganda Railways Corporation</td>
<td>0.00</td>
</tr>
</tbody>
</table>

(c) **Debt ratio**

Debt ratio measures the proportion of the enterprises’ asset that are financed by debt. Although the risk levels of the debt ratio vary from industry to industry in
which these enterprises are operating, I noted that seven (7) enterprises had debt ratios of more than 50% implying that most of their assets are financed by debt. Details are shown in table 3 below;

Table 3: Debt ratio

<table>
<thead>
<tr>
<th>No</th>
<th>ENTITY</th>
<th>DEBT RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nile Hotel International Limited</td>
<td>0.60%</td>
</tr>
<tr>
<td>2</td>
<td>Mandela National Stadium</td>
<td>2.00%</td>
</tr>
<tr>
<td>3</td>
<td>Nakivubo</td>
<td>2.00%</td>
</tr>
<tr>
<td>4</td>
<td>Uganda Wildlife Education Center</td>
<td>2.00%</td>
</tr>
<tr>
<td>5</td>
<td>NEC Farm Katonga Ltd</td>
<td>3.25%</td>
</tr>
<tr>
<td>6</td>
<td>Uganda Broadcasting Corporation (UBC)</td>
<td>3.44%</td>
</tr>
<tr>
<td>7</td>
<td>Kilembe Mines Limited</td>
<td>14.00%</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Energy Credit and Capitalisation Company Limited</td>
<td>14.00%</td>
</tr>
<tr>
<td>9</td>
<td>NEC TRACTOR PROJECT</td>
<td>14.39%</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Air Cargo</td>
<td>16.98%</td>
</tr>
<tr>
<td>11</td>
<td>New Vision Printing and Publishing Corporation</td>
<td>18.00%</td>
</tr>
<tr>
<td>12</td>
<td>NHCC</td>
<td>22.80%</td>
</tr>
<tr>
<td>13</td>
<td>NEC Luwero Industries Ltd</td>
<td>35.07%</td>
</tr>
<tr>
<td>14</td>
<td>UgandaPost Ltd</td>
<td>42.05%</td>
</tr>
<tr>
<td>15</td>
<td>Uganda Railways Corporation</td>
<td>49.27%</td>
</tr>
<tr>
<td>16</td>
<td>NEC Construction works And Engineering Ltd</td>
<td>50.72%</td>
</tr>
<tr>
<td>17</td>
<td>Uganda Electricity Generation Company Limited</td>
<td>53.00%</td>
</tr>
<tr>
<td>18</td>
<td>National Water and Sewerage Corporation</td>
<td>62.00%</td>
</tr>
<tr>
<td>19</td>
<td>NEC Tractor Hire Scheme Ltd</td>
<td>65.42%</td>
</tr>
<tr>
<td>20</td>
<td>Uganda Electricity Transmission Company Limited</td>
<td>77.00%</td>
</tr>
<tr>
<td>21</td>
<td>Uganda Electricity Distribution Company Limited</td>
<td>81.00%</td>
</tr>
<tr>
<td>22</td>
<td>Uganda National Cultural Center</td>
<td>90.00%</td>
</tr>
</tbody>
</table>

There is need for the enterprise to strengthen their internal operations and ensure proper balance of use of debt.

\(d\) Return on assets

Return on assets is an indicator of how profitable an enterprise is relative to its total assets and how efficient management is, at using the enterprise’s assets to generate earnings.

I noted that other than Kilembe Mines Limited, the New vision printing and publishing corporation, NEC construction works and engineering limited, and NEC Luweero Industries Limited the rest of the state enterprises had varying degrees of negative Return on Assets as indicated in table 4 below. I noted that Kilembe Mines Limited had a favorable ratio because of the cancellation of the European Investment Bank Loan.

Table 4: Return on assets

<table>
<thead>
<tr>
<th>No</th>
<th>ENTITY</th>
<th>RETURN ON ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kilembe Mines Limited</td>
<td>106.00%</td>
</tr>
<tr>
<td>2</td>
<td>NEC Construction works And Engineering Ltd</td>
<td>25.94%</td>
</tr>
</tbody>
</table>
3 | NEC Luwero Industries Ltd | 12.91%
4 | New Vision Printing and publishing Corporation | 8.50%
5 | Nile Hotel International Limited | 6.00%
6 | National Water and Sewerage Corporation | 2.00%
7 | National Housing and Construction Company | 1.56%
8 | Uganda Electricity Generation Company Limited | 1.34%
9 | Uganda Post Ltd | 0.97%
10 | Uganda Wildlife Education Center | 0.30%
11 | Uganda Energy Credit and Capitalisation Company Limited | 0.00%
12 | Nakivubo War Memorial Stadium | 0.00%
13 | Mandela National Stadium | -0.18%
14 | Uganda Electricity Distribution Company Limited | -0.77%
15 | Uganda Air Cargo | -1.99%
16 | Uganda Broadcasting Corporation (UBC) | -3.09%
17 | Uganda National Cultural Center | -3.38%
18 | Uganda Railways Corporation | -3.44%
19 | NEC TRACTOR PROJECT | -5.40%
20 | NEC Farm Katonga Ltd | -5.95%
21 | Uganda Electricity Transmission Company Limited | -6.01%
22 | NEC Tractor Hire Scheme Ltd | -40.41%

The management teams of these government enterprises are advised to ensure that they make efficient use of

(e) **Wasteful/ Nugatory Expenditure**

I noted cases of nugatory expenditure of UGX.680,166,729 in five (05) entities. These arose as a result of interest on breach of contracts, litigation costs among others. I observed that these costs could have been avoided if management of the respective entities had acted prudently. Table 5 below refers;

Table 5: Wasteful/Nugatory Expenditure

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Particulars</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda Aids Commission</td>
<td>Litigation costs arising from irregular termination of staff contract.</td>
<td>35,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Rural Electrification Agency</td>
<td>Accumulated demurrage due to delayed settlement of taxes on contract for construction of power networks.</td>
<td>178,842,229</td>
</tr>
<tr>
<td>3</td>
<td>Mandela National Stadium</td>
<td>Settlement of undisclosed domestic arrears</td>
<td>156,202,484</td>
</tr>
<tr>
<td>4</td>
<td>NEC Works</td>
<td>PAYE penalties that resulted from late remittances of PAYE of the previous years.</td>
<td>56,782,016</td>
</tr>
<tr>
<td>5</td>
<td>Nile Hotel International Limited</td>
<td>Cost for suit regarding the settlement of claim by ex-workers</td>
<td>8,940,000</td>
</tr>
<tr>
<td>6</td>
<td>Uganda National Roads Authority</td>
<td>interest (1.8% per month) charged on outstanding balance on payments to carry out advertising and construction</td>
<td>244,400,000</td>
</tr>
</tbody>
</table>

**Total** | **680,166,729**
101.2 Pending Legal Cases

I noted that seven (07) entities had ongoing court cases whose outcomes were still uncertain except for NFA where the amount was already decided by court. Table 6 below refers. Their eventual determination/payment could have a significant effect on the cash flows and ability of the concerned entities to continue as going concerns.

I advised management to ensure due diligence is undertaken in carrying out its work to safeguard against unfavourable court outcomes.

Table 6: Legal cases

<table>
<thead>
<tr>
<th>S/N</th>
<th>ENTITY</th>
<th>Estimated Legal Costs (UGX)</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>National Drug Authority</td>
<td>113,599,025,876</td>
<td>Case not concluded</td>
</tr>
<tr>
<td>2</td>
<td>National Council for Higher Education</td>
<td>100,000,000</td>
<td>Case not conclude</td>
</tr>
<tr>
<td>3</td>
<td>Kampala Capital City Authority</td>
<td>100,789,450,678</td>
<td>Case not conclude</td>
</tr>
<tr>
<td>4</td>
<td>National Forestry Authority</td>
<td>383,458,573</td>
<td>Case concluded</td>
</tr>
<tr>
<td>5</td>
<td>Nakivubo War Memorial Stadium</td>
<td></td>
<td>Amount not determined</td>
</tr>
<tr>
<td>6</td>
<td>National Medical Stores</td>
<td></td>
<td>Amount not determined</td>
</tr>
<tr>
<td>7</td>
<td>National Environment Management Authority</td>
<td></td>
<td>Amount not determined</td>
</tr>
<tr>
<td>8</td>
<td>Kilembe Mines Ltd</td>
<td></td>
<td>Amount not determined</td>
</tr>
<tr>
<td>9</td>
<td>Uganda Railways Corporation</td>
<td></td>
<td>Amount not determined</td>
</tr>
<tr>
<td>9</td>
<td>Dairy Development Authority</td>
<td></td>
<td>Amount not determined</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>214,871,935,127</td>
<td></td>
</tr>
</tbody>
</table>

101.3 Staff Shortages

A review of the approved staffing structures of various entities revealed a total of 1,416 vacancies in 20 entities. Inadequate staffing affects the timely implementation of entity activities and may adversely impact on attainment of their strategic objectives. Table 7 below refers.

The respective Accounting Officers were advised to liaise with all stakeholders and have the vacancies filled to enable the entities to adequately deliver on their mandate.
<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Established posts</th>
<th>Filled posts</th>
<th>Vacant posts</th>
<th>%age of Gap</th>
<th>Key Posts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Higher Education Students Financing Board</td>
<td>36</td>
<td>21</td>
<td>15</td>
<td>42%</td>
<td>Directors of Loans and Administration, Finance and Administration, and the Manager Recoveries</td>
</tr>
<tr>
<td>2</td>
<td>The Hotel And Tourism Training Institute</td>
<td>114</td>
<td>96</td>
<td>18</td>
<td>16%</td>
<td>Deputy Principal, Human Resource manager, marketing manager and Dean of students</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Tourism Board</td>
<td>52</td>
<td>31</td>
<td>21</td>
<td>40%</td>
<td>Manager Quality Assurance, Regulation and licensing, Manager Research and Planning, Manager Private Sector Development, ICT Manager, Legal Affairs Executive and Stores Assistant.</td>
</tr>
<tr>
<td>4</td>
<td>National Council for Higher Education</td>
<td>95</td>
<td>39</td>
<td>56</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Uganda Aids Commission</td>
<td>82</td>
<td>51</td>
<td>31</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Uganda Registration Service Bureau</td>
<td>158</td>
<td>148</td>
<td>10</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>National Agricultural Advisory services</td>
<td>49</td>
<td>45</td>
<td>4</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Dairy Development Authority</td>
<td>78</td>
<td>62</td>
<td>16</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Uganda Coffee Development Authority</td>
<td>138</td>
<td>109</td>
<td>29</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>National Animal Genetic Resource Centre &amp; Databank</td>
<td>330</td>
<td>290</td>
<td>40</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Uganda Road Fund</td>
<td>47</td>
<td>44</td>
<td>3</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Uganda National Roads Authority</td>
<td>1740</td>
<td>1021</td>
<td>719</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Uganda Communications Commission</td>
<td>179</td>
<td>151</td>
<td>28</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Uganda Retirement Regulatory Authority</td>
<td>57</td>
<td>28</td>
<td>29</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Insurance Authority</td>
<td>41</td>
<td>32</td>
<td>9</td>
<td>22%</td>
<td>Director HR, Director Health Insurance, Assistant Director Finance and Manager Finance</td>
</tr>
<tr>
<td>16</td>
<td>Financial Intelligence Authority</td>
<td>42</td>
<td>21</td>
<td>21</td>
<td>50%</td>
<td>Directors</td>
</tr>
<tr>
<td>17</td>
<td>Uganda Free zone Authority</td>
<td>47</td>
<td>27</td>
<td>20</td>
<td>43%</td>
<td>Internal Auditor, Manager Finance, Manager Corporate Affairs, Manager Research, Planning &amp; Policy, and Procurement Executive</td>
</tr>
<tr>
<td>18</td>
<td>Uganda National Bureau of Standards</td>
<td>562</td>
<td>236</td>
<td>326</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Uganda Export Promotions Board</td>
<td>40</td>
<td>23</td>
<td>17</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Uganda Veterans Assistance Board</td>
<td>21</td>
<td>17</td>
<td>4</td>
<td>19%</td>
<td></td>
</tr>
</tbody>
</table>

Total: 3,908, 2,492, 1,416
101.4 Expenditure on Rent

During the year, I noted that 26 organizations incurred UGX.23,526,402,007 and USD.1,563,600 for hire of office space premises. Table 8 below refers. This rental expenditure is a constraint on Government resources. There is need for Government to evaluate continued payment of rent as opposed to construction of its own premises.

Table 8: Actual Expenditure on rent

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Annual Rent paid (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda Revenue Authority</td>
<td>7,580,497,887</td>
</tr>
<tr>
<td>2</td>
<td>Pride Micro Finance</td>
<td>2,658,211,000</td>
</tr>
<tr>
<td>3</td>
<td>Post Bank Uganda</td>
<td>2,188,786,070</td>
</tr>
<tr>
<td>4</td>
<td>Several Ministry of education department Departments</td>
<td>1,997,187,615</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Development Bank</td>
<td>1,405,782,000</td>
</tr>
<tr>
<td>6</td>
<td>Financial Intelligence Authority</td>
<td>1,264,653,750</td>
</tr>
<tr>
<td>7</td>
<td>National Agricultural Advisory Services Secretariat</td>
<td>899,362,448</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Investment Authority</td>
<td>750,481,892</td>
</tr>
<tr>
<td>9</td>
<td>Uganda Freezone Authority</td>
<td>696,557,208</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Railways Corporation( Various Properties)</td>
<td>600,967,692</td>
</tr>
<tr>
<td>11</td>
<td>Insurance Regulatory Authority</td>
<td>526,940,794</td>
</tr>
<tr>
<td>12</td>
<td>Public Procurement and Disposal Authority</td>
<td>458,036,400</td>
</tr>
<tr>
<td>13</td>
<td>Uganda Development Corporation</td>
<td>360,913,000</td>
</tr>
<tr>
<td>14</td>
<td>Capital Market Authority</td>
<td>320,940,000</td>
</tr>
<tr>
<td>15</td>
<td>UNEB</td>
<td>311,520,000</td>
</tr>
<tr>
<td>16</td>
<td>Uganda Road Fund</td>
<td>255,693,644</td>
</tr>
<tr>
<td>17</td>
<td>Higher education students financing Board</td>
<td>238,000,000</td>
</tr>
<tr>
<td>18</td>
<td>POSTA (Various Districts)</td>
<td>194,494,567</td>
</tr>
<tr>
<td>19</td>
<td>UNMEB</td>
<td>132,840,000</td>
</tr>
<tr>
<td>20</td>
<td>UBTEB</td>
<td>130,000,000</td>
</tr>
<tr>
<td>21</td>
<td>Physical education and sports</td>
<td>129,434,305</td>
</tr>
<tr>
<td>22</td>
<td>Albertine project</td>
<td>126,112,135</td>
</tr>
<tr>
<td>23</td>
<td>UAHEB</td>
<td>103,986,000</td>
</tr>
<tr>
<td>24</td>
<td>ADBV, Korean IV project</td>
<td>79,556,729</td>
</tr>
<tr>
<td>25</td>
<td>National Agricultural Advisory Services Secretariat (Plot 5 Kyadondo Road) Nakasero, Kampala</td>
<td>79,446,871</td>
</tr>
<tr>
<td>26</td>
<td>Council for Disability</td>
<td>36,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>23,526,402,007</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Annual Rent paid (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda National Roads Authority</td>
<td>1,274,400</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Road Fund (Plot 10 Kafu Road Kampala.)</td>
<td>289,200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,563,600</strong></td>
</tr>
</tbody>
</table>
101.5 **Budget Performance**

a) **Budget Shortfalls**

I noted that twenty one (21) entities budgeted for UGX.3,247,020,410,073 but only received UGX.2,971,952,052,989 from GoU translating to 92% out-turn for the financial year. This left a funding gap of UGX.26,593,146,811. Details are in table 9 below. Failure to realize the budgeted funds by entities constrains implementation of planned activities which affects the achievement of their mandates.

I advised the management of these entities to liaise with MoFPED to ensure that the budgeted funds are released.

<table>
<thead>
<tr>
<th>No</th>
<th>Entity</th>
<th>Revised Budget</th>
<th>Actual Releases</th>
<th>Variance</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda National Roads Authority</td>
<td>2,084,364,854,517</td>
<td>1,970,634,662,282</td>
<td>113,730,192,235</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Road Fund</td>
<td>417,930,492,052</td>
<td>357,624,978,236</td>
<td>60,305,513,816</td>
<td>14</td>
</tr>
<tr>
<td>3</td>
<td>URA Corporate</td>
<td>236,882,204,000</td>
<td>218,743,238,964</td>
<td>18,138,965,036</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>National Agricultural Advisory Services</td>
<td>184,974,000,000</td>
<td>183,470,542,276</td>
<td>1,503,457,724</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>National Agricultural Research Organization</td>
<td>44,619,600,592</td>
<td>41,423,989,762</td>
<td>3,195,610,830</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Inter Connection of Electrical Grids of Nile Equatorial Lakes Countries (NELSAP)</td>
<td>30,470,000,000</td>
<td>2,730,000,000</td>
<td>27,740,000,000</td>
<td>91</td>
</tr>
<tr>
<td>7</td>
<td>Cotton Development Organisation</td>
<td>21,062,176,808</td>
<td>13,459,928,589</td>
<td>7,602,248,219</td>
<td>36</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Registration Service Bureau</td>
<td>14,715,033,644</td>
<td>14,339,373,456</td>
<td>375,660,188</td>
<td>3</td>
</tr>
<tr>
<td>9</td>
<td>Uganda Industrial Research Institute</td>
<td>14,340,221,315</td>
<td>13,274,104,375</td>
<td>1,066,116,940</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Tourism Board</td>
<td>13,518,457,453</td>
<td>10,348,550,380</td>
<td>3,169,907,073</td>
<td>23</td>
</tr>
<tr>
<td>11</td>
<td>Uganda National Planning Authority</td>
<td>12,828,194,000</td>
<td>10,409,295,380</td>
<td>2,418,898,120</td>
<td>19</td>
</tr>
<tr>
<td>12</td>
<td>National Meteorological Authority</td>
<td>12,777,003,000</td>
<td>8,778,839,991</td>
<td>3,998,163,009</td>
<td>31</td>
</tr>
<tr>
<td>13</td>
<td>Public Procurement and Disposal Authority</td>
<td>10,722,547,751</td>
<td>8,184,455,389</td>
<td>2,538,092,362</td>
<td>24</td>
</tr>
<tr>
<td>14</td>
<td>Law Development Centre</td>
<td>9,651,825,000</td>
<td>9,532,954,400</td>
<td>118,870,600</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>Uganda Freezone Authority</td>
<td>3,454,934,000</td>
<td>3,002,687,900</td>
<td>452,246,100</td>
<td>13</td>
</tr>
<tr>
<td>16</td>
<td>National Animal Genetic Resource Centre</td>
<td>5,020,000,000</td>
<td>4,293,557,976</td>
<td>726,442,024</td>
<td>14</td>
</tr>
<tr>
<td>17</td>
<td>Dairy Development Authority</td>
<td>5,100,305,000</td>
<td>4,209,042,231</td>
<td>891,262,769</td>
<td>17</td>
</tr>
<tr>
<td>18</td>
<td>Judicial Service Commission</td>
<td>3,432,673,562</td>
<td>2,929,110,333</td>
<td>503,563,229</td>
<td>15</td>
</tr>
<tr>
<td>19</td>
<td>Uganda Law</td>
<td>10,075,887,379</td>
<td>9,635,099,958</td>
<td>440,787,421</td>
<td>4</td>
</tr>
</tbody>
</table>
b) Under-performance on Non Tax Revenue

Analysis of local revenue collection trends in twenty five (25) entities revealed that there were shortfalls in NTR collections for the year under review. While these entities had budgeted to collect UGX.897,665,286,141 only UGX.576,323,022,457 was realized creating a short fall of UGX.321,342,263,684 equivalent to 36%. Table 10 below refers.

Failure to collect all the budgeted revenue undermines the implementation of planned activities and is an indication of weak internal procedures used in the collection of revenue.

The management of entities in question were advised to prepare more realistic budgets and devise comprehensive internal procedures for revenue collection.

Table 10: Underperformance of NTR

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
<th>%ag e</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kampala Capital City Authority</td>
<td>230,153,714,225</td>
<td>211,541,979,889</td>
<td>18,611,734,336</td>
<td>8.09</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Communications Commission</td>
<td>97,281,000,000</td>
<td>86,108,040,527</td>
<td>11,172,959,473</td>
<td>11.49</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Railway Corporation</td>
<td>18,506,000,000</td>
<td>6,080,474,000</td>
<td>12,425,526,000</td>
<td>67.14</td>
</tr>
<tr>
<td>4</td>
<td>Uganda Institute of Communication Technology</td>
<td>4,138,472,814</td>
<td>2,509,608,537</td>
<td>1,628,864,277</td>
<td>39.36</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Broadcasting Corporation</td>
<td>20,225,000,000</td>
<td>10,393,532,524</td>
<td>9,831,467,476</td>
<td>48.61</td>
</tr>
<tr>
<td>6</td>
<td>Uganda Service Bureau Registration Service Bureau</td>
<td>46,500,000,000</td>
<td>27,957,335,378</td>
<td>18,542,664,622</td>
<td>39.9</td>
</tr>
<tr>
<td>7</td>
<td>National Technology Authority-Uganda</td>
<td>39,700,997,516</td>
<td>32,573,157,134</td>
<td>7,127,840,382</td>
<td>17.95</td>
</tr>
<tr>
<td>8</td>
<td>National Agricultural Research Organisation</td>
<td>7,008,822,000</td>
<td>2,586,827,726</td>
<td>4,421,994,274</td>
<td>63.1</td>
</tr>
<tr>
<td>9</td>
<td>National Animal Genetic Resource Centre &amp; Databank</td>
<td>800,000,000</td>
<td>684,756,900</td>
<td>115,243,100</td>
<td>14.4</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Retirement Benefit Regulatory Authority</td>
<td>599,170,785</td>
<td>427,517,128</td>
<td>171,653,657</td>
<td>28.6</td>
</tr>
<tr>
<td>11</td>
<td>Bank of Uganda</td>
<td>200,000,000,000</td>
<td>147,092,000,000</td>
<td>52,908,000,000</td>
<td>26</td>
</tr>
<tr>
<td>12</td>
<td>Uganda Development Bank</td>
<td>169,972,552,000</td>
<td>16,966,018,000</td>
<td>153,006,534,000</td>
<td>90</td>
</tr>
<tr>
<td>13</td>
<td>Uganda Development Corporation</td>
<td>13,033,185,900</td>
<td>10,591,350,004</td>
<td>2,441,835,896</td>
<td>19</td>
</tr>
<tr>
<td>14</td>
<td>National Enterprise Corporation Works</td>
<td>4,067,616,028</td>
<td>344,667,799</td>
<td>3,722,948,229</td>
<td>92</td>
</tr>
<tr>
<td>15</td>
<td>National Enterprise Corporation Luwero Industries</td>
<td>4,042,370,710</td>
<td>2,225,704,389</td>
<td>1,816,666,321</td>
<td>45</td>
</tr>
<tr>
<td>16</td>
<td>National Enterprise Corporation TRACTOR</td>
<td>3,527,255,832</td>
<td>179,996,772</td>
<td>3,347,259,060</td>
<td>95</td>
</tr>
</tbody>
</table>
101.6 Outstanding Receivables

I noted that receivables of UGX 1,675,729,489,749 remained uncollected by the various Government Agencies by 30th June 2016 as shown in table 11 below. The outstanding receivables could lead to delayed settlement of obligations and/or failure to implement planned activities.

Table 11: Outstanding Receivables

<table>
<thead>
<tr>
<th>S.NO</th>
<th>ENTITY</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda National Roads Authority.</td>
<td>778,450,587,292</td>
</tr>
<tr>
<td>2</td>
<td>Post Bank Uganda</td>
<td>168,166,739,000</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Development Bank</td>
<td>141,547,988,000</td>
</tr>
<tr>
<td>4</td>
<td>Pride Micro Finance</td>
<td>131,060,524,000</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Electricity Transmission Company Ltd</td>
<td>98,000,000,000</td>
</tr>
<tr>
<td>6</td>
<td>Uganda Electricity Distribution Company Ltd</td>
<td>70,400,000,000</td>
</tr>
<tr>
<td>7</td>
<td>Rural Electrification Agency</td>
<td>35,843,220,179</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Communications Commission</td>
<td>24,471,697,908</td>
</tr>
<tr>
<td>9</td>
<td>Uganda Broadcasting Corporation</td>
<td>23,851,454,880</td>
</tr>
<tr>
<td>10</td>
<td>Uganda Investment Authority</td>
<td>19,752,010,447</td>
</tr>
<tr>
<td>11</td>
<td>National Information Technology Authority Uganda</td>
<td>16,509,866,770</td>
</tr>
<tr>
<td>12</td>
<td>Uganda Post Limited</td>
<td>15,941,706,180</td>
</tr>
<tr>
<td>13</td>
<td>Uganda Railways Corporation</td>
<td>15,859,969,000</td>
</tr>
<tr>
<td>14</td>
<td>National Agricultural Advisory Services</td>
<td>13,267,783,745</td>
</tr>
<tr>
<td>15</td>
<td>URA Corporate</td>
<td>11,883,130,906</td>
</tr>
<tr>
<td>16</td>
<td>Uganda Air Cargo</td>
<td>10,831,652,164</td>
</tr>
<tr>
<td>17</td>
<td>Uganda Coffee Development Authority</td>
<td>6,317,334,140</td>
</tr>
<tr>
<td>18</td>
<td>Uganda Property Holdings Limited</td>
<td>6,060,373,419</td>
</tr>
<tr>
<td>19</td>
<td>Bank of Uganda</td>
<td>2,306,000,000</td>
</tr>
<tr>
<td>20</td>
<td>Uganda Development Corporation</td>
<td>2,083,214,000</td>
</tr>
<tr>
<td>21</td>
<td>NEC Luwero Industries</td>
<td>1,547,600,683</td>
</tr>
<tr>
<td>22</td>
<td>NEC Works</td>
<td>833,234,851</td>
</tr>
<tr>
<td>23</td>
<td>NEC Tractor Project</td>
<td>684,684,444</td>
</tr>
<tr>
<td>24</td>
<td>Kilembe Mines Limited</td>
<td>606,716,323</td>
</tr>
<tr>
<td>25</td>
<td>Uganda Wildlife Authority</td>
<td>531,379,094</td>
</tr>
<tr>
<td>26</td>
<td>NEC Headquarters</td>
<td>386,690,920</td>
</tr>
<tr>
<td>27</td>
<td>Dairy Development Authority</td>
<td>282,469,640</td>
</tr>
<tr>
<td>28</td>
<td>Uganda Road Fund</td>
<td>255,693,644</td>
</tr>
<tr>
<td>29</td>
<td>Law Development Centre</td>
<td>237,517,900</td>
</tr>
</tbody>
</table>
101.7 **Corporate Governance**

Organisations established by Acts of Parliament, the Public Enterprises Reform and Divestiture Act (Cap 98) and The Companies Act, Cap 110 are required to have governing bodies and structures. Review of governance practices in a number of organisations revealed weaknesses as summarised in table 12 below;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Governance issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Uganda Development Corporation</td>
<td>Lack of Internal Audit Charter and Audit Committee.</td>
</tr>
<tr>
<td>2.</td>
<td>Uganda Export Promotions Board</td>
<td>Lack of a Board of Directors</td>
</tr>
<tr>
<td>4.</td>
<td>NEC HEADQUARTERS</td>
<td>Lack of Governing Board</td>
</tr>
<tr>
<td>5.</td>
<td>NEC LUWERO INDUSTRIES</td>
<td>Lack of subsidiary Board</td>
</tr>
<tr>
<td>6.</td>
<td>NEC TRACTOR HIRE SCHEME</td>
<td>Lack of subsidiary Board</td>
</tr>
<tr>
<td>7.</td>
<td>NEC TRACTOR PROJECT</td>
<td>Lack of subsidiary Board</td>
</tr>
<tr>
<td>8.</td>
<td>NEC UZIMA</td>
<td>Lack of subsidiary Board</td>
</tr>
<tr>
<td>9.</td>
<td>NEC WORKS</td>
<td>Lack of subsidiary Board</td>
</tr>
<tr>
<td>10.</td>
<td>Uganda Veterans Assistance Board</td>
<td>Lack of a Board of Directors</td>
</tr>
<tr>
<td>11.</td>
<td>Nyabyeya Forestry College</td>
<td>Since it reverted to Ministry of water and Environment, the College has operated without an enabling law/Act to guide its Forestry related training function.</td>
</tr>
<tr>
<td>12.</td>
<td>Uganda National Examinations Board</td>
<td>The Tertiary Institutions Act allows serving public officers to be Board members but the Public Finance and Management Act, 2015 restrains public officers from being Board members</td>
</tr>
<tr>
<td>13.</td>
<td>Uganda National Meteorological Authority</td>
<td>The regulations to operationalize the Uganda National Meteorological Authority, Act 2012 are not in place to</td>
</tr>
</tbody>
</table>
guide the operations.

14. National Medical Stores
   Conflicting laws between; PFMA 2015, NMS Act and PERD Act.

15. Rural Electrification Agency
   Out of the seven members constituting the Board, two members from the bankers’ association and the donor community had not been appointed by the Minister.

16. Uganda National Examinations Board
   Board’s audit committee was composed of only one member who was a non-public officer, and the rest were serving officers, mostly the Vice Chancellors from public universities

17. Management Training and Advisory Centre
   Operating without a governing council since the line minister disbanded the old one in August 2015.

18. Nakivubo War Memorial Trust
   The Board Chairperson and other two members continued to be signatories to the stadium bank accounts and were involved in the day to day running of the stadium’s operations.

19. Uganda Printing And Publishing Corporation
   Management spent a lot of its time resolving disputes rather than implementation of the Corporation’s plans.

20. Rural Communication Development Fund
   Failure to constitute the RCDF board.

101.8 Non-Compliance with Income Tax Act

During the year under review, fourteen (14) entities did not comply with the Income Tax Act, 1997 in respect to taxes amounting to UGX.9,505,092,707 comprising of undeducted taxes of UGX. 3,210,248,845 and non-remittances of UGX.6,294,843,862 as shown in table 13 below. Failure to deduct or remit taxes to the Tax Authority attracts fines and penalties.

The management of the affected entities were advised to ensure full compliance with the Income Tax Act.

Table 13: Non-deduction and Non-remittance of Taxes

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Non-Deduction</td>
</tr>
<tr>
<td>1.</td>
<td>Dairy Development Authority</td>
<td>3,345,735</td>
</tr>
<tr>
<td>2.</td>
<td>National Animal Genetic Resource Centre &amp; Databank</td>
<td>38,117,408</td>
</tr>
<tr>
<td>3.</td>
<td>Uganda National Roads Authority.</td>
<td>2,326,841,565</td>
</tr>
<tr>
<td>4.</td>
<td>Uganda National Bureau of Standards</td>
<td>1,904,700</td>
</tr>
<tr>
<td>5.</td>
<td>Uganda Export Promotions Board</td>
<td>0</td>
</tr>
</tbody>
</table>
101.9 **Non-remittance of 15% NSSF deductions**

Contrary to the provisions of the NSSF Act, I observed that twelve (12) entities had not remitted NSSF contributions UGX.19,488,522,820 during the year, with Uganda Broadcasting Corporation and Posta Uganda Limited being highly non-compliant with UGX.15,639,332,832 and UGX.2,683,146,750 respectively. Table 14 below refers.

Failure to remit Employees NSSF contributions results into penalties to the entities and denies employees’ their benefits at the time of retirement.

There is need for management to ensure that contributions are remitted timely in accordance to the provisions of the law.

Table 14: Non remittance to NSSF

<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Un-remitted funds (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uganda Broadcasting Corporation</td>
<td>15,639,332,832</td>
</tr>
<tr>
<td>2</td>
<td>Posta Uganda Limited</td>
<td>2,683,146,750</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Export Promotions Board</td>
<td>342,065,735</td>
</tr>
<tr>
<td>4</td>
<td>Kampala Capital City Authority</td>
<td>198,681,110</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Air Cargo</td>
<td>170,953,250</td>
</tr>
<tr>
<td>6</td>
<td>NEC Tractor Hire Scheme</td>
<td>95,703,339</td>
</tr>
<tr>
<td>7</td>
<td>Kilembe Mines Ltd</td>
<td>60,917,730</td>
</tr>
<tr>
<td>8</td>
<td>NEC Tractor Project</td>
<td>26,711,891</td>
</tr>
<tr>
<td>9</td>
<td>National Council for Higher Education</td>
<td>25,609,114</td>
</tr>
<tr>
<td>10</td>
<td>Nakivubo War Memorial Trust</td>
<td>708,075</td>
</tr>
<tr>
<td>11</td>
<td>Uganda Hotel and Tourism Institute</td>
<td>82,723,224</td>
</tr>
<tr>
<td>12</td>
<td>National Library of Uganda</td>
<td>161,969,770</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>19,488,522,820</strong></td>
</tr>
</tbody>
</table>
101.10 Outstanding Commitments

It was noted that a number of government entities have continued to enter into commitments beyond the available funds. This is contrary to the commitment control system which requires the accounting officer to commit Government within the provided funds.

The total amount of domestic arrears increased during the year from UGX 216,289,941,996 in 2014/2015 to UGX 551,475,676,520 in 2015/2016 as illustrated in table 15 below:

Table 15: Outstanding Commitments

<table>
<thead>
<tr>
<th>S.NO</th>
<th>ENTITY</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rural Electrification Agency (REA)</td>
<td>18,379,666,584</td>
</tr>
<tr>
<td>2</td>
<td>National Medical Stores</td>
<td>120,929,970,000</td>
</tr>
<tr>
<td>3</td>
<td>Uganda Industrial Research Institute (UIRI)</td>
<td>442,415,714</td>
</tr>
<tr>
<td>4</td>
<td>Uganda National Bureau of Standards</td>
<td>1,128,477,432</td>
</tr>
<tr>
<td>5</td>
<td>National Animal Genetic Resources Centre And Data Bank</td>
<td>524,882,268</td>
</tr>
<tr>
<td>6</td>
<td>National Forestry Authority</td>
<td>9,658,256,000</td>
</tr>
<tr>
<td>7</td>
<td>Privatizations And Utility Sector Reform Project Operations Accounts</td>
<td>3,124,613,000</td>
</tr>
<tr>
<td>8</td>
<td>Uganda Export Promotion Board</td>
<td>526,541,945</td>
</tr>
<tr>
<td>9</td>
<td>Uganda Registration Services Bureau</td>
<td>868,413,832</td>
</tr>
<tr>
<td>10</td>
<td>Uganda National Roads Authority</td>
<td>283,820,541,567</td>
</tr>
<tr>
<td>11</td>
<td>Uganda Human Rights Commission</td>
<td>2,737,844,871</td>
</tr>
<tr>
<td>12</td>
<td>Uganda Land Commission</td>
<td>7,162,227,073</td>
</tr>
<tr>
<td>13</td>
<td>Electoral Commission</td>
<td>3,216,641,565</td>
</tr>
<tr>
<td>14</td>
<td>National Curriculum Development Centre</td>
<td>507,823,127</td>
</tr>
<tr>
<td>15</td>
<td>Management Training And Advisory Centre</td>
<td>1,229,849,400</td>
</tr>
<tr>
<td>16</td>
<td>National Council of Sports</td>
<td>777,156,026</td>
</tr>
<tr>
<td>17</td>
<td>Mandela National Stadium Limited</td>
<td>2,277,034,158</td>
</tr>
<tr>
<td>18</td>
<td>Uganda Post Limited</td>
<td>17,198,933,680</td>
</tr>
<tr>
<td>19</td>
<td>Uganda Broadcasting Corporation</td>
<td>33,309,002,411</td>
</tr>
<tr>
<td>20</td>
<td>Uganda Air Cargo Corporation</td>
<td>1985156420</td>
</tr>
<tr>
<td>21</td>
<td>National Enterprise Corporation (NEC) Headquarters</td>
<td>94,531,529</td>
</tr>
<tr>
<td>22</td>
<td>National Enterprise Corporation (NEC) - Luwero Industries Ltd</td>
<td>1,659,327,899</td>
</tr>
<tr>
<td>23</td>
<td>National Enterprise Corporation (NEC) Tractor Project Limited</td>
<td>336,941,438</td>
</tr>
<tr>
<td>24</td>
<td>Uganda Printing and Publishing Corporation</td>
<td>3,554,603,433</td>
</tr>
<tr>
<td>25</td>
<td>Uganda National Cultural Centre</td>
<td>1,566,313,182</td>
</tr>
<tr>
<td>26</td>
<td>Uganda Railways Corporation</td>
<td>8,436,412,000</td>
</tr>
<tr>
<td>27</td>
<td>Kampala Capital City Authority</td>
<td>26,022,099,966</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>551,475,676,520</strong></td>
</tr>
</tbody>
</table>

101.11 Land Matters

A number of instances have been noted where Government entities have continued to lose their land to encroachers because the land is not fenced, surveyed and titled. In cases where the land is titled, the encroachers have become difficult to evict, and at times turned violent. Details in table 16 below:
<table>
<thead>
<tr>
<th>S/N</th>
<th>Entity</th>
<th>Location</th>
<th>Land Matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Law development Centre</td>
<td>Kagugube Makerere - Kibuga Block 9 Plots with no titles- plots 613-615 and 508-509</td>
<td>Land Title missing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plots Nos. 221, 222 in Zone D Kibuga Block 9</td>
<td>Occupied by squatters and/or tenants who are not willing to be compensated.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plots under mortgage. Plots Nos. 451 and 481</td>
<td>These plots are registered into the names of Azias K. Muwangala and Mary Nambozo Musisi Seba Dairy Development Authority. The land is under Mailo tenure system, and currently mortgaged with Post Bank U LTD and Barclays Bank LTD respectively</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plots pending replacement of land titles-Plots Nos 245, 247 &amp; 248</td>
<td>The above plots in zone Kibuga block 9 are on one title deed leasehold register in the names of Henry Mubalia Musoke Ltd Seta. The contractor recommended that the land titles be replaced and LDC has to compensate the persons occupying the same.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plots with no matching records -Plots1&amp;39 on Bukoto, Sabaadu, Kyadondo, Mengo &amp; 154, 164, 464, 510,613, 614 and 615</td>
<td>The above plots have no matching records in the land registry at KCCA. Management was advised to avail the contractor with copies of duplicate certificates of titles and/or visit the sites</td>
</tr>
<tr>
<td>2</td>
<td>URA;Malaba (plots 20-32)</td>
<td>–</td>
<td>Not Valued</td>
</tr>
<tr>
<td>3</td>
<td>URA;Busia (plots 48-60 &amp; 111-127)</td>
<td>–</td>
<td>Not Valued</td>
</tr>
<tr>
<td>4</td>
<td>URA Malaba customs enforcement office</td>
<td>–</td>
<td>Ownership is uncertain</td>
</tr>
<tr>
<td>5</td>
<td>UIA-Namanve Central Forest Reserve</td>
<td>–</td>
<td>Currently Uganda Investment Authority owns less land (896 hectares) than originally allocated.</td>
</tr>
<tr>
<td>6</td>
<td>UIA-Industrial parks</td>
<td>–</td>
<td>Unutilized fully subsidized land allocation</td>
</tr>
<tr>
<td>7</td>
<td>UIA-Mbale industrial park</td>
<td>–</td>
<td>Squatters in this park have had running battles with Uganda Investment Authority for a long time despite an estimated compensation of UGX.4.5bn</td>
</tr>
<tr>
<td>8</td>
<td>UIA-Karamoja Industrial Park</td>
<td>–</td>
<td>Development on the land has lagged due to a dispute between the two districts resulting into violence regarding the location of the land</td>
</tr>
<tr>
<td>9</td>
<td>Land in Luwero district</td>
<td>–</td>
<td>Delays in securing a land title for land for Luwero Fruit Processing Factory</td>
</tr>
<tr>
<td>10</td>
<td>Land in Mbarara District</td>
<td>–</td>
<td>Lack of title for Mbarara land</td>
</tr>
<tr>
<td>11</td>
<td>Land at Namanve Industrial Park</td>
<td>–</td>
<td>Failure to develop land at Namanve Industrial Park</td>
</tr>
<tr>
<td>12</td>
<td>NEC UZIMA</td>
<td>–</td>
<td>Factory is located on land in Kakiri Barracks and land belongs to Ministry of Defence</td>
</tr>
</tbody>
</table>
13 Uganda National Meteorological Authority

The Authority has some land in Mbarara, Soroti, Gulu, Masindi, Buku and Kabale on which stations meteorological installations are located. However, no records were provided to confirm ownership of the pieces of land.

14 Kilembe Mines Ltd

Land in Jinja and Land at Katadoba

15 Dairy Development Authority

- Lack of land titles for milk collection centres.
- A number of its properties had land titles which could not be traced in the fixed assets register.
- Loss of Prime land at Luzira
- Missing Land titles

16 Vegetable Oil Development Project

Lack of Land title

17 National Water and Sewerage Corporation

Corporation had taken over 171 towns however only 32 titles and 25 lease offers had been secured.

18 National Enterprise Corporation Farm Katonga Limited

Encroachment on the farmland

19 Kampala Capital City Authority

Titles pending mutation and there were delays in getting land title from Uganda Land Commission, Kampala District Land Board and Buganda Land board while others were caveated

**ENERGY SECTOR**

**102.0 Atomic Energy Council for the Financial Year Ended 30th June 2016**

**102.1 Inadequate funding of the council**

During the financial year review, the entity budgeted for UGX.1,937,480,200 as receipts from both Government of Uganda and donors. However, I noted that only UGX.1,011,836,575 was actually received resulting into a shortfall of UGX.925,643,625. Consequently various activities and procurement were not undertaken such as; searching and securing radioactive sources, radiation research, construction of phase 2 waste management facility and procurement of emergency units among others.
Failure to fund core activities of the institution undermines the achievement of its set goals and objectives.

Management attributed the non-performance of the planned activities to budget shortages.

I advised management to engage with both the Ministry of Energy and Mineral Development and Ministry of Finance Planning and Economic Development to avail funding for the key activities in accordance with the approved budget.

102.2 **Failure to regulate electro-magnetic radiations from transmission lines and telephone masts**

Section 9, (1) of the Atomic Energy Act 2008 provides that;

(a) the Atomic Energy Council has to define the exposures of ionizing radiation that are excluded from the application of this act on the basis of their not being amenable to regulatory control; and

(b) the Council out to conduct inspections to assess radiation safety and security conditions and compliance with this Act and the regulations and other requirements specified in an authorization.

A review of the council’s work plans and strategic plan revealed that some of the radiation sources in Uganda were not covered in the plans. These include radiations emitted by electro-magnetic charges from high voltage transmission lines and telephone masts.

This implies that the council’s mandate as prescribed under the Act is not adequately performed consequently leaving the public exposed to the associated health risks.

Management explained that whereas the primary mandate of council is to regulate practices and activities of utilising the peaceful applications of ionising radiation, section 2 (3) of the Act states that “The Council may, at its discretion, by statutory order, apply the provisions of the Act to sources of electro-magnetic radiation other than x-rays and gamma rays”. Therefore, in line with the implementation of the various provisions of the Act, Council adopted a graded approach by considering where there was/is high risk such as practices and activities with sources of ionising radiation;
i. Council initiated the process of obtaining the necessary statutory order as required by law.

ii. Council budgeted for the establishment of non-ionising radiation infrastructure in the FY 2017/2018 by acquiring the initial required equipment, recruitment and training of staff in this area. Regulation of non-ionising radiation will commence in the FY2017/2018 once the budgeted funds are provided and a statutory order obtained.

iii. Council is drafting regulations on non-ionising radiation.

iv. Council is conducting scientific visits to organisations or regulatory bodies that have been involved in regulating non ionising radiation with the aim of establishing the infrastructural requirements. For example, lessons have been learnt from Ghana Atomic Energy Commission (GAEC).

I advised management to ensure the installations are regulated in accordance with the Act.

103.0 Kilembe Mines Ltd for the Year Ended 30th June, 2016

103.1 Conflicting clauses in the concession regarding the Annual concession fees

According to Clause 2.4.1 of the agreement, the concessionaire warrants to the Government of Uganda and Kilembe Mines Limited that all conditions precedent required under the request for proposal shall remain in full force. Under Section 2.1.2.4 of the Request For Proposals, the Annual Concession fee shall be payable to KML in its capacity as the asset holding company, as partial consideration for the transfer of the fixed assets to the concessionaire.

However Clause 32.1 of the same Concession agreement provides that “where payments to Government are made, unless this agreement provides otherwise, all the amounts payable by the concessionaire to the Government under this agreement shall be paid to the Ministry of Finance for deposit in the general revenues account of the Government. Because of the conflict the following challenges have risen:
(a) **Outstanding Concession fees**

KML recognized the Conceded assets at UGX 17.05bn as finance leases and the corresponding concession fees of UGX.3,316,500,000. However, I noted that the same amount is claimed by MoFPED. Although both are government entities, there is need to clarify the responsibilities and ownership of these assets.

Management explained that they were in the process of seeking guidance from the Solicitor General.

I advise management to liaise with Ministry of Finance, Planning and Economic Development and have the matter clarified without further delay.

103.2 **Financial Statements issues**

(a) **Payables**

   i. **Outstanding payables for scrap**

KML initiated a procurement disposal process to dispose of scrap materials in order to generate additional revenue. A local hardware was best evaluated bidder and subsequently paid UGX 409,198,562 to KML for the scrap. However, Scrap collection and transfer to the best evaluated bidder was frustrated by the Concessionaire premised on Clauses 3.2.5.4 and 3.2.11.1 (b) of the Concession Agreement (CA) that allows using parts to repair existing assets and modifying the assets to enhance their usefulness.

KML thus still owes the best evaluated bidder over UGX.523,401,738. There is a risk of legal action against KML for this amount.

Relatedly, as at 30\textsuperscript{th} June 2016, an amount of UGX.93,797,011 had been billed to THMCL for use of items from scraps however, the concessionaire has not paid despite the fact that they had undertaken to pay KML in equal instalments of UGX.18.759m per month.

Management responded that it had continued to engage the concessionaire to release the scrap or pay for it but to no avail.

I advised management to expedite the process by consulting the Solicitor General in order to better clarify on the concession clauses.
103.3 **Compliance to the Concession Agreement (CA)**

(a) **Defaults by THMCL**

Review of various company correspondences revealed non-compliance to the concession agreement as indicated below.

i. Concession fees amounting to USD. 1,760,000 were outstanding as at 30th June 2016.

ii. Failure to provide an Unconditional Exploration bank guarantee by 1st July 2014 equal to 15% of the Approved work plan.

iii. Failure to pay the annual mineral rent amounting to UGX.22,960,000.

iv. Failure to provide a written understanding to the satisfaction of government that all consortium members/shareholders are committed to the Project. Without confirmation of participation by the other members, the Project financing and technical skills upon which these members formed the consortium are not guaranteed.

V Failure to provide Feasibility Study for the Smelter by November 2015.

Vi Failure to submit detailed maps for each Proposed Production Area by 13 September 2015.

Vii Failure to submit an Environmental Audit Report within 60 days after each anniversary of the Concession.

Viii Failure to submit Financial Statements compliant with the requirements of the CA within 90 days after end of Concessionaire’s financial year.

ix Failure to submit an acceptable Feasibility Report on the Tailings Pond Project.

x Failure to submit a Mine plan, Social Impact Assessment (SIA) and Social Action Plan.

xi Failure to recalculate the known reserves to CRIRSCO standards.

Xii Insurance of the Assets had expired on 28th May 2016 and had not been renewed by the time of Audit.

Audit further noted that whereas the Concessionaire committed to invest minimum capital expenditures totalling to USD175m by December 2016, there is no evidence that this amount has been invested despite the fact the Concessionaire claims to have invested USD51.285m. Since the concessionaire had never submitted any investment plan, financial statements and details of investment made it difficult to verify the claimed investments.
The above issues raised questions on the concessionaire’s ability to comply with its obligations and commitments under the concession agreement. Management indicated that the defaults were tabled in the Project Steering Committee for resolution. I advised management to expedite the process of correcting the defaults.

103.4 Legal anomalies

(a) Failure to convene an annual general meeting

According to Section 138(1) and (2) of the Companies Act no. 1 of 2012, a Public company shall in each year hold an Annual General Meeting while for a private company the Annual General Meeting may be called at the requisition of a member.

I noted that the KML had not convened any annual general meeting for the last two years. Management responded that the issue of the annual general meeting has been tabled before the Board of directors severally without conclusion.

I advised management to convene an annual general meeting to ensure formalised strategic decision making and oversight of company operations.

(b) Failure to file company annual returns

According to Section 132 of the Companies Act no. 1 of 2012, Every company having a share capital shall, once at least in every year, make a return in a prescribed form containing with respect to the registered office of the company, registers of members and debenture holders, shares and debentures indebtedness, past and present members and directors and secretary.

I noted that the company did not file the annual return for the year under review. In addition, for the previous years, the company has been filing annual returns late and attracting fines. Management responded that the company lawyers have been tasked to file and submit returns in a timely manner. I advised management to ensure that the company expedites the process in compliance with the law.
103.5 **Budgeting and operational challenges of KML**

KML submitted its annual budget to MoFPED, for approval, in anticipation of the Concession fees revenues in financial year 2014/15 and 2015/16, of UGX 2.145bn and UGX 2.7bn respectively. However, only UGX317m has been received from MoFPED for the two financial years. The company has thus relied on revenues from sale of scrap and rental revenues. The underfunding has affected KML’s oversight activities of monitoring and supervision of the Concession.

Management responded that it will liaise with MoFPED and the Solicitor General for clarification on receipt of concession revenues.

I await management action in this regard.

103.6 **Internal Audit Issues and Review of KML monitoring reports**

A review of the Internal Auditor’s report revealed the following outstanding issues;

(a) **Re-Entry on Jinja Land**

Plot M25 in Jinja is still unoccupied and prone to encroachments.

(b) **Purchase of Ugandan goods and services**

Contrary to the CA, the Concessionaire procured most of the goods and services abroad, including locally available items such as, Writing papers, lamp holders, plastic pipes and electrical sockets.

The implication is that THMCL denies Ugandans economic benefits from the project.

(c) **Inadequate feasibility report for the Brownfield project**

Clause 5.4.1 provided that the feasibility pertaining to the brownfield project under mining lease No 2151 shall include the basic technical and financial components. However scrutiny of the feasibility report presented by the concessionaire revealed that it lacked the following;

- A development plan setting forth the basic design and operating specifications for each of the proposed mine and related mining plant, infrastructure and equipment and downstream beneficiation industries; the plan is supposed to also include a capital development plan.
- A plan for the operations that sets forth the concessionaire’s plan for operating each proposed mine and related mining plant, infrastructure and equipment.
• A plan for marketing and selling the products (including projected principal customers and projected means of transporting products from Uganda to such customers) for the mining term.

• A report of the competent person setting forth his or her conclusion as to the amount of copper ore and other minerals consisting the proven mineral reserves and probable mineral reserves in the proposed production area.

• The financing plan

• Skills and development plan

• An initial mine plan that is supposed to indicate expected recovery rates as required under clause 5.1.6(a) of the concession agreement

• A project implementation schedule

• Estimates of capital costs and operation costs.

• Detailed proposals with respect to any beneficiation or further processing of minerals as well as metallurgical processes to be carried out by the concessionaire.

In addition the feasibility study report to the Government of Uganda that was due by 30th September 2015 had not been submitted by the concessionaire.

(d) **Maintenance of Mubuku 1 Electricity Generation Scheme**

Site visit at the above facility revealed that routine care and maintenance activities, including perching of 36 sheets, replacing of 6 girders, 3 kingposts and 8 intermediates as well as clearing the way leave, drainage channels and feeder roads along the flume had been done. However turbine No. 3 which failed in February 2016 due to leakages on transformer No.3 had not been repaired as it requires cork gasket replacement. Only No. 1 and 2 turbines were functional and on average generating only 3.8MW.

If the concessionaire does not address the maintenance gaps at the scheme, then it is almost unlikely that the hydro power plant will achieve the intended capacity upgrade of up to 17.6MW as stated in the environmental and social impact assessment report that was submitted to NEMA on 26 June 2016.

The repairs at the hydro power plant require urgent attention to have the power plant operate at its installed capacity.

(e) **Failure to provide a maintenance plan, for the non-core assets**

Clause 3.2.4.1(b) provides that the concessionaire would be responsible for maintenance of all non-core assets requested for and handed over by Kilembe Mines Limited, and accordingly pays quarterly in advance the agreed rentals. Government/KML recognized that failure to provide a maintenance plan was not a
default as per the concession agreement. However, in order to account for the 15%-30% maintenance cost allowance for the concessionaire’s desired non-core assets, Tibet Hima committed to provide a maintenance plan within 60 days from 10 June 2016.

According to management, the plan is not yet in place and the residential houses which have been occupied by the concessionaire since 2013 are not maintained and no rentals have been received from the concessionaire.

Failure to maintain the residential houses will cause dilapidation and the non-payment of rentals denies Government revenue.

(f) **Procurement of Insurance Services and Necessary Permits**

Clause 2.3.1 of the CA requires under part b) and c) that the commencement date shall be deemed to occur on the occurrence and continued satisfaction of the following conditions;

- Receipt by the concessionaire of all consents, permits and licenses that are required to execute or commence activities under this agreement.
- Evidence procured by the concessionaire reasonably satisfactory to the GOU that the concessionaire has procured insurance sufficient to cover the concessionaire’s indemnification obligations during and after the transition period, consistent with best industry practice.

(g) **Employee Working Conditions**

Clause 3.2.14.4; requires the concessionaire to identify KML employees it requires for the purpose of operating the concession. Clause 3.2.14.5 provided that the terms and conditions of employment shall be in accordance with the concessionaire’s employment and human resource policies but in any event not less favourable than those of their previous employment.

Management however observed that:

- The terms of employment changed from permanent to contract (probation) without improved pay;
- Working hours changed from 40 man-hour a week to 48 man-hours a week without improved pay;
- Clause 3.2.14.6 provides that the concessionaire may offer medical insurance assistance that is equal to or better than the services now offered by KML. Medical to employees is now restricted to 2(two) biological children instead of 4(four) previously offered by KML; and restricted only to Kilembe Mines Hospital, and in
case of a referral on recommendation of the Medical Officer, the concessionaire does not meet the attendant healthcare costs.

Clause 9.5; provided that concessionaire should make provisions for a clean and safe pipe-borne water system for all houses. The Concessionaire has not yet treated water supplied (clean and safe drinking water) to estates and this therefore Causes a threat of sickness for people residing in the estate.

(h) **Abandoned works at Hima Lime Factory**

Clause 3.2.3.3 states that KML may at any time with at least sixty (60) days’ notice, require the concessionaire to return any part of the assets which is not being used or intended to be used to conduct a business activity in relation to mining and mineral processing or otherwise in conjunction therewith, upon which the concessionaire shall return such assets without delay. However, no works were witnessed at the Hima Lime factory in the periods 14/15/ and 15/16 and the estate therefore has had no domestic water since the beginning of March 2016.

I advised management to ensure the concessionaire returns the assets to KML which it has failed to operationalize and maintain.

![Abandoned lime factory](image)

**Figure 2: Abandoned lime factory**

(i) **Carpentry, Electrical, Mechanical and Foundry Workshops**

Care and maintenance for the equipment in the workshops was noted however the latrines for the workshops as well as those of the nearby engineering section are still blocked and the water system to the facilities has not yet been restored.

The necessary maintenance works should be carried out immediately and ensure restoration of the water system at the facilities.
(j) **Failure to Prepare and submit Annual Reports**

Clause 6.8; Requires THMCL to prepare and submit within 30 days of end of each report period the following: reports under Mining Regulation 41; quarterly operating reports to Police on the activities of the security services; and an environmental report every anniversary of the concession and copy in KML for easy of monitoring. No copy of attendant reports has been received by KML and thus compliance is not certain.

(k) **Lack of Safety Equipment**

Clause 9.1; Requires THMCL to install, maintain and use modern health and safety devices, work gears and equipment in operation as in accordance with applicable laws and International Standards; and to promptly notify of any death or injury to employees, contractors or any other person that occurs as result of operation.

Internal audit observed that THMCL safety gear, especially for underground mine, is not compliant. Two fatalities have so far been recorded resulting from mining and ore processing activities. In addition THMCL deploys workers serving on casual terms which contravene the Mining Regulations.

Management responded that the issue of safety was brought to the attention of the concessionaire but to no avail.

103.7 **Inspection issues**

(a) **Destroyed buildings**

During the floods a number of buildings were destroyed by River Nyamambwa and to date, no remedial works have been done on them. These buildings were however part of the conceded assets.

![Dilapidated buildings](image3.jpg)

*Figure 3: Dilapidated buildings*
I advised management to ensure the necessary maintenance works are carried out as per the requirements of the concession agreement.

(b) **Copper concentrate piled for export**

I further observed heaps of copper concentrate at the mining site ready for export. However, the concessionaire did not present any export permits or authorization to export the copper from the Ministry of Energy and Mineral Development. (DGSMD)

![Figure 4: Copper concentrate for export](image)

I advised management to pursue the matter with the relevant authorities for example DGSMD and URA to avoid loss of Government revenue.

104.0 **Uganda Electricity Generation Company Limited for the Year Ended 31st December, 2015**

104.1 **Non-recognition of Impairment loss – UGX.138 Billion**

Under IAS 36 an impairment loss is recognized when the recoverable amount of the asset is below its carrying amount.

Although UEGCL has the right to bill ESKOM, under the Concession and Assignment Agreement, for Depreciation, Return on Equity and Administrative costs, UEGCL only bills Eskom Administrative costs as approved by the regulator (ERA) implying that UEGCL may not be able to generate enough revenue to recover the Conceded assets’ carrying amount.

An impairment assessment was thus carried out in March 2015 and this resulted in an impairment loss of UGX 138 Billion. However, the assets balance reported in the books
of UEGCL have not been adjusted for this loss. This implies that the assets and the profit balances have been overstated in the financial statements.

In their response, management explained that the board had decided not to write down the plant with regard to the impairment but rather pursue the issue with ERA and MoFPED. Billing for the depreciation has still not been granted by ERA mainly to keep the tariff low.

I advised management to adhere to the requirements of IAS 36 Impairment of Assets and recognize the impairment loss as required.

105.0 Uganda Electricity Distribution Company Limited (UEDCL) For The Year Ended 31st December, 2015

105.1 Conversion of Loan to Equity – Government of Uganda

Under Notes 7.6 to the financial statements, UGX.249,968,844000 in respect of loans to UEDCL were converted to equity with the authorization of the Minister of Finance, Planning and Economic Development and reported in the financial statements as share application money.

However, I noted that since 2014 no shares have been allotted and no share certificates issued in respect of the loan amounts converted to equity.

I advised management to ensure that the shares are allotted and share certificates issued to the shareholders.

105.2 Compliance with the Lease and Assignment Agreement

(a) Un-billed revenue from the assets leased to UMEME by UEDCL

Review of the Lease Assignment Agreement (LAA) of 17th May 2004 between UEDCL and UMEME Limited revealed that the former leased its Assets to the latter for the entire lease period. UEDCL has continued to invest in such assets which are then passed on to UMEME for use.

According to the LAA, UEDCL is entitled to compensation for Depreciation and Return on Investment (ROI) for the assets in use by UMEME. However, UEDCL has neither billed nor received any revenue in respect of the leased assets. This may negatively
affect future investments. UEDCL is also not complying with the matching Concept of accounting as well as IPSAS 32.

Although management is in agreement that the income is due and payable by the UMEME Limited, this has not been the case due to non-provision of the same in the tariff by Electricity Regulatory Authority (ERA).

I advised management to consider adopting a financing mix when charging depreciation into the tariff by incorporating UEDCL and UMEME assets. This will lead to lower tariff since UEDCL assets are financed with cheaper capital compared to UMEME financing and may ensure future sustainability of the assets.

105.3 Escrow account and other offsets by UMEME

The Government allocates funds annually for power consumption through the budget. Although the budget provisions are sometimes not sufficient to pay for all the power consumed during a particular financial year, the outstanding bills are accrued and paid in the subsequent financial years. In June 2015, the government released UGX.100 billion to settle outstanding power bills in some Government agencies.

I noted that UMEME had also made offsets of UGX.92.8 billion (including UGX.34.9billion from the Escrow Account) for outstanding government entities’ power bills.

A reconciliation undertaken on 30th April, 2016, revealed that UMEME was irregularly holding UGX.35.5billion without corresponding power bills from Government institutions. This implies that UMEME was given free capital financing and yet a return on capital investment is built in the power tariffs charged by UMEME.

Management explained that reconciliation was done which revealed an excess of UGX.35.5billion which is refundable by Umeme. Management further explained that together with Ministry of Finance Planning and Economic Development, they had instructed UMEME to refund the excess funds.

The offsets from the Escrow Account and any other offsets should be properly monitored and any bulk settlement of government power arrears be made only after a proper reconciliation has been undertaken to avoid loss of government funds.

The Company Management should also institute measures to recover the surplus amount being held by UMEME.
105.4 High maintenance costs:

All the powerlines that are constructed by REA are handed over to UEDCL for management after all defects have been addressed by the respective contractors. I noted a significant increase in powerline maintenance costs of these lines of approximately UGX.1.7billion particularly replacement of collapsing powerlines due to poor quality poles used by contractors. This unnecessarily contributes to hiking of tariffs.

Management noted the observation, and indicated that efforts were being made to improve the quality of materials used by the contractors. I advised the Accounting Officer to ensure that REA, which is charged with the responsibility of supervising the various contractors of the power lines is engaged to;

i) Recover such funds from the respective contractors.
ii) Ensure proper supervision during the construction of the power lines.

I advised management to put in place mechanisms which provide assurances that all powerlines handed over by REA to UEDCL meet the set standards and do not require immediate maintenance.

105.5 Customer Security deposit:

The sector changed its billing policy from post-paid to pre-paid system which does not require customers to pay security deposits before they are given meters.

Prepayment system does not require security deposits because no defaults are expected as consumers use what they have paid for. At the time of change over, the existing customers ought to have been refunded with their security deposits as long as they had not defaulted on the post-paid bills. I noted that there were long outstanding customer deposits that have not been refunded.

Management explained that initial reconciliation between Umeme and UEDCL resulted into refund of UGX.6.6 billion to customers and further reconciliation was on-going. I await completion of the reconciliation exercise.
106.0 Uganda Electricity Transmission Company Limited for the Year Ended
31st December, 2015

106.1 Tariff adjustment under Bujagali Energy Limited Power Purchase Agreement

Under the Bujagali Energy Limited (BEL) Power Purchase Agreement (PPA), Electricity Regulatory Authority (ERA) was required to determine the tariff adjustment within 6 months after commissioning of the dam, which was 2nd February, 2012. However, as at 31st December, 2015, the process of determining the tariff adjustment was still on going.

Delay in determining the final tariff adjustment means that the tariffs charged since commissioning of the plant are not final and changes arising from the tariff adjustment will need to be reflected in the future tariffs. The tariffs currently charged could be higher than they should be or vice versa.

Without firmed up tariffs, budgeting and planning for the sector could also be complicated.

This could also result into litigation in case of any disagreements relating to the interim capacity payments made to date.

Management stated that the matter is before the Office of the Attorney General for his Legal Opinion.

I advised management to liaise with Attorney General, as soon as possible to resolve any under/over charges to allow for stability and predictability of the tariffs.

106.2 Refunds and payments made on behalf of the government of Uganda

The Government authorizes UETCL to implement activities on its behalf. These activities are implemented on the basis that Government will refund the monies spent by the company.

Government also contributes funds for the various power projects implemented by
UETCL. In addition, Government is required to make capacity payments (minimum working capital required by the thermal operators to meet their day to day obligations).

I noted that government delayed both to make capacity payments and to approve and finance the grid projects implemented by UETCL.

The amounts due from Government of Uganda stood at UGX.98 billion by the end of the year under review.

Delays in payment of the thermal operators could result into them failing to meet their obligations and in the worst case scenario, disputes and litigation. In addition delays in financing grid projects impact the transmission network expansion and improvement plans and achievement of the sector objectives.

Management explained that they engage government for the timely release of the outstanding capacity payments and other funding requirements for various projects.

107.0 Rural Electrification Agency (REA) for the Year Ended 30th June, 2016

107.1 Contingent asset

Under ERT 2, REA developed the Solar Photovoltaic Target Market Approach (PVTMA) whose main focus was to promote consumer credit and provide subsidies for solar PV. This sub component commenced in November 2009 with a target of 2000 solar PV installations. As part of compliance monitoring an audit carried out reviews of the subsidy payments and periodic spot checks of installations in 2013 and found incidences of gross mismanagement.

As a result of the internal verifications an amount of USD 851,740 was identified as ineligible expenditure which is recoverable from the defaulting companies. Because the companies had delayed to pay, REA refunded USD 603,427 to the World Bank on the understanding that reimbursements from the companies would be obtained. By the time of audit, this amount had not been reimbursed since some companies were still objecting to the verification report.
The Accounting officer responded that the project management of PVTMA was suspended and eventually terminated in November 2014. The 3 end user auditors were discontinued and their outstanding claims withheld pending the apportionment of responsibilities for the anomalies. REA was also in the process of referring those that have not responded to the Solicitor General.

I advised management to expedite the process of recovering the amounts from the companies.

107.2 Compensation claims paid to REA staff

Compensation guidelines provide that after an assessment of the persons affected by the project (PAPS) verification of the claims, the various PAPs are required to open bank accounts to have their claims paid directly to these accounts.

I however noted that UGX.416,467,650 was advanced to various individual staff through their personal bank accounts for onward transfer to PAPs as cash compensation payments for way leaves.

I explained to management that the practice of advancing the money to individual staff accounts is irregular and may result into misuse.

Management explained that the ERT II Project was closing on 30th June 2016 and required that all the Project Affected Persons should have been compensated and a Resettlement Action Plan (RAP) Closure Report made by that date. Failure to provide the RAP Closure Report, would render the Project non-compliant. In addition most of the PAPs compensated under rural electrification programs received small amounts of money not exceeding UGX.100,000. It was therefore very difficult to have such beneficiaries open bank accounts.

I advised management to explore mechanisms of accessing such rural communities through their personal accounts or mobile money platforms to avoid exposure to risks of loss and disputes.

107.3 Procurement

a) Delayed completion of contracted services

A review of a sample of contracts revealed that a number of contracts worth UGX.3,921,420,825 were not completed within the contract periods resulting into unplanned extensions.
The extension led to delays in contract execution affecting project timelines and negatively impacting on service delivery. Management explained that during the year the Agency had serious cash flow problems. I advised management to investigate the causes of the delays and design mechanisms to address them (delays) in all future contracts.

b) **Review of PPDA report 2015/16**

According to the PPDA audit report of REA for the financial year 2015/16, in which the Agency scored a 66.6% rating, the following exceptions were noted:

- Failure to dispose obsolete items
- Failure to procure within planned timelines. 54% of the sampled procurements were conducted outside the planned timelines
- Failure to align the procurement plan to the budget
- There was low procurement budget absorption of 32% only

The above procurement weaknesses can lead to diminution in value of assets, excess expenditure, delayed implementation of activities and delivery of poor quality goods/services.

Management promised to address the noted weaknesses and recommendations by PPDA. I await the management action in that regard.

107.4 **Unsupported lease rentals**

The Agency signed lease agreements with various service territory operators to manage the various areas. Under the terms and conditions of these agreements, the Agency is supposed to collect lease fees from these operators as summarized in the table 2 below;

**Table 2 showing lease rentals per service territory**

<table>
<thead>
<tr>
<th>Operator</th>
<th>Service Territory</th>
<th>Lease fees (annual UGX)</th>
<th>Contract start date</th>
<th>Contract End date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kilembe Investments Ltd(KIL)</td>
<td>Western</td>
<td>66,370,393</td>
<td>8/10/2014</td>
<td>8/10/2024</td>
</tr>
<tr>
<td>Pader-Abim Community Multipurpose Electricity Cooperative</td>
<td>Northern</td>
<td>8,000,000</td>
<td>10/10/2014</td>
<td>10/10/2024</td>
</tr>
</tbody>
</table>
I however noted that there was no documented basis of how these rates were arrived at as no evidence of independent feasibility studies undertaken by the entity was availed to support and compare with the business plans submitted by the operators. There is a risk that REA may not be earning value commensurate with its investments.

In their response, management explained that, at the time of concessions, there was no baseline data for estimating appropriate rent. More data on actual performance has been gathered which will be used in preparation for retendering when the leases expire.

In view of the constant changes in market forces, I advised management to devise a mechanism of regularly reviewing contracts to ensure they remain competitive.

**107.5 Management of concessioned areas in Western Uganda**

Ferdsult Engineering Services Limited (FESL) signed three (3) concession / lease agreements worth UGX.420million per annum with the Government of Uganda, through
the Rural Electrification Board (REB) to operate and maintain the distribution and supply of electricity in Kibaale, Rukungiri, Kanungu, Masaka, Rakai, Isingiro and Ntungamo districts for a period of ten (10) years. However from a review of contract management files, lease agreements and internal audit reports, I noted the following issues;

i. Ferdsult has not paid any of the annual concession fees of UGX.420 Million fees since the contract was signed. Performance securities were provided for only one year 2013/2014. They were neither renewed nor cashed when they were still valid. The penalties or termination clauses in the lease agreements have not been enforced by REA management. Instead, the scope of coverage for networks had been increased for FESL.

ii. Contrary to the lease agreements, negotiations between REA and FESL to revise lease rentals after the first year and subsequent reviews after every two years were not held.

iii. FESL is not complying with the Grid Code as provided for in the Electricity (Primary Grid Code) Regulations 2003 and in several cases had failed to meet the Quality of Standards. FESL does not have formalized emergency network shutdown procedures and formalized planned network and equipment maintenance schedules. The Integrity of the Network is therefore compromised.

iv. Most lines require maintenance, including replacement of rotten poles, vandalized stays, missing pole caps and faulty boundary metering units. The load has grown in some centres and the associated transformers are overloaded. This requires system improvement, which has not been done.

v. The going concern of the company is questionable based on the continued reported losses and low profitability of the concession areas. If this is so, this could invoke section 4.2 of the lease agreement, which provides for termination of the contract in case of going concern issues and liquidation.

vi. All cost drivers have been on a steady increase in line with expansion of the scope of the networks. Compared to other rural network operators, FESL has the highest percentage of direct costs. It was noted that FESL is double reporting energy losses as per their financial statements thus worsening their financial position.

vii. FESL failed to meet the distribution loss targets set by ERA of 25.68%. This has also greatly contributed to the financial losses reported by FESL.
viii. FESL hardly submitted quarterly progress reports as required in the lease agreements.

ix. FESL did not submit updated financial statements to REA.

Considering the area coverage of the concession, there is likelihood of poor quality of service and mismanagement of assets by the concessionaire. Management indicated that owing to violations of the provisions of the lease agreements by the Concessionaire a decision had been taken not to renew the lease agreements once they expire. In addition to initiating a procurement process for a new service provider, management also indicated that they had requested the Solicitor General to start recovery proceedings against the company. I advised management to invoke the termination clauses as provided in the lease agreement.

108.0 Electricity Transmission Company Limited Bujagali Interconnection Project ADF 2100150014594 JBIC UD-P1 For The Financial Year Ended 31st December 2015


Management had in all material respects complied with the financing agreement provisions and Government of Uganda financial regulations except for the following issue which has been brought to the attention of management:

i) Failure to recover USD 617,744 in Respect of VAT

Sec 28 (2) of VAT Act Cap 349 states that; " a credit is allowed to the taxable person for any tax paid in respect of taxable supplies to, or imports by the taxable person where the supply or import is for use in the business of the taxable person." In addition, section 31(2) requires submission to the commissioner monthly returns, showing the input tax and credit refunds claimed.

Contrary to the above legal provision, UETCL project Management failed to recover/claim VAT refund worth USD$617,744 from Uganda Revenue Authority (URA). Failure to recover/claim VAT refunds denies the project the additional funds for eligible activities.
In response management stated that, an application to recover the said taxes was made and reconciliations with URA were undertaken. However, to date URA has not processed the refund despite numerous tax audits.

Management is advised to follow up with the tax authorities to ensure quick recovery of VAT refunds.

109.0 **Energy For Rural Transformation Project II (ERT II) Rural Electrification Agency for the Year Ended 30th June, 2016**

109.1 **Supply of PV solar systems by contracted companies**

   (a) **Malpractices in the implementation of the Solar subsidy program**

   REA developed the Solar Photovoltaic Target Market Approach (PVTMA) whose main focus was to promote consumer credit and provide subsidies for solar PV. This sub component commenced in November 2009 with a target of 2000 solar PV installations. As part of compliance monitoring reviews the following observations were noted;

   - Ineligible systems: 1,419 systems (44% of validated systems) worth UGX.1,948,359,900 (USD.564,742) in subsidy were ineligible for subsidy disbursement. These included 276 systems supplied outside the contracted methods. Additionally, 343 systems (representing 48% of the ineligible systems worth UGX.990,143,100 (USD.286,998) were non-existent.
   - REA did not regularly track market prices for solar PV packages from different participating solar companies and comparing with market prices. Tracking market prices would ensure that PV systems prices were not inflated by solar companies in order to benefit from the targeted rural poor.
   - Lack of awareness and consumer education: 18% of the revalidated beneficiaries claimed that they were not well informed on the business models available under the PVTMA. In some cases where systems were installed under the fee-for-service model, the systems were repossessed because the owners were not aware of such modalities. In addition the owners had little knowledge of expected basic maintenance practices for solar PV systems. The end user manuals were also inaccessible at several sites.

The Accounting Officer responded that the project management of PVTMA was suspended and eventually terminated in November 2015. It discontinued the three end
user auditors who perpetuated the fraud and their outstanding professional claims were withheld pending an apportionment of responsibility for the anomalies.

A team led by the Internal Auditor General undertook verification of all installations and recommended a refund of ineligible expenditure worth USD 851,740 by the defaulting companies. By the time of reporting I noted that REA had refunded USD603,427 to the World Bank on behalf of the Companies as they await reimbursements from the companies.

REA was also in the process of referring those that have not responded to the Solicitor General

I advised Management to put up effective fraud control measures for efficient management of the Solar subsidy program. Management should also expedite the recoveries from the private companies.

(b) **Inefficiencies in the consulting for consumer awareness under OBA**

Management contracted a local firm to conduct consumer awareness under the Output Based Aid (OBA) at a contract price of Euro 616,206.91 (UGX.2,037,862,112) funded under KFW. However a number of issues in relation to the provision of consultancy services were noted;

- Under unclear circumstances, the contract fundamentally changed from a lump sum contract to one for pre-financing without approval from the Solicitor General.
- Only 10% of the 65% contract price advanced to the consultant underwent the entire withdrawal approval processes in REA. Management bypassed the checks and balances in the internal audit and accounting systems and paid out EUR 378,018.57 (UGX.1, 209,659,424) to the consultant.
- WHT of 6% was not deducted on the consultant’s professional fees as is required by the Income Tax Act.
- advance payment guarantee expired on 10th November 2014, before the completion and verification of Phase 1 of the activities reportedly carried out by the consultant.
- Failure by the consultant to execute professional liability insurance and the inability of the Contracts Management Team to enforce the same.
- Ineligible transactions as reported by the consultant for recovery by REA amounted to UGX.778,823,980 (EUR.243,382).
The implications are that the consumers under the OBA program will not receive the intended benefits of the contract. Additional awareness will not be made to the intended beneficiaries of the project.

In response, management explained that they had written to the consultant demanding for a refund of the ineligible expenditure. However, the consultant opted for arbitration. In the meantime I have advised management to disclose it as a contingent liability as arbitration continues.

110.0 Electricity Regulatory Authority for the Year Ended 30th June, 2016

110.1 Complaints about Prepaid Meters

Guideline 4.1.3 of the Guidelines for Implementation of prepaid metering by electricity distribution licensees in Uganda 2015 requires all prepaid meters to be inspected, tested and verified by a joint team of the Authority and the Uganda National Bureau of Standards. Additionally, guideline 4.1.27 states that the Authority and the Uganda National Bureau of Standards shall carryout periodic spot checks of installed meters with a view ensure that installed meters conform to standards.

However, a review of the management minutes revealed that some of UMEME's customers' prepaid meters around Kampala and its suburbs had faulty Communication Interface Units (CIUs) that would not upload Yaka units while other customers were connected to the system without CIUs.

Similarly, according to ERA MIN.11/398/201, BECS and FESL meter related complaints were also attributed to failure of meters to load energy. The high meter related faults may be a result of the Authority’s failure to verify and approve all meters deployed by the licensees.

Management explained that the Authority has put in place a framework to test, verify and approve all meters before they are connected to the network. In addition UNBS provided regulations to undertake the testing and approval of electricity meters.

I await the implementation of the above measures.

110.2 Delayed Determination of Final Tariff of Bujagali

Under the Bujagali Energy Limited Power Purchase Agreement, Electricity Regulatory Authority (ERA) was required to determine the tariff adjustment within 6 months after
commissioning of the dam. However since February 2012 when the dam was commissioned, the process of determining the tariff adjustment was still ongoing by the time of this report.

Delays in determining the final tariff means that the tariffs charged since commissioning of the plant are not final. The tariffs currently charged could be higher than they should have been or vice versa. Without firmed up tariffs, budgeting and planning for the sector could also be complicated.

In case the adjustment necessitates the lowering of tariffs, this could result into litigation by consumers for the recovery of over payments made to the Independent Power Producer (IPP).

Management explained that the final capacity price would be determined after legal advice from the Attorney General.

I advised management to follow up the matter and conclusively resolve it without further delay.

**HEALTH SECTOR**

**111.0 Allied Health Professionals’ Council for the Year Ended 30th June, 2016**

**111.1 Non-accountability of subvention spent at the Ministry of Health**

Section 45 (4) of the Public Finance and Management Act, 2015 requires that where an Accounting Officer receives a subvention on behalf of another entity, the Accounting Officer shall remit the subvention to the entity in accordance with the approved cash flow plan for the subvention.
The review of the payments file at the Ministry of Health revealed that UGX.290,768,250 out of UGX.300,000,000 approved for equal transfer to the Pharmacy Council, Allied Health Professionals’ Council, Uganda Medical and Dental Practitioners’ Council and Uganda Nurses and Midwives Council was not transferred to the Councils as planned but spent at the Ministry.

However, the review of financial statements did not indicate the amount spent on the activities of the Council at the Ministry of Health. Spending of the subvention due to the Council at the Ministry can result into double accountability for the same costs. In addition, there is a risk of misstatement of income and expenditure balances in the financial statements of the council.

The Accounting Officer explained that the expenditure was done at the Ministry before the Council opened an account but effective July 2016, all subvention for the Council was being transferred to the Council’s Collection account. The money was not recognized in the financial statements because it was never received by the Council.

I advised the Accounting Officer to demand for accountability of the Council’s subvention from the Ministry.

111.2 Failure to publish bi-annual newsletters

Strategic objective 3 of the Council’s strategic plan provides for institutionalizing communication and publicity mechanisms that which were supposed to be implemented by publishing bi-annual newsletters. However, audit indicated that the Council had never produced any newsletter.

The Accounting Officer explained that a sketch draft newsletter was in place and the first draft will be ready by the end of January 2017.

I advised the Accounting Officer to implement the strategic plan activities as scheduled.

112.0 National Medical Stores for the Year Ended 30th June, 2016

112.1 Non-disclosure of the value of donated medicines and medical supplies
Paragraph 96 of IPSAS 23 requires that “goods in-kind are recognized as assets when they are received, or there is a binding arrangement to receive the goods. It further requires that if goods in-kind are received without conditions attached, revenue is recognized immediately, and if conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied”. Donated medicines and medical products are considered to be goods in kind donated without conditions attached. However I noted that medicines worth UGX.482,043,805,769 have not been recognised and reported in the Financial Statements contrary to what the standard requires. The Accounting Officer explained that NMS only recognised revenue received under handling fees for services delivered instead of the entire value of drugs received.

I advised the Accounting Officer to comply with the requirement of IPSAS used as a basis for preparation of financial statements.

112.2 Non-revaluation of Land and Buildings

IPSAS 17 requires that an asset of (Property, Plant and Equipment) shall be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The standard also requires that an entity that chooses the revaluation model accounting policy to revalue its non-current assets at most every five years. However, a review of the assets register indicated that NMS last revalued its Land and Buildings in 2009. This implies that the carrying amounts of Land and Buildings may not be fairly stated in the financial statements.

The Accounting Officer explained that the process of re-valuing Land and Buildings and other assets had commenced. He stated that the Chief Government Valuer (CGV) and the Chief Mechanical Engineer (CME) were undertaking the re-valuation.

I advised the Accounting Officer to ensure that the assets are revalued regularly as required by the standard. Meanwhile I await the outcome of the revaluation process by the CGV and the CME.
113.0 Joint Clinical Research Centre for the Year Ended 30th June 2016

113.1 Understaffing of Internal Audit Department

Section 2.0 of the JCRC Internal Audit Manual 2009 requires the internal audit unit to comprise of a Chief Internal Auditor, Senior Internal Auditor and 2 internal Auditors. A review of the current status revealed that the department only has one (1) staff to execute the mandate of JCRC. Understaffing of the department may result into inadequate review of the internal controls.

Management attributed the understaffing to the recent resignation of the Chief Internal Auditor and financial constraints.

I advised Management to liaise with the relevant stake holders and fill the vacancies to enhance internal controls of the institute.

113.2 Over-Reliance on Research Related Funding for Sustainability

86% of JCRC's revenue was research related (donor) funding while only 13% and 1% were from locally generated sources and GOU funding respectively.

There is risk of disruption of Research activities and services in the event of withholding of funds by the donors thereby threatening the sustainability of the entity.

In response, management explained that efforts to obtain additional government finding have not been successful.

I advised Management to liaise with the relevant stakeholders to evaluate the possibility of upgrading JCRC into a fully-fledged government supported hospital without compromising the objectives, mission and vision of the center.

114.0 Uganda Medical And Dental Practitioners Council for the Year Ended 30th June 2016

114.1 Training of Medical and Dental Practitioners
I reviewed the 23rd East African Community (EAC) Partner States National Medical and Dental Practitioners’ Boards and Councils meeting report of 14th November 2015 arising out of the joint inspection of the University Medical and Dental Schools and Teaching Hospitals in the partner States.

In Uganda, seven universities were inspected and these included Makerere University, Mbarara University of Science and technology, Gulu University, Busitema University, Kampala International University, St. Augustine International University and Islamic University in Uganda. A number of shortcomings which I consider to be fundamental in the quality of Medical and Dental Graduates were identified in all the seven universities in varying degrees, among them, the following;

- Governance and Management weaknesses
- Inadequate Human Resources capacities
- Inadequate Teaching Hospital capacities
- Inadequate patient load numbers
- Inadequate academic facilities
- Lack of curricula approvals
- Over enrollment in Student numbers
- Student affairs
- Program monitoring and evaluation of programs
- Inadequacies in research and innovation

Owing to the numerous weaknesses pointed out, there is risk of producing insufficiently trained graduates. For all the above issues, specific recommendations were made for each University in the detailed report.

I also noted that the EAC Council of Ministers considered the report and directed the EAC Secretariat in collaboration with the Inter-University Council of East Africa (IUCEA) and the EAC Partner States to oversee the implementation of the relevant recommendations before 31st March, 2017.

I have advised the UMDPC management to urgently liaise with all the concerned stakeholders and ensure that the recommendations are implemented to enhance training of Medical and Dental practitioners.

114.2 Inadequate training facilities for the Internship Programme
Review of the UMDPC Annual Report 2015/16 revealed that whereas, the production of medical graduates has increased to more than 600 per year, the number of training hospitals have remained 23. The infrastructure in these hospitals has also remained the same over years. Internship training programme is further constrained by lack of facilitation for the supervisors.

These constraints affect the supervision and the effectiveness of the internship programme.

The Accounting Officer explained that measures were being undertaken to address the weaknesses including lobbying the MoFPED to increase funding for internship training.

I await fulfilment of the Accounting Officer’s undertaking.

114.3 Accreditation of the Medical and Dental Training Curricula

Objective 1 (ii) of the UMDPC Annual Report states that the council is mandated to ensure that training for Medical and Dental practitioners in Uganda meets the required standards and curriculum review is one of the key undertakings by Council, within its broad function to regulate training, and practice of Medicine and Dentistry in the Country. The council therefore reviews the curriculum for Medical and Dental training programs at the Universities on behalf of National Council for Higher Education (NCHE).

Review of the Annual Report for UMDPc revealed that, out of 19 Curricula programs in various Universities that were initiated in the period 2015/16, only 3 had been accredited by NCHE, 6 were in the final reviews while 10 in the first reviews. As shown below. I noted that although many of the courses had not yet been accredited, they were being taught at the respective Universities.

<table>
<thead>
<tr>
<th>Program</th>
<th>University</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBChB</td>
<td>IUIU</td>
<td>Accredited</td>
</tr>
<tr>
<td>MBChB</td>
<td>SAIU</td>
<td>Accredited</td>
</tr>
<tr>
<td>MBChB</td>
<td>Busitema University</td>
<td>Accredited</td>
</tr>
<tr>
<td>MMed (Internal Medicine)</td>
<td>UMU</td>
<td>Final Review Done</td>
</tr>
<tr>
<td>MMed (Emergency Medicine)</td>
<td>UMU</td>
<td>Final Review Done</td>
</tr>
<tr>
<td>MMed (Paed and Child Health)</td>
<td>KIU</td>
<td>Final Review Done</td>
</tr>
<tr>
<td>MMed (Paed and Child Health)</td>
<td>Busitema University</td>
<td>First Review Done</td>
</tr>
<tr>
<td>MMed (Paed and Child Health)</td>
<td>Kabale University</td>
<td>Final Review Done</td>
</tr>
<tr>
<td>MMed (Psychiatry)</td>
<td>KIU</td>
<td>First Review Done</td>
</tr>
<tr>
<td>MMed (Surgery)</td>
<td>KIU</td>
<td>Final Review Done</td>
</tr>
<tr>
<td>MMed (Obs &amp; Gynae)</td>
<td>Kabale University</td>
<td>First Review Done</td>
</tr>
<tr>
<td>MMed Ophthalmology</td>
<td>KIU</td>
<td>Sent for review</td>
</tr>
</tbody>
</table>
Un approved courses may result into poor quality graduates affecting the practice when they are later absorbed into the workforce.

The Accounting Officer explained that, the mandate of accrediting programmes rests with the National Council of Higher Education. UMDPC only collaborates in review of the Curricula. However delays had been noted with Universities who do not respond to issues raised by UMDPC reviewers in time. He further explained that the new memorandum of understanding between NCHE and UMDPC has specified the time frame to be observed by each player.

I advise the Accounting Officer together with NCHE to ensure universities only offer accredited courses.

115.0 **National Drug Authority for the Year Ended 30th June, 2016**

115.1 **Non-compliance with the National Drug Policy and Authority Act Cap 206**

NDA is mandated by the National Drug Policy and Authority Act (NDPA) specifically section 5 to regulate pharmacies to ensure that they comply with: trading license requirements, keeping records of expired drugs, having qualified staff, maintaining updated prescription books, and maintaining clean premises of operations among others. However, from my field visits of a sample of 51 pharmacies across the country, I noted that 42 had dusty or untidy premises, 26 had no temperature control mechanism in place, 14 did not display their licence at the premises and 6 had no prescription books among others.

The cases on non-compliance, mainly attributed to inadequate supervision and enforcement efforts by NDA, could result in pharmacies offering inappropriate, poor quality medicinal products to the public thereby exposing the public to health hazards.
In their response, management acknowledged the observations and have been followed up by the respective regional offices. Management also attributed the non-compliance in the pharmacies to inadequate supervision by licensed in-charge pharmacists, a matter which had been taken up by the respective professional body, PSU.

To further improve regular inspection and sensitization, management is in the medium term (2016/2017) increasing the regional inspectors from two (2) to four (4) per region with a further gradual future scale up.

I await managements’ expeditious implementation of their proposal.

115.2 Weaknesses in drug regulation at Border Points

Section 9 (2) of the National Drug Policy and Authority (Importation and Exportation of Drugs) Regulations, 2014 states that the Authority shall, on the arrival of the consignment of drugs at a port of entry into Uganda, inspect the drugs to confirm that the drugs comply with the approved specifications and that each batch is accompanied by a certificate of analysis. During the audit, I however noted that the entry points in Mirama hills, Katuna, Elegu and Oraba have no NDA officials to carry out the inspection.

There is a risk that inappropriate medical products could enter the country due to absence of NDA staff at these border points posing health dangers to the final consumers.

In response, Management explained that NDA has a good working relationship and understanding with the URA which ensures such illegal medicine consignments are detected, impounded and culprits dealt with accordingly. This collaboration has ensured over the past years that these ports of entry, though not directly manned by NDA, are constantly monitored for illegal importation and smuggling of medicines.

I explained to management, that since URA staff are not technical, to consider deploying qualified inspectors of drugs at every port of entry to enhance its monitoring efforts.

115.3 Release of drug consignments without NDA verification and approval
Contrary to regulations, I noted that some consignments of drugs entered the country without NDAs approval. Below is a list of some of the consignments from my sample where I was unable to obtain release letters by NDA from the ports of entry.

Table 1: consignments where I was unable to obtain release letters by NDA

<table>
<thead>
<tr>
<th>importer</th>
<th>Custom entry no</th>
<th>Invoice number</th>
<th>detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Pharmacy</td>
<td>C22935</td>
<td>50745 and 56159</td>
<td>Consignment of assorted medicines</td>
</tr>
<tr>
<td>Clinical Research Center (JCRC)</td>
<td>C24773</td>
<td>2001102849</td>
<td>Consignment of Glivec HGC 100 mg capsules (Imatinib). NDA verification certificate number 418/2016 and emergency/extraordinary permit ref: 151/UNREG/2016 dated 18th March 2016 had been issued by NDA;</td>
</tr>
<tr>
<td>Techno Med Ltd, Techno Med Ltd on</td>
<td>C24943</td>
<td></td>
<td>Consignment of unidentified cold storage items</td>
</tr>
</tbody>
</table>

There is a risk that inappropriate medicinal products could gain access to the country thereby pausing a health risk to the ultimate users.

Management acknowledged the observation and explained that the matter is currently under investigation. NDA is also in dialogue with the URA to reign in on errant clearing firms who connive with clients to illegally clear consignments without the involvement of the Authority. It is envisaged that the findings from this investigation once closed, will help identify gaps or areas for strengthening collaborative efforts with Uganda Revenue Authority with respect to the control of medicine importation into the country.

I await the results of the investigation.

116.0 Uganda Blood Transfusion Services for the Year Ended 30th June 2016

116.1 Underfunding of Essential Medicines and Health Supplies (EMHS)

The UBTS revised procurement indicated that it needed EMHS worth UGX.15,711,224,386. This was occasioned by the increased blood collection target from 220,000 units in the previous year to 260,000 in the year under review and the addition of two new blood collection teams. However, the entity budget ceiling for the
supplies was only UGX.7.88 billion resulting into underfunding of UGX.7.83 billion. Consequently the entity experienced stock outs of vital components such as blood collection bags. The schedule below refers:

<table>
<thead>
<tr>
<th>Item</th>
<th>Period of stock outs</th>
<th>Stock out days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blood bags quadruple</td>
<td>5th Feb2016 to 30th March 2016</td>
<td>55 days</td>
</tr>
<tr>
<td>Blood bags single</td>
<td>16th Feb to 30th March 2016</td>
<td>44 days</td>
</tr>
</tbody>
</table>

The Accounting Officer explained that apart from stock outs of vital components, inadequate funding creates debts for medical supplies at NMS that are carried over from one financial year to the next. Meanwhile the entity was engaging the Ministries of Finance and Health to increase funding for critical medical supplies.

I advised the Accounting Officer to continue liaising with the responsible Ministries to provide adequate funding for blood products.

**EDUCATION & SPORTS SECTOR**

**117.0 Higher Education Student’s Financing Board for the Year Ended 30th June 2016**

**117.1 Lack of a Strategic Plan**

NCDC operates a company in the names of STEPU with the principal activities of carrying out business on its behalf and raise funds for National Curriculum Development Centre.

I noted that STEPU being a limited company which should be having its own guiding laws and regulations operates under NCDC guidelines and other laws such as procurement regulations which in a way have impacted on its competitiveness.

Contrary to corporate management practices, Higher Education Students Financing Board (HESFB) has been operating for the past three years without a strategic plan. A strategic plan is supposed to show the long term outlook of the entity and is used to set priorities, focus energy and resources and strengthen operations to ensure that employees and other stake holders are working towards common goals.
I explained to management that lack of a strategic plan implies that implementation of activities aimed at achieving the entity’s mission and long term objectives may not be properly guided.

In response management indicated that the process of procuring a consultant to develop the plan are underway.

I advised management to expedite the process of formulating and implementing the strategic plan.

118.0 National Curriculum Development Centre for the Year Ended 31st December 2015

118.1 Lack of operational guidelines for STEPU

It was further observed that whereas STEPU is a limited company it does not have its own management structure. Instead the STEPU is being run by NCDC management.

Furthermore, in a letter dated 3rd July 2013 the Director of the Privatization Unit, indicated there are challenges regarding the incorporation, ownership and proposed divesture of NCDC’s shareholding in STEPU. These challenges have not been resolved yet. I explained to management that lack of a clear ownership structure and proper guidelines for the operations of the Company may inhibit realization of its full potential as a profit making entity.

In response management indicated that STEPU is being operated on an interim arrangement of six months renewable as guided by the Governing Council. This was because the Council was not certain of its sustainability in terms of profitability as it has operated below breakeven point.

I advised management to ensure that the NCDC Council addresses the legal challenges affecting STEPU and put in place relevant structures for the smooth operations of the Unit.
118.2 Delayed development and implementation of Secondary School Curriculum

Review of NCDC Strategic plan 2012-2017 strategic Objective 3 revealed that NCDC planned to Design and develop appropriate curricula for improving effectiveness and efficiency of Secondary Education by reducing the number of subjects at ‘O’ level to a manageable number through mergers and integration, and to develop learners’ analytical skills for courses at A-level.

I however observed that there were delays in development and implementation of the secondary school curriculum.

In response management explained that NCDC has developed the teaching syllabus and prototype text books for the roll out and that it planned for 2018. The delay was attributed to funding constraints. However, it was also pointed out that having completed its mandate of the curriculum reform, the Ministry responsible for education ought to implement its mandate of the roll -out.

I advised Management to liaise with the parent Ministry and finalize the curriculum roll-out as this will enhance the quality of the students and graduates.

119.0 Uganda National Examinations Board for the Year Ended 30th June 2016

119.1 Funding constraints

The UNEB 5 year strategic plan 2012/13-2016/17 aims at positioning the institution as a credible, efficient and effective Centre of assessment for quality education in Uganda and beyond by among others expanding office accommodation, storage space, printer capacity, efficient management of examinations, acquiring land for expansion and improving security systems.

However, review of the board’s approved budgets since FY 2012/13 to F/Y 2015/16 revealed that the board had continuously operated with a nil development budget from
Government. Consequently, the Board continuously incurs high fixed costs of UGX.500 million annually on hiring storage space in Industrial Area and Communications House.

I also noted that the board had accrued payables of UGX.1,922,936,935 as at 30th June 2016 of which UGX.310,866,625 relates to unremitted PAYE and WHT to the Uganda Revenue Authority thereby exposing the entity to the risk of penalties.

In addition, comparison of the total expected examination funding based on the approved unit cost for GoU sponsored candidates with actual releases indicated that the Board had funding shortages in 2015/16 of UGX.6,483,625,000 and the projected shortfall for 2016/17 is UGX.8,092,591,000.

As a result of the funding constraints the Board has resorted to short term credit facilities, consequently increasing payables and the cost of managing examinations.

Management attributed the challenges to funding limitations and failure by MoFPED to factor in the annual growth of candidature into the UNEB yearly budget allocation coupled with prohibition of the board from charging the actual unit costs of conducting examinations.

I advised management to continue engaging all stakeholders to ensure timely and adequate funding of the national exams.

120.0 Management Training And Advisory Centre for the Year Ended 31st December, 2015

120.1 Inability to fulfill Mandate

Management Training and Advisory Centre (MTAC) is a body corporate under the Ministry Trade, Industry and Cooperatives (MTIC) which was established under the MTAC Act 1969. According to the MTAC ACT, 1969 (Repealed), the objectives for which the Centre was established including among others to assist existing and new enterprises in studying designs of new products, models and devices.

- To help citizens of Uganda to become entrepreneurs by providing them with advisory services and instruction in management practices particularly management, accounting and marketing,
- To organize and conduct training courses for semiskilled and skilled workers, foremen, supervisors and technicians.

- To assist government departments, Public and Private Institutions with advisory and training services.

Following the enactment of the Universities and other Tertiary Institutions Act in 2001, the MTAC Act was repealed and the center fell under the supervision of the MOES. In 2005 the center reverted to Ministry of Trade and Cooperatives. However, given that its Act had been repealed and the Universities and other Tertiary Institutions Act is implemented under the Ministry of Education and Sports left the center in a state of abeyance and certain decisions regarding MTAC cannot be taken under the Ministry of Trade and Cooperatives notably, the following.

i. **Non appointment and confirmation of staff**

Chapter 2.4.3(ii) of the MTAC human resource manual requires that a member of staff should not be in acting capacity for more than six calendar months. The manual requires that the position should be filled substantively after the six months. I noted that three of the top management positions of Executive Director, Human Resources and Administration manager and the Accountant are occupied by staff who have been in acting capacities for 24, 15 and 24 months respectively.

Management explained that the role of recruiting and confirming top officers is a preserve of the governing council which currently was not in place.

ii. **Approval of the teaching staff structure**

I noted that out of 153 academic staff at the Centre, only 4 were on a permanent basis with the remaining 149 (97%) being on part time basis.

In the circumstances, the center is constrained in service delivery and therefore its mandate may not be achieved.

Although the Accounting Officer attributed the anomaly to inadequacy of the wage bill that would enable hiring of permanent staff, I also observed that the recruitment process cannot take place without the appropriate organ of the center being in place to do so.

I advised the accounting Officer to liaise with Management of the Ministry of Trade and Cooperatives and ensure that the bill is expeditiously handled.
121.0 National Council for Higher Education for the Financial Year Ended 30th June 2016

121.1 Improper Students’ fees payment system

Section (2) of statutory instrument 2010 No. 17 requires all students to pay the fees directly to the National Council for Higher Education Bank account.

Statutory institution 2010 No. 17 (1 and 2) indicate that funds of the National council shall include a contribution from each students of one currency point per year which shall be a pre-condition for student registration and enrollment and the council shall hold bank accounts into which students shall pay their annual contribution of one currency point plus bank charges.

I however noted that Council management relies on students lists declared by the respective institutions without verifying the authenticity and accuracy of these lists. I further noted that despite the fact that the Council budgets for collections from students contributions, management cannot forecast the students’ numbers to determine budget amounts nor does the Council get to know the actual numbers of enrollment or registered students. More so in certain circumstances revenue recorded on bank statements was below the one currency point stipulated in the instrument. Consequently the Council realized only UGX.2,478,337,336 out of the budgeted students contribution of UGX.4,000,000,000 resulting into a shortfall of UGX.1,521,662,664 (38%)

I explained to management that the collection system could greatly impact negatively of budget realization and service delivery.

In response management indicated that the council has currently embarked on sensitization workshops to all stakeholders on the collection of the fees.

I await the outcome of management’s efforts in this regard.

122.0 Mandela National Stadium Limited for the Financial Year Ended 31st December 2015
122.1 Treatment and disclosure of Chinese grant

In my prior audit report to Parliament, I reported that Management asserted in the Accounting Policies under 1(a) that the Financial Statements were prepared in accordance with international Financial Reporting Standards (IFRs). However, review of the current financial statements with regard to the treatment of the Chinese grant revealed that management has continuously not complied with standards in respect of treatment of the grant as illustrated below;

a) IAS 20(24), Accounting for government grants and disclosure of Government assistance requires that a grant relating to assets may be presented in one of two ways: Either as deferred income or by deducting the grant from the asset’s carrying amount. However, Management did not state which of the two ways had been adopted with regard to the Chinese grant through GoU for the construction of the stadium.

b) The standard requires that the grant should be recognized as income over the periods necessary to match them with related costs, for which they are intended to compensate, on a systematic basis. However it was noted that no portion of the grant was recognized through the statement thus misrepresenting the grant in the income statement.

c) The standard further requires that such grants should not be credited directly to shareholders’ interests. The current treatment of the grant in the balance sheet under “capital and reserves” implies that the treatment appears to be contrary to the requirements of the standard and misleading.

d) A balance of UGX.26,379,809,188 was reported in the statement of financial position as a Chinese grant under capital & Reserves after deducting the accumulated deficit of UGX.4,082,009,812. The reduction was not explained and appears to be a misrepresentation.

Management indicated that in their opinion, the provisions of IAS 20 do not apply but rather the Memorandum and Articles of Association may need to be amended to take care of all Government equity in the Stadium that existed before incorporation.
In the circumstances, the reported balance may not be fairly stated and management’s assertion that the financial statements were prepared in accordance with IFRSs may not be correct.

I advised management to comply with the requirements of IAS 20 which prescribes treatment of grants and Government Assistance or expedite the process of converting the grant into capital.

### 122.2 Unconfirmed debtors

IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Under Paragraph 7.2 of the financial statements, management observed that due to the complexity and uncollectability of the debts from the government for accommodating the Chinese technical team (UGX.815,000,000) and UMeme Ltd for the Kireka Sub-station hosted on the land of MNSL (UGX.312,000,000), the said debtors have not been included in the year’s accounts. However, management did not provide any documentation or analysis such as contract references and period covered by the items attached to support the existence or occurrence of the respective amounts. There was also no evidence that efforts had been made to recover the said debts and failed. In absence of supporting evidence I was not able to ascertain that the debts did exist and that the write-offs were properly made and in the circumstances the presentation is misleading.

I advised management to always make provisions in accordance with the financial reporting framework in presentation of financial information to avoid giving insufficient information to the users of accounts.

### 122.3 Failure to make provisions for bad and doubtful debts

Note 1 (c) of the Notes to the Financial statements provides that specific provision shall be made for all known bad debts. However, there were no such provisions made by management.
This implies that debts which appear to be irrecoverable due to failure to trace the debtors continue to be reported in the financial statements at full amounts.

Management stated that the recommendation will be presented to the Board for approval.
I advised management to make provisions for bad debts in conformity with International Financial Reporting standards.

122.4 Going concern status of the Stadium

Sub section 25 of IAS 1 (presentation of financial statements) requires management to make an assessment of an entity’s ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case IAS 1 requires a series of disclosures.

I noted that there are conditions affecting the going concern status of the Stadium, for example;

- Current ratio stood at 0.42:1 while the acid test ration stood at 0.41:1 in 2015.
- The stadium reported losses of UGX.323,544,532 for 2015 leading to increase in accumulated deficit to UGX.4,742,379,865. This trend continues to wipe away the capital base of the Stadium.
- The long outstanding creditors is an indication of the Stadium’s inability to settle its obligations from its own sources of funds.
- The deteriorating state of the Stadium’s assets without provisions in the budget to finance their maintenance is an indicator that the assets may not be able to generate the required income to finance planned activities and pay service providers.

The above factors are an indication of the Stadium's inability to sustain itself in the foreseeable future.

Management attributed the state of affairs to frequent management and board changes. It was further stated that stability of staff and board had now been addressed and that management is working on strategies that can boost revenue generation to match the investment in the facility.
I advised management and the board to put in place proper governance structures to ensure stability in stadium liquidity.

123.0 Nakivubo War Memorial Stadium Trust for the Financial Year Ended
31st December, 2015

123.1 Doubtful Expenditure

Paragraph 18.2 of the Nakivubo Financial manual 1992 requires the manager to retain for audit purposes serially numbered vouchers of receipts and expenditures with all supporting documents relating to the entries in the records of the trust.

Contrary to the above requirement payments of UGX.30,650,000 made in respect of various trust transactions such as legal services, several supplies of goods and services, board committee meetings, were effected without the relevant documents such as Local Purchase Orders, Goods Received Notes, Contracts, MOUs, and committee meeting minutes.

In the absence of the relevant documentation, I could not ascertain the authenticity of the payments.

I advised management to always ensure that all payments are adequately supported by the relevant supporting documentation.

123.2 Unsupported receivables

Management reported UGX.503,989,584 as sundry debtors at the end of the financial year. However, receivables worth UGX.108,860,000 were not supported with relevant documentation such as demand notes or invoices.

I was therefore unable to verify the existence of the debtors and accuracy of the reported amount.

I advised management to avail the supporting documentation or make the necessary adjustments to ensure that the information provided in the accounts is not misrepresented.

123.3 Doubtful payables
Management reported UGX.246,665,061 as outstanding creditors as at the end of the financial year. However payables of UGX.24,730,006 were not supported with relevant documentation rendering the accuracy of the balances doubtful. I advised management to avail the supporting documentation or make the necessary adjustments to ensure that the information provided in the accounts is presented in accordance with the accounting standards.

123.4 **Lack of a strategic plan**

A strategic plan is a formalized road map that describes how the entity executes a chosen strategy and spells out the direction of the entity over the next specified period of time and how to get there. It states the vision and the mission of the entity.

Whereas management stated under paragraph 1.2 of the final accounts for the year ended 31ST December 2015, that the stadium is guided by a four year strategic plan 2014-2017, I did not get any evidence of either a work plan or strategic plan to guide the stadium’s operations.

I explained to management that without a strategic plan the Stadium lacks strategic direction, vision, mission and goals to guide its operations and as such operations were being undertaken on adhoc basis.

I advised both the Board and management to develop a strategic plan to direct the operations of the Stadium.

123.5 **Failure to disclose legal cases in the Financial statements**

Contrary to the provisions of IAS 37 Provisions, Contingent Assets and Contingent Liabilities which require disclosure of all contingent assets and liabilities in the financial statements, I noted that management neither disclosed nor provided any documentation in respect of the legal cases against the stadium.

I explained to management that in the absence of the schedule of court suits the financial statements do not provide adequate information to the users. I advised management to disclose the cases in accordance with the Accounting standards.
124.0 Support To Higher Education Science And Technology (Education V) Project (ADB Loan No. 2100150028093 for the Year Ended 30th June 2016)

124.1 Commitment Charges

Review of the project implementation plan and progress reports revealed that there were delays in the execution of the construction activities. The contracts Agreements for most civil works were signed in mid-December 2015 resulting into loss of two years. The civil works for UMI had not started as at June 2016.

There was also considerable delay in the start of the procurement of laboratory equipment worth USD 19.3M as there was need to adjust the statement of requirement lists from the beneficiary institutions to within the available budget estimates which were negatively affected by the loss in value occasioned by the strengthening of the US Dollar against the UA as well as harmonizing the specifications in line with the procurement guidelines.

The delayed implementation of the project activities and low disbursement of funds had attracted commitment charges amounting to UGX.1.62 Billion at the time of audit.

I explained to management that this loss could have been partly avoided if the implementation had started timely. In response, management attributed the project implementation delays to delayed recruitment of project staff. A revised implementation plan had been developed to enable achievement of the project milestones by June 2018.

I await management commitment in this regard.

124.2 Low disbursement rate

According to the project appraisal document, the Bank should have made 50% disbursements by half-life of the project whose loan agreement was signed on 5th July 2013 and of which the deadline for last disbursement is 30th June 2018. I however, noted that with 36 months elapsed (60%) and only 26 months left to the deadline of last disbursement the current disbursement rate was at 10.24% with a physical overall
rate of project implementation estimated at 20% which puts the project at a risk of not attaining 100% disbursement by the deadline for the final disbursement.

In response management indicated that during the Mid Term Review of the Project, the Bank and the Ministry agreed on a revised implementation plan which also highlights the target quarterly disbursement rates to be achieved. The original outputs were also scaled down to fit within the current budget due to currency loss. I pointed out to the Project management that low disbursement rate exposed the project to loss of funds caused by foreign exchange fluctuations. By close of June 2016, the loss was at 7% of the loan amount UA 67.00 million translating into USD 7.37 million. Furthermore, the project is at risk of not fully utilizing the loan amount by the project end.

I advised management to expedite the implementation of the activities to ensure that the loan is fully utilized to allow the project achieve its objectives.

INFORMATION AND COMMUNICATION TECHNOLOGY SECTOR

125.0 National Information Technology Authority-Uganda for the Financial Year Ended 30th June 2016

125.1 Lack of an Operating Licence

The Uganda Communications Act, 2013 under Section 22 provides that a person shall not, establish a telecommunications station, provide telecommunications services or construct, maintain or operate telecommunications apparatus without a licence issued by the Commission. However it was noted that the Authority operates telecommunication services without an operating license from the Uganda Communications Commission.

Although management stated that the biggest chunk of money had been paid towards the acquisition of the license, the Authority is at risk of being discontinued from operating which may result into litigation from its clients.

Management explained that NITA-U is committed to clearing the outstanding US$.47,000 within FY 2016/17 and secure an operating license.
I advised the Accounting Officer to expedite the process and complete the licensing procedures to avoid possible disruptions in providing service.

125.2 Delayed Expansion of the National Backbone Infrastructure (NBI) to support the provision of internet services to MDA

The Cabinet of the Republic of Uganda approved the strategy of Rationalization and Harmonization of ICT services across Government in July 2012. The strategy required Ministries, Departments, Agencies, and Local Government to use the National Data Transmission Backbone (NBI) as a primary vehicle for data transmission and advocated for the bulk procurement of internet bandwidth among others.

The Ministry of Finance, Economic, Planning and Development on 28th October 2013, communicated to all accounting officers of MDAs confirming the approval of funding for the purchase of bulk internet for MDAs and also provided guidance to MDAs on the provision of Internet bandwidth which included:

- All MDA’s not to renew their contracts for internet bandwidth by the end of December 2013 except one Ministry which had a contract running up to June 2014
- Bulk purchase of internet was to be effected by 1st January 2014
- NITAU should enter in to MoUs with MDAs for purpose of payments.
- From the financial year 2014/15, all funds appropriated for internet bandwidth were to be transferred to NITAU.

During the year under review, it was noted that NITAU had signed a Memorandum of Understanding with 74 MDAs for the provision of bandwidth services. The Authority billed revenue totaling UGX.6,611,038,220 for the provision of the internet services and UGX.4,946,067,169 was collected.

However it was noted that despite the revenue generated by NITAU, the Authority has delayed to expand coverage of its wide internet services to include upcountry stations. As a result a number of MDAs had to incur extra costs to acquire internet bandwidth from private operators which would have been avoided if the Authority had fulfilled its mandate. Some of the affected MDAs include; Auditor General, Directorate of Public Prosecution (DPP), Judiciary, Uganda Revenue Authority and Human Rights Commission. As at the close of the financial year, a sum of UGX.9.053 bn had been paid by three (3) of these institutions alone.
Low coverage of internet services hampers communication and service delivery in the affected entities and results into extra expenditure by MDA on the internet services for upcountry offices.

Management explained that in the financial year 2015/2016, UGX.2,200,000,000 was budgeted for the extension of the data transmission on the Backbone Infrastructure (NBI) to the MDA sites. However, considering the limited resources resulting from the non-realization of NTR, the releases from MoFPED had to be allocated to all priority activities hence the Authority was only able to the extent of NBI/EGI services to provide to 57 Government MDA sites in Kampala metropolitan area. The entity has secured funds for the implementation of the last mile connectivity to MDAs, Local Governments and Target User Groups under the Regional Communications Infrastructure Project (RCIP) and that the implementation of the last mile connectivity to the remaining MDAs and their branch offices will commence in the financial year 2017/18.

I advised the Accounting Officer to expedite the process of providing internet services countrywide in order to achieve its objectives of providing e-government services and to help reduce nugatory expenditure arising from dual subscription for internet services by other government units.

125.3 Delayed signing of a revised contract between NITAU and M/s Soliton Telmec

NITA-U entered into an agreement with M/s Soliton Telmec Limited for the commercialization of National data Transmission Backbone Infrastructure (NBI) and the E-Government Infrastructure (EGI). The provider under section 3.2 of the contract agreed to generate minimum revenue which was to be shared on a 50% basis with the client as per details in table below;

<table>
<thead>
<tr>
<th>Period</th>
<th>Year 1</th>
<th>Years 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Years 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total annual revenue (USD)</td>
<td>8,184,603</td>
<td>27,282,011</td>
<td>40,923,016</td>
<td>49,107,619</td>
<td>54,564,021</td>
</tr>
<tr>
<td>Percentage share for NITA</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>NITA Revenue (USD)</td>
<td>4,092,302</td>
<td>13,641,005</td>
<td>20,461,508</td>
<td>24,553,810</td>
<td>27,282,011</td>
</tr>
</tbody>
</table>

Further, Section 3.9 of the contract required the client (NITA-U) to notify the service provider of its failure to meet the minimum revenue collection, discuss the service providers report on the performance gaps and institute measures to improve the
service provider’s performance. The client (NITA-U) should then give the provider 12 months to improve on agreed measures and later terminate the contract at no cost upon failure to achieve the agreed measures.

A review of the revenue collections revealed that the Authority received approximately USD.173,453.44 in the year 2013/2014 representing only 1% of the revenue expected to be generated. In the year 2014/15 (third year of the contract) the Authority received UGX.5,151,134,951 (approximately USD.1,717,045) representing 8% of the expected/projected revenue. In the year under review (fourth year of the contract) the Authority received UGX.8,635,521,672 (approximately USD.2,465,883) representing 10% of the expected/projected revenue.

The above analysis indicates that the cumulative collections are increasing but are still too low (below the first year projections) yet this is the fourth year of operation. Delay in signing a revised contract with the service provider affects the Authority’s budget performance and renders achievement of the strategic objectives of the entity difficult.

Management explained that the contract has been submitted to the Solicitor General and clearance was expected in December 2016.

I await the outcome of management’s effort to have the contract cleared by the Solicitor General.

125.4 Under collection of Appropriations-in-Aid

The Authority budgeted for appropriations-in aid of UGX.25,825,730,615 in the financial year 2015/16 from the commercialization of NBI/EGI, sale of internet bandwidth to MDA and private firms, Logistical fees, sale of bid documents, revenue from co-location and UCC 1% levy. However, I noted that only UGX.9,446,458,793 was collected representing 37% of the appropriation budgeted as shown below;

<table>
<thead>
<tr>
<th></th>
<th>Budget (UGX)</th>
<th>Accrued (UGX)</th>
<th>Actual (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDAs</td>
<td>12,463,488,000</td>
<td>6,611,038,220</td>
<td>4,946,067,169</td>
</tr>
<tr>
<td>Private Clients</td>
<td>7,112,353,364</td>
<td>3,963,664,211</td>
<td>3,555,289,303</td>
</tr>
<tr>
<td>Co-location fees</td>
<td></td>
<td>1,183,590,835</td>
<td>0</td>
</tr>
<tr>
<td>Logistical fees</td>
<td></td>
<td>470,675,804</td>
<td>134,165,200</td>
</tr>
<tr>
<td>UCC 1% levy</td>
<td>5,800,000,000</td>
<td>5,800,000,000</td>
<td>500,000,000</td>
</tr>
<tr>
<td>Others (Miscroft)</td>
<td>449,888,800</td>
<td>0</td>
<td>310,937,121</td>
</tr>
<tr>
<td>License, Tender fees etc.</td>
<td>Total</td>
<td>25,825,730,164</td>
<td>18,028,969,070</td>
</tr>
</tbody>
</table>

Failure to collect the budgeted revenue affect performance of budgeted activities resulting into failure to achieve the Authority’s short and long term objectives.

Management explained that by the end of the financial year 2015/16, 137 MDA sites were connected to the NBI/EGI and 94 of these were receiving internet. The total generated revenue during the period was UGX.18 billion (70% of the total NTR budget) although only UGX.9.4 billion was collected. This was attributed to delays in delivery of internet bandwidth to the targeted number of 130 MDAs partly because of delays in the implementation of Phase III and other technical challenges.

During the budgeting for the financial year 2016/17, revised revenue projections was based on the 5 year financial projections model, and the Ministry of Finance has consolidated and transferred to the NITA-U vote UGX. 14.29 billion from the budget for Internet Bandwidth of all MDAs that are connected to the NBI/EGI and as a result, revenue collection is anticipated to match the budget projections.

I advised the Accounting Officer to ensure that provision of internet to MDAs is enhanced so that revenue collection is short-comings are addressed.

126.0 Uganda Printing And Publishing Corporation for the Year Ended 30th June 2016

126.1 Trade debtors-uncertainty in recoverability

Trade receivables slightly decreased from the prior year amount of UGX. 2,968,039,234 to UGX 2,713,629,404 as at 30\textsuperscript{th} June 2016. However, the following were noted;

- Unsupported credit balances in the receivables ledger of UGX. 41,562,306. Management explained that there are payments made to the Corporation account without issuance of invoices.
- Responses from debtor circularization revealed that receivables were overstated by UGX 211,366,579 as the debtors did not acknowledge the debts.
The major categories of these debts are owned by Government of Uganda Ministries, Departments and Agencies whose recoverability is uncertain as these have been outstanding for over 10 years.

There is a risk that the long overdue debts may not be recoverable and as such receivables in financial statements may not be fairly stated.

Management explained that some efforts were made by Management to collect the debts for instance the Corporation recovered UGX.874million from the Ministry of internal affairs. Management further explained that the long overdue debts will be forwarded to the Board to with a view of writing them off.

I advised Management to critically analyze and reconcile the accounts in the receivables ledger to ensure that the receivables balances represent a true and fair view.

127.0 Uganda Communications Commission for the Year Ended 30th June, 2016

127.1 Legal fees

The Commission spent funds totaling to UGX.7,112,759,534 which was an increment of UGX.5,916,260,478 from previous year’s figure of UGX.1,196,499,056. This represented almost 494% rise in previous year’s expenditure. These cases relate to numerous public interest cases against the Commission. One particular case relate to breach of contract where the plaintiff was seeking damages for cancelling the contract for the collection of TV license fees at US$.515,295,409 in 2005.

It was observed that the Commission has not set up a legal unit but was instead using an external firm to represent and handle the Commission legal cases. Use of external law firm is costing government a lot of money. As indicated above, a sum of UGX.7.1bn has been paid to the external law firms. Additionally the absence of a Communications Tribunal denied the Commission and its stakeholders a cost effective opportunity to amicably resolve public interest issues without going to Court.

Management explained that the restructuring exercise has provided for the legal department with four additional staff which will be filled with persons having litigation experience. Management further explained that a large percentage of the legal fees
arose from payments made by UCC in respect of cases which had been filed during the periods 2006–2014.

I await the outcome of Management’s efforts to constitute an internal legal department that will execute preliminary litigation services and recommend cases that may necessitate hiring of external lawyer to the Board in order to reduce the legal fees.

127.2 **Under remittance of Gross Annual Revenue (GAR) Levy—UGX.13,635,931,835**

Section 2.1 of the Memorandum of Understanding between Uganda Communications Commission (UCC), Ministry of Information and Communications Technology (MoICT) and National Information Technology Authority, Uganda (NITA-U) requires UCC to release the funds collected and received from the levy charged on GAR of operators, to the implementing parties in accordance with the UCC Act, 2013, the Finance Bill, 2014 in the proportions agreed to by the implementing parties.

The Commission is required to remit 50% of the total Levy to the Consolidated Fund while other 50% is shared among four (4) ICT sector entities with RCDF taking 50% and the balance is shared by three (3) ICT entities as detailed below:

<table>
<thead>
<tr>
<th>No</th>
<th>Name of the Entity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UCC</td>
<td>30%</td>
</tr>
<tr>
<td>2</td>
<td>MoICT</td>
<td>25%</td>
</tr>
<tr>
<td>3</td>
<td>NITA</td>
<td>45%</td>
</tr>
</tbody>
</table>

It was noted that during the year under review, the total GAR levy collected was UGX.46,290,269,384. However UCC did not remit the funds amounting to UGX.13,635,931,835 in accordance with the agreed proportions in the MOU. Refer to the details below:

<table>
<thead>
<tr>
<th>Name of the Entity</th>
<th>Amount agreed to be released (UGX)</th>
<th>Actual Amount released (UGX)</th>
<th>Variance (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MoICT</td>
<td>2,893,141,837</td>
<td>1,100,000,000</td>
<td>1,783,141,837</td>
</tr>
<tr>
<td>NITA</td>
<td>5,207,655,306</td>
<td>500,000,000</td>
<td>4,707,655,306</td>
</tr>
<tr>
<td>Consolidated fund</td>
<td>23,145,134,692</td>
<td>16,000,000,000</td>
<td>7,145,134,692</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,245,931,835</strong></td>
<td><strong>17,600,000,000</strong></td>
<td><strong>13,635,931,835</strong></td>
</tr>
</tbody>
</table>
Failure to release the funds hindered the implementation of activities of the intended beneficiary entities thereby affecting their planned targets.

Management explained that the amount reflected in the final statements was the invoiced/billed revenue in line with the accrual accounting and that not all the invoiced was collected. Besides, the legality of the MOU was questionable as it can be seen as a form of appropriation of public funds contrary to the Constitution of the Republic of Uganda, the Uganda Communications Act 2013 and the Public Finance Management Act 2015 and RCDF regulations hence the reluctance to implement the MOU.

I advised Management to seek the advice of the Attorney on the challenges of adhering to the Memorandum of Understanding with other ICT stakeholders. In the Meantime Management should continue to comply with the MOU in order to support key activities already budgeted for in the beneficiary Ministries and Agencies. I also await full remittance of UCF funds.

127.3 Lack of established internal mechanism to verify the operators GAR

UCC collects an annual levy on gross annual revenue (GAR) of telecom operators at a rate of 2%. It was noted that this levy constituted 33% of the Commission’s projected revenues in the financial year 2015/2016. UCC is now required to remit 1% of the operators’ GAR to the Consolidated Fund and it relies on the operators audited financial statements to raise invoices of the 2% levy on GAR. To rely on the financial statements of the operators is in itself not sufficient and revenue may be misstated.

Management explained that a traffic monitoring system remains the best option to verify the operators Gross Annual Revenue. Procurement of traffic monitoring system to verify revenue collected by operators was still ongoing.

I await Management’s efforts in the procurement of the revenue traffic monitoring system.

128.0 Rural Communication Development Fund (Rcdf) for the Year Ended 30th June 2016
128.1 Lack of a revised RCDF Policy guideline for the five year period ending 2019/20

The RCDF five year policy guideline that is referred to when directing the activities of the Fund expired in 2015. It was noted that Management had not yet developed a plan to guide Fund activities over the next five year period (2015/16 to 2019/20). Lack of guidelines could result into the Fund not implementing the appropriate strategic objectives.

The Accounting Officer explained that the RCDF policy is in advanced stages and will be completed by December 2016.

I await the outcome of Management’s efforts to have a new policy in place.

128.2 Sustainability of RCDF operations

The Uganda Communications Act of 1997 mandated Uganda Communications Commission (UCC) to establish and administer a Universal Service Fund - the Rural Communications Development Fund (RCDF). The main function of the Fund is to effect communications interventions in areas that are underserved with the overall goal of ensuring that those areas get access to communications services that are comparable to those in the served areas.

To guide the communications interventions of RCDF, UCC therefore developed a rural communications development policy which ran from 2003-2009 and 2010-2015. Currently a new policy is being developed.

a) Sustainability of ICT integration in the Education, Health and Local Government sectors

Uganda Communications Commission (UCC) through Rural Communications Development Fund (RCDF) in conjunction with Ministry of Education and Sports has been implementing a programme for ICT integration in the education sector in Uganda. The programme comprised of School ICT laboratories project, Tertiary institutions ICT project, Universities ICT project, Internet connectivity project and Content deployment project.
In partnership with Ministry of Health (MoH) and Uganda Communications Commission (UCC), RCDF implemented a programme to provide basic ICT integration into the health services across various health facilities in Uganda.

The main objective of the programme was to enable integration of ICT into health services delivery in Uganda. RCDF equally supported the district local governments by:

- Supplying computers and internet connectivity to RDC Offices
- Opening Local District Websites with fully registered name domains.

A review of the RCDF expenditure on ICT and digital migration revealed that a total of UGX.61,042,149,716 was spent on digital migration while UGX.114,967,682,845 was spent on ICT.

However, I noted that sustainability of the projects appears to be difficult as the institutions provided with the computers do not have the ability to manage and operate the equipment that are basic such as the need to have electric power, internet and maintenance costs as required by the MOU signed between Ministry of Education and UCC/RCDF.

Under the circumstances there is a risk that the already procured ICT equipment becoming obsolete thus negatively affecting the intended objectives of the Fund.

The Accounting Officer explained that the ICT implementation in schools encountered challenges like general lack of ownership from beneficiaries, unreliable internet connectivity, slow integration of ICT into user activity, high student computer ratio in schools and high costs of internet. Management further explained that the Fund does not intend to engage into ICT subsidies for schools unless the Ministry of Education can guarantee a co-funding of ICT subsidies in schools.

I advised the Accounting Officer to engage the Ministries of Health, Local Government and Education with a view developing a strategy to sustain the Fund’s ICT initiatives in schools by funding internet and computer maintenance services.

b) **Deviaton from the RCDF policy 2010-15**
The second RCDF policy (2010-2015) had three specific objectives that included; expansion of coverage of the first Rural Communications Development Policy, Provision of Broadband connectivity and Support for content development.

It was however, noted that RCDF was unable to implement the objective of providing Broadband Connectivity which was a key component in achieving the main function of effecting communications interventions in rural areas yet funds from the 2% Levy are mainly supposed to boost communication services in the rural area.

Concentrating on the secondary objective which is boosting the demand of ICT may result into delay or non-implementation of the core (primary objective) of the Fund hence diversion from the core objective or mandate of the Fund.

The Accounting Officer explained that the third policy for RCDF which is being formulated will have a major focus on increasing the levels of mobile broadband, increase voice coverage at parish level while continuing to carry out massive ICT awareness to disadvantaged communities.

I await the outcome of Management’s efforts to achieve the Fund’s objectives.

129.0 **Uganda Institute of Information and Communication Technology for the Year Ended 30th June, 2016**

129.1 **Budget Performance**

A review of the budget performance for the year under review revealed that some targets were not achieved and this could have hampered service delivery. Details of key unimplemented activities are in the table below.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Description of Budget Items to be procured</th>
<th>Budgeted Amount (UGX)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Office Equipment</td>
<td>24,776,000</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Computers and Accessories</td>
<td>38,634,000</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Specialized Communication Lab Equipment</td>
<td>47,473,000</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Furniture and Fittings</td>
<td>37,467,000</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Text Books and Library Resources</td>
<td>23,280,000</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Motor vehicles</td>
<td>80,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>251,630,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
Failure to implement planned activities such as acquisition of specialized Communications lab and library resources hampered the students’ learning and innovation.

Management explained that failure to collect budgeted revenue compromised the operational objectives of the institute.

I advised the Accounting Officer to liaise with the stake holders to ensure that all budgeted activities are financed and promptly implemented.

129.2 Review of the legal status of the Institute

In the previous years’ reports, I observed that there were legal transitions the Institute had been subjected to from Ministry of Education to Ministry of Information and Communication Technology and now UCC. I noted ambiguity in the interpretation of several provisions which directly affects service delivery and recommended for clarity in the legal framework in particular areas. I also noted in the previous year audit that a statutory instrument had been drafted by UCC and was in the process of being approved to harmonize operations, however to date, this document has not been approved. The areas of concern are indicated below:

i. Mandate of the Ministry of Education (MOES) and Ministry of Information and Communications technology (MICT)

Although UICT was transferred to the Ministry of Information and communication Technology (MICT), the Ministry plays no role as regards to recruitment of technical staff as evidenced by the recent recruitment of the Principal which was undertaken by the Education Service Commission. Similarly, the responsibility for appointment of governing council members could not be ascertained.

ii. Mandate of Uganda Communications Commission

It was noted that under Sec (w) UCC Act 2013, the Commission is mandated to “operate and manage” UICT. This provision is unclear as it does not clarify the responsibilities of the Ministry and UCC with regard to the following;

- Human resource – UICT employees are neither under the mandate of UCC, MICT nor Ministry of Public service and as such no approved Human resource manual is in place.
• Funding – Although the institute is funded by UCC, there is no confirmed legal obligation on either the Commission or Ministry as regards to funding of the institute.

Management explained that basing on the benchmarking report the Governing Council recommended to the Permanent Secretary MoICT& National Guidance to seek the interpretation of the UCC Act 2013 section 5 (w) and to review the current legal framework and place UICT under the Ministry of ICT & National Guidance as an autonomous agency created by own UICT Act.

I await the outcome of Management efforts.

130.0 Uganda Post Limited for the Year Ended 30th June, 2016

130.1 Financial analysis and assessment of sustainability of services

I carried out ratio analysis of financial data and the following were observed for the attention of management in order to improve its competitiveness and ensure sustainability of services.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>Implications and remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>1.1 times</td>
<td>1.08 times</td>
<td>1.04 times</td>
<td>1.01 times</td>
<td>Measures the company’s ability to meet short term liabilities when they fall due. Current assets were not adequate to cover current liabilities in all the years. The higher the ratio the better and ideal is 2:1 This is not healthy for POSTA.</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
<td>Measures ability of current assets minus stock/ Inventory to meet short term obligations when they fall due. Current assets were insufficient to cover current liabilities for the four years reported. The higher the ratio the better. This again is not healthy for Posta. The ideal is 1:1</td>
</tr>
<tr>
<td>Average collection Period</td>
<td>380 days</td>
<td>328 days</td>
<td>84 days</td>
<td>69 days</td>
<td>This Ratio measures average number of days required to convert receivables into cash.</td>
</tr>
</tbody>
</table>
It can be noted that it takes 380 days to collect cash from debtors and this is below the Posta 60 days debt recovery period policy.

<table>
<thead>
<tr>
<th>Times Interest Earned</th>
<th>1.37 times</th>
<th>1.12 times</th>
<th>1.56 times</th>
<th>2.3 times</th>
</tr>
</thead>
</table>

In order for the company to benefit from debt financing, the fixed interest payments that accrue to debt must be able to be satisfied from operating profits and have some excess profits. The higher the ratio the better. This was not healthy for the Company as out of the UGX.370,364,000 operating profit earned, UGX.270,310,828 was incurred on interest on loan expenditure.

I noted that the company may find it increasingly difficult to sustain its operations and achieve its strategic objectives.

Management explained that there was some improvement on such critical ratios like Current Ratio and Quick Ratio. The company had a strong country wide asset base assuring its going concern and was with the strengthening of Credit and Debt management and treasury departments management anticipation is that the company will improve.

I advised the Accounting Officer to devise strategies that ensure profitability and sustainability such as putting adequate controls over their debt portfolio and credit policies.

130.2 Income

(a) Uncollected postal box rental income - UGX.2,475,847,976

POSTA Uganda provides box rental service which is pre-paid contractual service. Every renter of the box signs an agreement which requires that they pay annual rental fees up front from the date stated in the agreement. It is estimated that there are 94,845 installed boxes all over the country out of which 82,938 were rented out during the year.
A review of the Box rental receipts, ledgers and the approved tariffs for the boxes revealed that UGX.2,234,539,824 was collected during the year under review. A review of rental income indicated that UGX.4,710,387,800 should have been earned as income from box rentals based on 82,938 boxes that were rented out during the year.

Management explained that Post Boxes are continuously facing falling demand, largely because of IT substitutes. Therefore in order to stem the revenue decline from this product, “M-Post” has been developed as a value addition to the postal box offering.

I await the outcome of the Accounting Officer’s effort to improve service delivery and increase revenue.

131.0 Uganda Broadcasting Corporation for the Year Ended 30th June, 2016

131.1 Lack of approved financial statements

Section 19 sub section 2 and 3 of the UBC act 2005 requires that the financial statements to be submitted to the Auditor General for audit within three (3) months after the end of the financial year. Furthermore, section 51 sub Section 2 of the Public Finance Management Act 2015 requires the accounting officer of a public corporation to prepare financial statements in the prescribed format. Furthermore sub section 4 of PFMA mandates the Auditor General to examine and audit the submitted financial statements within three months.

However, management did not provide approved financial statements to this office as required by the Act by the time of writing this report on 20th December 2016, four months after the statutory deadline. During the audit, I reviewed draft financial statements, and the figures in this report are obtained from draft financial statements. The Government financial regulations and the UBC Act 2005 were therefore contravened.

Under the circumstances my review of the state of affairs of the entity for the year was fundamentally limited. I am therefore unable to express an opinion on the entity’s operations for the year and its financial position as at the year end.

I advise management to comply with the financial regulations.
131.2 Non-valuation of Property, Plant and Equipment

The Corporation’s fixed assets (property, Plant and equipment) were stated as UGX.53,971,558,367 in the financial position. A review of the supporting schedules in line with IAS 16 Property Plant and Equipment revealed that land in the Fixed Asset Register of the Corporation as of 30th June 2016 had not been revalued since 2012 and was instead recorded at an amount of UGX.1. Furthermore, impairment reviews were not undertaken by management on the assets during the year contrary to IAS 36 Impairment of Assets which requires that assets should not be carried at more than their recoverable amount. It was further observed that the asset register was not regularly updated.

Failure to revalue the land resulted in to an understatement of assets. I was therefore unable to determine whether indeed the assets of the Corporation are fairly reflected in the draft statement of financial position.

Management explained that the land could not be revalued due to financial constraints. Once funds are availed, management will revalue the assets on a rational basis.

I advised the Accounting Officer to seek for funds from the Ministry of Finance, Planning and Economic Development and expedite the revaluation process. The asset register should be regularly updated to capture the asset values in line with IAS 16 and IAS 39.

131.3 Trade and other payables

I carried out a circularization of some of the entity creditors and also reviewed the payables ledger together with the draft financial statements revealed the following;

- The Corporation owes UGX.33,309,002,411 comprising of trade payables (UGX.10,678,972,881) and other payables (UGX.22,630,029,530) which is an increase of 10% from the previous financial years position of UGX.30,341,178,841.
- I observed that UGX. 16,327,272,540 was stated as total trade payables in the payables ledger thus creating a variance of UGX.5,648,299,659 between the ledgers and the financial statements. The discrepancy in payables was a result of non-reconciliation of payables.
Payables have been increasing for the last 4 years which was attributed to lack of a credit management policy and cash flow constraints. 99% of the trade payables amounting to UGX.16,262,671,155 were outstanding for a period of over one year. Trade payables aging analysis is indicated below:

<table>
<thead>
<tr>
<th>Trade Payables</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 5 years</td>
<td>12,647,800,476</td>
</tr>
<tr>
<td>Between 3-5 years</td>
<td>2,987,373,889</td>
</tr>
<tr>
<td>Between 1-3 years</td>
<td>627,496,790</td>
</tr>
<tr>
<td>Less than a year</td>
<td>64,601,385</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>16,327,272,540</strong></td>
</tr>
</tbody>
</table>

Other payables in the draft financial statements were composed of mainly statutory deductions (NSSF and PAYE) amounting to UGX.17,900,045,865. These payables that affect staff have been outstanding over a period of time and have attracted penalties and fines.

A comparison of information from UBC creditors’ ledgers and creditors’ confirmation letters indicated that trade and other payables were understated by UGX.15,858,337,768. There was no explanation for the variance at the time of audit. This is attached to non reconciliation of entity creditors by management.

The Supreme Court Civil in Appeal NO 003/2014 SINBA (K) Limited and 4 ORS VS Uganda Broadcasting Corporation, where the Corporation received UGX.11.5 billion in the year 2010/2011 from M/s Haba Group (U) Ltd for land on Faraday road, Bugolobi, ruled that UBC was still the bonafide owner of the land. However, Management did not recognize the land and no disclosure for the potential refund to M/s Haba Group Ltd of UGX.11.5 billion was made in the draft financial statements.

A review of legal and internal audit reports revealed that UBC is embroiled in numerous legal cases arising from creditors which would cost an estimate of UGX.2 billion if the Corporation’s defence is not successful. In most of the cases, the Corporation was seeking an out of court settlement to pay off the creditors. However, no provision for the legal obligations was disclosed in the draft financial statements.

Failure to pay creditors may result into litigation and freezing of the entity bank accounts. With the above anomalies, the financial statements do not reflect a true and fair position of the creditors.
Management explained that efforts were being made to have up-dated creditors’ ledger through circularization of creditors and reconciling of ledgers with supplier invoices. Management further explained that a request will be made to the supreme court to obtain an interpretation to M/S Haba ruling in order to ascertain whether it should refund the money to M/S Haba or not.

I advised Management to liaise with Ministry of Finance Planning and Economic Development with a view of obtaining funding to pay off creditors. I further advised Management to circularise the long outstanding Payables in order to ascertain the correctness of the amount of payables stated in the financial statements.

131.4 Budget performance

Uganda Broadcasting Corporation’s budget estimates relies on Government grants and internally generated revenue to finance capital and operational expenditure in order to achieve the Corporation Objectives. Section 13.6 (4) of the UBC Finance and Accounting Regulations Manual lays responsibility of preparing a balanced budget to the Managing Director and Finance Manager and this involves matching the proposed activities with UBC’s medium term plans.

A review of the budget performance for the year under review revealed that some targets were partially or not achieved mainly as a result of under collection of anticipated revenues. Details of unimplemented activities are as below:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budget Allocation</th>
<th>Actual Expenditure</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultancy-Tax, HR, Strategic plan</td>
<td>300,000,000</td>
<td>63,882,000</td>
<td>The strategic plan is still a draft but Human Resource manual was approved</td>
</tr>
<tr>
<td>Renovation of Broadcast House</td>
<td>384,000,000</td>
<td>3,400,000</td>
<td>Re- roofing of the Broadcast house is on going</td>
</tr>
<tr>
<td>Surveying, Valuation and other land related expenses</td>
<td>750,000,000</td>
<td>3,900,000</td>
<td>Secured land title for Namatala land</td>
</tr>
<tr>
<td>Training for Management, Marketing, TV and Radio</td>
<td>280,000,000</td>
<td>95,000,000</td>
<td>Trained staff in accounts section on the accounting software to enhance efficiency.</td>
</tr>
<tr>
<td>Travel Abroad</td>
<td>20,000,000</td>
<td>121,306,810</td>
<td>Factory Training on operations and maintenance of digital equipment at Thomson in France, and ZTE in</td>
</tr>
</tbody>
</table>
Under the circumstances, Service delivery is affected and the Corporations objectives are not fully met.

Management explained that the unimplemented activities were due to financial constraints experienced by the Corporation.

I advised the Accounting Officer to always plan adequately and undertake activities as planned.

### 131.5 Sustainability of Services

A review of financial and non-financial information of the Corporation’s operations revealed key performance indicators that significantly hamper the service delivery of the organization. Details are given below;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Key Sustainability Indicators</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Failure to pay creditors</td>
<td>The Corporation has a Payables UGX.33,309,002,411 an increase of 10% from prior year amount of UGX. 30,341,178,841.</td>
</tr>
</tbody>
</table>
On 27th July 2016, URA placed an agency notice on UBC’s UBA Bank Account demanding UGX.300 million. UMEME had also put UBC on notice to switch off all power connection and demanded monthly payment to clear 1.6 billion arrears within six months.

2. Failure by the Corporation to collect revenue from its debtor

Receivables increased from UGX 20,961,027,331 in the prior year to UGX.23,918,621,589 in the year under review. The debt collectors had not been able to collect revenue arrears. Sales were low due to lack of advertising clients.

3. Difficulties in salary payments

UBC was finding it difficult to pay its employees’ salaries. UBC employees received half pay for the month September 2016 and media reports indicate that the staff are threatening to strike. According to the Board meeting held on 6th October 2015, the Managing director had requested the board to allow the Corporation to borrow UGX.360 million to pay September salaries of 2015.

NSSF arrears amounting to UGX.25billion have not been paid.

Under the circumstances, the entity service delivery efforts are hampered and the Corporation may not be able to provide quality services to the country in the near future.

Management explained that they are liaison with the Ministry of ICT and Ministry of Finance, Economic Planning and development to obtain government assistance to pay off debts and also provide support in paying staff salaries and outstanding staff obligations.

I advised Management to liaise with the Board to develop a strategic plan that can result into increase in revenue streams and operational efficiency in order to sustain their operations with a view of minimizing dependency.

### 131.6 Lease obligations

IPSAS 13 Leases requires the apportionment of rental payments under interest payable and Capital cost of the asset. The standard also requires the lessee to disclose the net
carrying amount of each class of leased asset at the reporting date and a general description of the lessee’s material leasing arrangements.

A review of the financial statements revealed that the Corporation acquired two motor vehicles and six UHF transmitters on lease terms from Stanbic Bank in the year 2008 and 2010 at a lease amount of USD.544,946. Management had earlier indicated that by 30th June, 2014 the lease of the vehicles had been completed and logbooks transferred to UBC and that the running lease obligation was in respect of transmitters. A verification of the outstanding balances from the statement of financial position and review of Stanbic bank statements revealed the following issues;

- UBC has consistently defaulted on lease facility obligations which prompted Stanbic bank to start recovery measures by withholding any monies received on UBC accounts.
- Interest expenses were stated as nil in the financial statements yet UBC is paying for interest costs on the lease obligation. This has an effect on the stated balances in the financial statement.
- UGX.572,401,866 was disclosed in the financial statements as a current liability arising from a Stanbic bank lease obligation. However, records of a creditor’s confirmation from the bank revealed that the outstanding lease obligation as at 30th June, 2016 was UGX.388,075,100 thus resulting in to an overstatement of liabilities by UGX.184,326,766.
- Management does not have an updated status of the lease obligation to reconcile with the original amortization schedule.

I was unable to confirm the accuracy of the liability and lease repayments as stated in the financial statements therefore the Lease obligation and finance costs are not fairly stated in financial statements.

Management stated that financial challenges resulted into delayed payment of interest. Management further stated that an updated schedule for the lease will be obtained from Stanbic bank and reconciled with the UBC records. Management will also renegotiate the lease terms with the bank to ensure that the payment plan is followed to avoid the issue of recovering the money that goes on the account.
I advised management to take the necessary efforts to reconcile the outstanding balance of lease obligation with Stanbic bank and make the necessary adjustments to the financial statements.

131.7 **Governance and strategic issues**

(a) **Lack of Corporate Strategic Plan**

A strategic plan provides an organization with purpose and direction as it is a key requirement for organization survival.

I observed that the Corporation does not have a Corporate Strategy with the old one (2008-2013) having expired in 2013. Although the Corporation has a Mission to educate, inform, guide and entertain the public through maintaining a sustainable national coverage, its doubtful that it can be achieved without long term plans. Implementing projects without a strategic plan may lead to uncoordinated implementation of activities as the budget/work plans and the vital work done are not linked to developments.

Management explained that it was working with a consultant to finalize the strategic plan for presentation to the Board.

I advised Management to expedite the process of developing and approving a strategic plan to provide the strategic focus of the Corporation.

(b) **Staff without valid contracts and un-updated salary structure**

Section 2.13(1C) states that contract appointments will be renewable subject to good health and satisfactory performance. It was observed that 275 members of staff were working at the Corporation without valid contracts with some having expired as far back as 2009. Furthermore, a review of the UBC staff salary structure revealed that the salaries, terms and conditions of service of the Corporation were last revised in 2005 at the inception of UBC and have become out dated and inadequate contrary to the UBC Act section 8 (d) that mandates the Board of Directors to determine from time to time the structure staff levels and terms and condition of service of staff. The salary ranges from UGX.150,000 to UGX.6,500,000 for the lowest paid to the highest paid officer.
Failure to renew employment contracts violates the rights of employees which may attract litigation expenses. Furthermore, maintaining a strong salary structure is imperative for any Corporation or if the salary structure gets out of sync with the overall labour market, UBC may find difficulty in attracting and retaining the desired staff. In the prior year, this matter was raised and management promised that human resource structure concerns of UBC would be addressed by drafting a new strategic plan. However, the strategic plan has not yet been developed.

Management explained that a draft salary structure has now been developed and awaiting input from UBC review committee recently constituted by the line Minister before its final approval.

I await the outcome of management’s efforts to revamp the salary structure and renew staff contracts.

131.8 Tenancy Agreements inconsistent with the Rental Policy

The policy of liberalizing the broadcasting sector has over the years resulted into tremendous growth of private radio and television broadcasting stations in the country. UBC developed a policy for harmonious usage of UBC infrastructure/facilities without discrimination and at reasonable rates. This rental policy contained standard approved rates.

During the audit, it was observed that UBC signed tenancy agreements with various Tenants at rates lower than those in the approved UBC Rental policy as detailed below;
<table>
<thead>
<tr>
<th>Tenant</th>
<th>Monthly Amount as per Agreement</th>
<th>Monthly Amount as per Rental Policy</th>
<th>Location of UBC site rented</th>
<th>Status</th>
<th>Contract starting from</th>
<th>period under payment</th>
<th>Variation (Monthly payment)</th>
<th>Rental loss over the contract period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christian Life Ministries</td>
<td>$4,600</td>
<td>$6,100</td>
<td>One TV and two radio stations at Kololo Summit View and one radio at Karamurani, Mbarara</td>
<td>Tenancy agreement not signed by UBC</td>
<td>36 months</td>
<td>1/07/2013</td>
<td>$1,500</td>
<td>$54,000</td>
</tr>
<tr>
<td>Touch FM Radio</td>
<td>$1,000</td>
<td>$1,200</td>
<td>Kololo Summit View</td>
<td>Tenancy agreement not signed by UBC</td>
<td>39 months</td>
<td>1/04/2013</td>
<td>$200</td>
<td>$7,800</td>
</tr>
<tr>
<td>Power FM</td>
<td>$1,100</td>
<td>$1,200</td>
<td>Kololo Summit View</td>
<td>Tenancy agreement not signed by UBC</td>
<td>36 months</td>
<td>1/07/2013</td>
<td>$100</td>
<td>$3,600</td>
</tr>
<tr>
<td>JILAK CO LTD-Radio city</td>
<td>$700</td>
<td>$1,000</td>
<td>Naguru Hill</td>
<td>Signed</td>
<td>66 months</td>
<td>1/01/2011</td>
<td>$300</td>
<td>$19,800</td>
</tr>
<tr>
<td>Radio France International</td>
<td>$8,500</td>
<td>$21,600</td>
<td>Naguru Hill</td>
<td>PS Min. of Information did not sign the agreement</td>
<td>12 months</td>
<td>$13,100</td>
<td>$157,200</td>
<td></td>
</tr>
<tr>
<td>Italian Embassy</td>
<td>$250</td>
<td>$1,200</td>
<td>Kololo Summit View</td>
<td>Signed</td>
<td>18 months</td>
<td>1/01/2015</td>
<td>$950</td>
<td>$17,100</td>
</tr>
<tr>
<td>Buddu Broadcasting Services Limited</td>
<td>$1,700</td>
<td>$1,900</td>
<td>Kololo Summit View, Bwala, Masaka</td>
<td>Signed</td>
<td>36 months</td>
<td>1/07/2013</td>
<td>$200</td>
<td>$7,200</td>
</tr>
<tr>
<td>Christianity Focus Ministries</td>
<td>$800</td>
<td>$1,200</td>
<td>Kololo Summit View</td>
<td>Tenancy agreement not signed by UBC</td>
<td>36 months</td>
<td>1/07/2013</td>
<td>$400</td>
<td>$14,400</td>
</tr>
<tr>
<td>Union of Muslim Councils T/A Voice of America</td>
<td>$1,500</td>
<td>$1,900</td>
<td>Kololo Summit View, Bwala, Masaka</td>
<td>Tenancy agreement not signed by UBC</td>
<td>36 months</td>
<td>1/07/2013</td>
<td>$400</td>
<td>$14,400</td>
</tr>
<tr>
<td>Forbes Communications limited</td>
<td>$600</td>
<td>$700</td>
<td>Oruha Hill</td>
<td>Signed</td>
<td>85 months</td>
<td>1/06/2009</td>
<td>$100</td>
<td>$8,500</td>
</tr>
<tr>
<td>Radiocity Limited</td>
<td>$700</td>
<td>$1,000</td>
<td>Naguru Hill</td>
<td>Tenancy agreement not signed by UBC</td>
<td>39 months</td>
<td>1/04/2013</td>
<td>$300</td>
<td>$11,700</td>
</tr>
<tr>
<td>TMP Limited</td>
<td>$1,000</td>
<td>$1,200</td>
<td>Land at Bugolobi</td>
<td>Signed</td>
<td>92 months</td>
<td>29/10/2008</td>
<td>$200</td>
<td>$18,400</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$1,000</strong></td>
<td><strong>$1,200</strong></td>
<td><strong>Oruha Hill</strong></td>
<td><strong>Signed</strong></td>
<td><strong>85 months</strong></td>
<td><strong>1/06/2009</strong></td>
<td><strong>$100</strong></td>
<td><strong>$8,500</strong></td>
</tr>
</tbody>
</table>

**TOTAL** $334,100
Failure to comply with the rental policy denies the Corporation funds to sustain its operations.

Management explained that a review of the rental policy and rental agreements will be carried out to ensure that the issue does not arise in future.

I await Management’s effort in having a uniform rental policy.

132.0 Uganda National Council for Science and Technology for the Year Ended 30th June, 2016

132.1 Failure to supply and install Banana Juice Processing Equipment

In line with the strategic objective of supporting research and development, UNCST has been funding one Principal Investigator (PI) Professor Kyamuhangire’s research in making Juice from bananas. This activity was completed during the financial year 2013/2014 and before the close of the year, GoU availed UGX.600,000,000 for the supply and installation of equipment for this project.

It was noted that the Contracts Committee sitting on the 5th November 2014 under minute 100.9 approved a request to vary the cost of the equipment by 12.73% to a new total cost of US $ 28,473.69 and extend the date of delivery by 4 months. However, it was established that to-date (November, 2016) a period of over (19) months from the end of the four (4) months extension, the equipment has not been delivered.

Management explained that there had been delays in delivery due to the changes made in the order by the principle investigators. However the equipment is on the high seas and expected soon.

I advised the accounting officer to ensure the delivery and installation of equipment to save government funds.
132.2 **Project machines procured and left idle for quite long**

Prior to the closure of the project for transfer of low cost Charcoal Manufacturing Technology to farmers and entrepreneurs in Uganda, UNCST procured equipment referred to as extruder machines and kilns-charcoal for training from Uganda Envero Tech. co. ltd. This equipment was designed for use at the trial stage. They were manual in nature and require a lot of energy to operate.

It was observed that twelve (12) of these machines have remained idle at the stores of Four Ways Limited (FWL) Luzira to-date. The management of FWL says that it is waiting for instructions from UNCST as per agreement to deploy the machines. It appears management has no immediate plans to put these machines into use as originally envisaged.

Management explained that they are in the process of procuring users of these assets.

I advised the Accounting Officer to expedite within the regulations the process of sourcing for the end-user for these equipment so that they do not go to waste and the entity losses the investments.

132.3 **Status of assets for the Phytolacca Dodecandra (P.D) Project**

Under the Presidential grant to Scientists’, UNCST has been funding the Phytolacca Dodecandra (PD) project among others. This project aims at large scale production of PD in order to process a molluscicide to kill snails which are vectors in the liver disease in livestock.

During the life of this project, UNCST procured asset for its operations including a piece of land in Mbarara 173 acres in size. Other assets included generator 30KVA Lister, Nissan single cabin pickup, new Hollande Tractor, Ford Ranger Double Cabin and plough for the tractor. See details in table below;

<table>
<thead>
<tr>
<th>No:</th>
<th>Particular</th>
<th>Plate number</th>
</tr>
</thead>
</table>

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According to the article XIX of the MOU with the Principal Investigator (PI) the assets of the project shall be held in trust by the Uganda national Council of Science and Technology (UNCST). After the 5 year research phase, the project assets shall be disposed of in accordance with the Government of Uganda disposal procedures”.

Field inspections established that there has been a new signpost on the road leading to the land. A company calling its self TRED home of SNAILTOX (this is the product that Prof Mushanga was producing at the time of his death) appears to have taken over both the land and other project assets. As a result, I was unable to establish the status of the project assets.

Management explained that a team comprising of UNCST, NPA, Ministry of Lands and Ministry of Works have already visited the project. All assets were verified and are now being valued for disposal in line with the PPDA Act 2003 as amended.

I advised the accounting officer to ensure the safety of these assets and of the other project assets.

133.0 New Vision Printing and Publishing Company Limited for the Year Ended 30th June 2016

133.1 General Standard of Accounting And Internal Control

It was observed that the Company had instituted adequate controls that operated throughout the period except for the following;
(a) **Control weaknesses in preparation, approval and documentation over Journal entries**

From my review of journal entries passed during the year, I noted that journal entries can be posted in the software (Navision) without requiring electronic approval. Though, management has manual controls, the person in-charge of the process of capturing the entries in software can post the transactions, without approval.

Journal entries are prone to frauds and errors, and may lead to material misstatement of the financial statements.

Management explained that currently Journal entries are manually approved but there are sufficient compensating controls through monthly reconciliations. They further said that they upgraded Navision in 2015 and waited for the system to stabilize before they could explore Embedded Approvals. Journal entries automation shall be the next phase which they expect to implement in the next financial year.

I advised management to ensure that the user access rights with approval of every journal entries should be activated in the software.

(b) **Control weaknesses in credit limit approvals**

The credit limit as per the credit policy set are as follows;

- Accountant \(\geq 2\) million
- Senior accountant \(\geq 10\) million
- Pr. Accountant \(\geq 20\) million
- Credit manager \(\geq 50\) million
- CFO \(\geq 100\) million
- Finance committee/CEO > 100 million
However, during sampling of controls, I noted that the policy was not followed for the following sampled transactions:

<table>
<thead>
<tr>
<th>Client ref</th>
<th>Date</th>
<th>Credit (UGX)</th>
<th>Approved by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>C14644N</td>
<td>30/6/16</td>
<td>300m</td>
<td>Manager Credit</td>
</tr>
<tr>
<td>C14623N</td>
<td>28/6/16</td>
<td>Nil</td>
<td>Senior Accountant</td>
</tr>
<tr>
<td>C14266N</td>
<td>5/1/16</td>
<td>20m</td>
<td>None</td>
</tr>
</tbody>
</table>

Non-compliance to the credit policy may lead to loss of funds or bad debts.

Management explained that they have been relying on actual orders for credit authorization on a transaction basis. Where the order is UGX.100 m and above, such orders are referred to the Finance management committee for approval as was the case with the UGX.300 m order for Kampala Cement. They promised to observe approval thresholds and eligibility at both credit application and transaction level going forward.

I advised management to comply with the established policy and ensure that controls over credit sales are strictly adhered to.

133.2 Revenue
(a) Hanging sales orders – Advertising
During the review of cut off of revenue, Navision had 6,403 sales orders pending invoicing for the year 2015-16.

However, it was noted that the sales orders were captured in software, only after formal approval of the customer and therefore there should not be any sales order without an invoice.

There is a risk of loss of funds leading to material misstatement of the financial statements.
Management explained that when an order is initiated in Navision, the system books an invoice number automatically. If that order is abandoned either due to power interruptions or system hang ups or freeze, the invoice and order will remain hanging in Navision. Users have been originating new orders and billings without prior checks of hanging orders. However, there is no revenue loss whatsoever as new orders are recreated for the same transaction. Management promised to clean up hanging orders and delink order processing from invoice number generation going forward.

I advised management to identify a separate task force immediately and be allocated the responsibilities to identify the reasons for not recognizing the income and if no services are rendered, Orders should be reversed within the Navision software.

(b) **Missing invoices – 8,773 - Circulation**

Once a sales order is generated, an auto sales invoice number is allocated to the sales order. The system was designed to generate invoices to match all the orders that have been input. It was however, noted that during the year under review, the system did not generate invoices totalling to 8,773 to match them to the corresponding orders. The invoices for the 8,773 orders were missing.

There is a risk of loss of revenue without proper invoicing.

Management explained that linking of sales order to invoice numbers is a Microsoft system setup that is beyond their control. Missing invoices are as a result of hanging orders due to newspaper agents/distributors being cut off supply and this will continue as part of business operation.

I advised management to contact the vendor to have the matter resolved.

(c) **Return Ratio in excess of normal**

It was noted that there was overall circulation return ratio above the expected ratio of 15% as indicated below;
<table>
<thead>
<tr>
<th>Publication</th>
<th>Return Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magazines</td>
<td>50%</td>
</tr>
<tr>
<td>Kampala Sun</td>
<td>30%</td>
</tr>
<tr>
<td>Bukedde</td>
<td>24%</td>
</tr>
<tr>
<td>Rupiny</td>
<td>23%</td>
</tr>
<tr>
<td>Sunday Vision</td>
<td>21%</td>
</tr>
<tr>
<td>Etop</td>
<td>19%</td>
</tr>
<tr>
<td>Orumuri</td>
<td>17%</td>
</tr>
<tr>
<td>New Vision</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

This could lead to significant increase in cost of sales or loss of revenue.

Management explained that they manage returns in line with prevailing market conditions and sales growth potential. New products in challenging markets are allowed higher flexibility on return levels to facilitate product accessibility and market penetration which pushes up the average return percentages for circulation as a whole.

They further stated that it is important to note that the main product New Vision was within budgeted thresholds of 15% in the financial year 2015/16. Bukedde’s average returns were higher at 24% due to the challenging market environment specifically in the election period due to their responsibility to educate and inform the public.

I advised management that the printing of newspapers should be well controlled to avoid huge losses. The monies for extra return from the agents should be recovered from agents and stronger controls should be established over returns.

133.3 Commission expenses

Management did not provide adequate annual details for commission amounting to UGX.7 billion for agent wise break-up, their respective business/orders, paid and outstanding at year end.
As a consequence it was not possible to place reliance on the reported balances. Further, management may not be able to assess the value for money from providing commission to the agents.

Management explained that all monthly commission payments are supported with orders, invoices and receipts in MS Excel format. They promised to explore automating commission computation using Navision.

I advised management to maintain adequate details for sales commission and reports should be available for management reporting before disbursement of commission to the agents.

133.4 IT observations

(a) Inappropriate practices over system Access Rights:

It was noted that some user access is not appropriately assigned. Even after the changes were requested from the Internal Auditors, 6 users out of 10 users still have inappropriate access on Navision.

It was also noted that unauthorised users could grant and edit credit limits of customers.

There is a risk of unauthorised access in different modules on Navision and also it could lead to changes in credit limits for customers that do not qualify for certain credit limits causing cash flow issues.

Management promised to review the inappropriate access and change accordingly. They further explained that credit limits shall only be granted and edited by Credit Control manager, Principal Accountant Credit Control, Principal Accountant Circulation, Principal Accountant Advertising and Super user. The other users who had such rights have had their rights reviewed accordingly.

I advised management to ensure that the rights are adjusted appropriately immediately to ensure restricted access. Also formal periodical review policy
should be in place to check the access rights and match with the employee turnover.

(b) **Inappropriate segregation of duties**

Navision used for business process is managed by a Senior Accountant. (Not part of the IT Department, but part of the Finance Department).

This amounts to conflict in responsibility since the officer is the System Administrator and the Database Administrator for Navision where all the financials reside and at the same time he is responsible for performing other financial activities specified in his description e.g. > customer credit limits, > Record receipts and payments.

Performing IT functions and Finance functions leads to conflicts.

Management explained that Navision System Administrator shall remain in Finance due to the specialized nature of his role and timely support to system users. For the financial activities that he performs like credit limits update and recording customer receipts and payments they have internal checks and segregation of duties that ensures that his work is counter checked by senior managers in finance. His Super user activities are independently reviewed by the Head of ICT on a quarterly basis.

I advised management to ensure that separate individuals perform these roles.

(c) **Lack of audit vault facility/exception reports**

It was noted that change logs in Credit Limits are not monitored. And since there is no automated approval of credit limit, this may lead to unauthorized changes.

There is a risk that some rights can be changed without notice which may lead to the misuse of access rights by an unauthorised personnel in the application. It
can also lead to modification of data and a lot of the modification can go unnoticed as nobody reviews the audit logs.

Management explained that the feasibility would be discussed with the Application developers and would be implemented. Logs for changes in credit limits would be reviewed on a quarterly basis by the Credit Control Manager going forward.

I advised management to ensure that audit vaults and exception reports are availed to the respective individuals for review.

(d) **Backdated posting**

It was noted that backdating can be performed on the posting date.

This could lead to misrepresentation of Company’s financials and further may lead to irregular transactions.

Management explained that backdating is done in rare circumstances and is approved by senior finance managers. Backdating is restricted to one month except in special circumstances like semi/year-end adjustments. It is important to note that there is no backdating that affects published accounts.

I advised management to restrict backdating to a month.

(e) **Significant manual intervention in the automated environment**

Although Navision is an integrated system, it was observed that significant areas are not linked with Navision and it increases manual interventions e.g. use of CIO, I-Media etc. There is a risk of negative effects on the data integrity.

Management explained that Navision can manage the billing on its own. CIO was introduced to manage the advertising dummy which Navision is not able to do at
the moment. However, the option of integrating SharePoint and Navision is being pursued. Once successful then the Manual intervention would be eliminated.

I advised management to implement the automated process in the system.

TOURISM AND TRADE SECTORS

134.0 Uganda Tourism Board For The Year Ended 30th June, 2016

134.1 Non-disclosure of NTR in the financial statements

A review of the NTR Bank account No. 9030011197905 held at Stanbic Bank revealed that the Board had a balance of UGX.41,379,560 as at 30th June, 2016. However, the funds were neither disclosed in the financial statements nor transferred to the Consolidated Fund contrary to the requirements of the PFMA, 2015.

Additionally, the Board received an amount of UGX 149,590,000 from the Ministry of Tourism, Wildlife and Antiquities which was then transferred to the Treasury. This was wrongly classified as NTR under Note 17. Under the circumstances, the financial statements are misstated. There is also a risk that the un-disclosed NTR could be misappropriated or misused.

Management acknowledged the anomaly and pledged to adjust the financial statements and transfer the funds to the Treasury in the 2016/17 F/Y. The financial statements were however not adjusted.

I advised management to adjust the financial statements to disclose the NTR as well as properly classify transfers received from other government units.
134.2 Understated Social Contributions

A review of the Board’s payments for the year revealed total remittances to NSSF amounting to UGX.186,964,290. However, management reported UGX.154,896,675 as social contributions in the statement of financial performance (Note 8 pg. 32) thereby creating a variance of UGX.32,067,615 which was not explained. There were also no supporting schedules to confirm the accuracy of the social contributions reflected in the financial statements. Under the circumstances, the financial statements are misstated.

Management acknowledged the anomaly and pledged to reconcile the differences. The financial statements were however not adjusted to reflect the correct position of social contributions.

I advised management to adjust the financial statements accordingly.

134.3 Irregular Payments to RG Solutions Ltd

UTB entered into 2 (two) agreements with RG Sports Solutions Ltd both of which were signed on 18th November, 2015 at contract prices of Euros 100,000 and 320,000 respectively. The two entities were to collaborate in tourism promotion and regulation in Uganda and the activities agreed to be implemented in both agreements were as tabulated below:

<table>
<thead>
<tr>
<th>S/N</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UTB Responsibilities</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Contribute sponsorship of Euros 420,000 to facilitate the Barcelona soccer game in December, 2015</td>
</tr>
<tr>
<td>2.</td>
<td>Facilitate youth programmes that will propel Uganda onto the International stage</td>
</tr>
<tr>
<td>3.</td>
<td>Promote and market Uganda Internationally</td>
</tr>
<tr>
<td><strong>RG Sports Solutions Responsibilities</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>To Establish a youth Soccer development academy in Uganda</td>
</tr>
<tr>
<td>2.</td>
<td>To support and give a global coverage for tourism and investment in Uganda</td>
</tr>
<tr>
<td>3.</td>
<td>To fly in and encourage soccer in the country with purpose of promoting Tourism</td>
</tr>
<tr>
<td>4.</td>
<td>To engage top media companies to accompany soccer fans and give maximum coverage, publicity and awareness of the country’s tourist potential</td>
</tr>
</tbody>
</table>
However, audit noted the following anomalies:

(a) **Solicitor General’s clearance**: -
One of the agreements involving Euros 320,000 was signed and full payment made without clearance from the Solicitor General contrary to PS/ST and PPDA advice to the CEO. This renders the contract and the expenditure incurred irregular.

(b) **Implementation of contract obligations**: -
With the exception of the Barcelona legends’ game which was played in Uganda, no evidence was availed to show that the rest of the activities agreed upon were implemented by the parties to the agreements.

(c) **Signing of agreements**: -
Although both agreements had similar terms and conditions and deliverables the contract prices were different. Audit could not ascertain how the prices were arrived at for each deliverable.

(d) **Board resolutions**: -
According to the CEO’s unreferenced letter dated 16th June, 2016 directing the UTB Finance manager to pay the outstanding balance of Euros 320,000, the Board passed two resolutions on 4th December, 2015 to clear the initial Euros 100,000 and an additional Euros 320,000. However, audit noted that the resolution for the initial Euros 100,000 was signed on 11/12/2015 (8 days later) while the second resolution of Euros 320,000 was signed on 4/12/2015 thereby casting doubt on the consistency and authenticity of the resolutions. Besides the Board’s resolutions had been passed in December after the contracts were already signed in November 2015.

(e) **Due diligence**: -
According to the two Board resolutions passed on 4th December, 2015, management was authorized to process payments to RG Sports solutions on condition that due diligence had been done and that all lawful procedures for the transactions had been followed. There was no evidence that due diligence was carried to confirm that the company had capacity to contract.
Management explained that the first agreement of Euros 100,000 was cleared by the Solicitor General but the second one of Euros 320,000 was not cleared due to time constraints. Youth programmes were under implementation, the accounting officer and Legal Manager carried out our due diligence of the contracted company and the Ministry of Education and Sports had written to the President to request for land for the construction of soccer academy. The due diligence report and evidence of implementation of agreed upon activities was not availed for verification (save for some correspondences regarding youth programmes.)

I advised management to ensure that proper procedures are followed before committing public resources.

134.4 Non-implementation of planned activities

During the financial year the Board received UGX.10,158,580,820, representing 75% of its approved budget of UGX.13,518,457,453. However, despite the substantial funding received, audit noted that some of the planned activities were not undertaken or implemented as shown in the Table below:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Planned</th>
<th>Actual</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism facilities owners to be sensitized in standards</td>
<td>20,000</td>
<td>1,594</td>
<td>18,406 not achieved</td>
</tr>
<tr>
<td>Tourism facilities to be inspected</td>
<td>20,000</td>
<td>1,032</td>
<td>18,968 not achieved</td>
</tr>
<tr>
<td>Planning for cluster activities</td>
<td></td>
<td></td>
<td>Not completed.</td>
</tr>
<tr>
<td>Shifting to new offices</td>
<td></td>
<td></td>
<td>Not achieved.</td>
</tr>
<tr>
<td>Purchase two motor vehicles</td>
<td></td>
<td></td>
<td>Only one motor vehicle purchased</td>
</tr>
</tbody>
</table>

This implies that funds were diverted to implementation of unplanned activities which ultimately leads to failure to achieve the overall Ministry’s objectives.

Management explained that the targets were over-estimated and therefore not attainable and insufficient funds were released for the purchase of planned vehicles. Budget targets have since been revised.
I advised management to always endeavour to implement activities in line with the funding provided.

135.0 Nile Hotel International Limited for the Year Ended 31st December, 2015

135.1 Non-payment of additional investment

Included in the statement of financial position are loans payable to government amounting to UGX.427,475,042 (Note 19). The loans relate to funding obtained from government for the refurbishment of the Hotel during CHOGM 2007 preparations.

However to date the Concessionaire has not refunded the money to government despite board reminders and notifications (Board paper no: NHL/31/2015). This amounts to a breach of clause 3.3(b) of the Concession agreement and attracts a penal interest.

Management explained that efforts by NHIL to recover the loan from TPS had not been fruitful because the Loan agreement clearly places the obligation of the payment of this loan on Nile Hotel International Limited.

I advised management to evoke the terms of the agreement and ensure that the Concessionaire refunds the loan funds to government.

136.0 Uganda Development Corporation for the Financial Year Ended 30th June 2016

136.1 Un-spent balance not returned to Treasury - UGX.413,184,442

Section 17 of the Public Finance management Act, 2015 provides that every appropriation by Parliament shall expire and cease to have effect at the close of
the financial year for which it is made and that unspent money at the close of the financial year shall be returned to the Consolidated Fund.

It was observed that UDC had a balance of UGX.413,184,442 in Bank of Uganda. However, the unspent balance was not returned to the UCF contrary to the Act. The Corporation therefore did not comply with the provisions of the Act. There is a risk that the funds may be retained and spent at source without authority.

Management explained that these funds retained by UDC at the end of financial year were for commitments that UDC had already entered.

I advised the Accounting Officer that despite the funds being committed there was need to seek clearance from the Accountant General and the PSST otherwise all the funds should have been returned to the Treasury.

136.2 Irregular procurement of consultancy services

A consultant was contracted by the entity to provide consultancy services for the establishment of business for Uganda Airways. It was however, observed that the consultant did not go through the normal procurement process but was instead handpicked contrary to the procurement guidelines. Despite the anomaly, during the year under review, a sum of UGX.106,028,103 was paid in respect of his services. This figure included UGX.14,640,270 spent on the work permit of the consultant and another UGX.1,522,928 for the security bond.

The payments for work permit and security bond appear irregular because such costs are normally met by the contractor. Due diligence to establish the capacity of the consultant to handle the activities was equally not done. Besides, I could not establish how the fee to be paid was arrived at and how deliverables should be attained.

Management explained that the services of the consultant were sought by UDC after recognizing his rare skills in the aviation industry, which skills were missing in UDC despite the fact that the Corporation had to take on the work of re-
establishing the national airline. UDC based the recruitment decision on the Corporation's HR & Administration Manual which allows for head hunting.

I advised the accounting Officer that the PPDA guidelines supersede the entity manual and as such management should have followed the procurement guidelines to ensure a consultant with the best competencies for the job was sourced.

136.3 **KIIRA Ashok Leyland Joint Venture: Task force expenses**

The joint venture was formed by Ministry of Works and Transport on 23rd January 2015 with an objective to create a framework for the negotiation of a joint venture project between the GoU and Hindujja Group, specifically in the automotive sector i.e for the manufacture of trucks and buses in Uganda. A total of US $317,065 is the project outlay within a time frame of seven (7) months. During the financial year a total of UGX.1,171,445,900 was provided for use for the venture.

Review of the cabinet memo presented by the Minister of Trade and Industry to cabinet referenced CT 2015 revealed that the venture is to be led by a JTF of 7 members constituted from various Government Ministries and institutions. The memo also detailed the Terms of Reference and work plan.

According to Part (F-a) section (14) of the Public Service Standing Orders guides that a public officer shall not hold two appointments concurrently and shall not draw more than one salary from public funds.

However, according to the cabinet memo it was noted that each of the members of the JTF is entitled to USD.3.999 retainer fee per month contrary to the above.

It was further noted that management used this Cabinet paper as a basis to spend without necessarily going through Parliament for appropriation and paid out UGX.600,595,546 to cater for retainer fees.
Management explained that the rates and budget were included in the cabinet memorandum and the associated budget was quite specific on the budget items including the retainer payable.

I advised management to revisit the principal of paying retainer fees to public servants and to ensure that the budget going forward is approved by Parliament prior to payment. Meanwhile, I await the performance of the venture.

136.4 Investment procedural process

Section (5) of the UDC strategic plan 2012-16 regarding projects selection criteria requires the entity to take into consideration a number of critical issues and concerns for individual projects and the scheduling of their implementation. These should include a combination of; the economic merit, the geographical dispersion and distribution of economic developmental impacts, and the social-economic and societal welfare enhancing attributes of each and every commercial undertaking it participates in and or initiates.

Accordingly UDC is required to procure a consultancy for purposes of evaluating and guiding strategic investments in areas of national comparative advantage such as agriculture, tourism and national fuel resources. The corporation incurred expenditure amounting to Shs.9,000,026,869 during the year in undertaking industrial development investments in the areas of fruits in Luwero, Soroti and processing in Kabale and Kisoro. However, the Corporation did not undertake investment strategic studies assessment prior to undertakings for purposes of assessing the marketability and commercial viability of the final products processed from fruits like mangoes, oranges and tea plantations. The investment may not achieve anticipated results.

In the absence of the investment feasibility studies, the entity may not attain the desired strategic objectives. There is also a risk that the final processed products may not compete favourably with those that are already existing on the market in terms of price, packaging and quality.
Management in their response explained that they had undertaken feasibility studies and EIA for Soroti.

I advised management to do the same for all investment projects. Management should also review their strategic plans and the project selection criteria for all future investments.

136.5 Irregular advance to personal accounts towards the year end

Treasury Accounting Instructions (TAI) part I (227-229) requires all payments to be made by the Accounting Officers directly to service providers and where it is not convenient, an imprest holder should be appointed by the Accounting Officer with the approval of the Accountant General to carry out such payments.

However, it was noted that payments amounting to UGX.327,906,477 were advanced to personal accounts of staff to cater for mainly travel abroad and seminars anticipated to take place in the following Financial Year or merely anticipated. For instance, a sum of UGX.21,454,565 was advanced to a staff on 17th June, 2016 for a meeting in the US and for tea industry convention. At the time of writing this report the meeting had not taken place and fund were still held on the individual personal accounts. See details in table below;

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Amount</th>
<th>Purpose</th>
<th>Proposed Date</th>
<th>Date funds paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Staff</td>
<td>11,330,740</td>
<td>Meeting in the Us</td>
<td>August 22nd 2016</td>
<td>17th June 2016</td>
</tr>
<tr>
<td>2</td>
<td>Staff</td>
<td>5,500,000</td>
<td>Allow for truck and Bus seminar</td>
<td>Not disclosed</td>
<td>17th /6/16</td>
</tr>
<tr>
<td>3</td>
<td>Staff</td>
<td>10,123,916</td>
<td>Tea industry convention</td>
<td>Sept 2016</td>
<td>17th June 16</td>
</tr>
<tr>
<td>4</td>
<td>Tour company</td>
<td>15,138,942</td>
<td>Tickets to India on tea related visit</td>
<td>No date indicated</td>
<td>17th June 2013</td>
</tr>
<tr>
<td>5</td>
<td>Staff</td>
<td>17,000,000</td>
<td>Steering committee all</td>
<td>No dates disclosed</td>
<td>17th June 2016</td>
</tr>
<tr>
<td>6</td>
<td>Staff</td>
<td>8,442,630</td>
<td>Travel to Kigali for bench marking</td>
<td>No dates disclosed</td>
<td>16th June 2016</td>
</tr>
<tr>
<td>7</td>
<td>Staff</td>
<td>9,731,443</td>
<td>Travel to Calcutta</td>
<td>No dates disclosed</td>
<td>16th June</td>
</tr>
</tbody>
</table>
It was observed that at the time of audit (October, 2016) the accountability to a tune of UGX.327 million had not been filed and hence remained unaccounted for. Funds advance to personal accounts at the end of the financial year creates a big risk of financial loss in the event that the funds are not used for the intended purpose.

Management explained that in future payments shall be through an imprest holder as guided by the Accountant General.

I advised the accounting officer to ensure that funds are advanced to staff in line with the accounting guidelines. In the meantime the funds should be accounted for otherwise they are refundable.

### 137.0 Uganda Property Holdings Limited For The Year Ended 30th June 2016

#### 137.1 Un-Recovered Refurbishment Costs on Bugolobi Building – UGX.4,741,740,000

UPHL is mandated to maintain Government property a basis upon which a sum of UGX.4,741,740,000 was spent to renovate the Apparel Factory in Bugolobi for use by Tri Star Limited. It was agreed that the funds will be refunded by Government through the Ministry of Finance upon completion of the works.

It was noted that to-date the refunds have not been realized. Management efforts to recover these funds from the Ministry appear remote.
A review of the Ministry of Finance financial statements does not show that such obligation was recognized or even disclosed. There is a risk that these funds may not be recovered at all.

The Accounting Officer explained that several efforts have been made to recover the money from the Ministry without little success.

I advised the Accounting Officer to continue discussions with PS/ST on the possibility of recovering these funds and also explore the option of offsetting from dividends due to government through the necessary procedures.

137.2 **Outstanding Property Rates - UGX.2,159,699,800**

According to a demand note from KCCA to the Ministry of Finance as supervisor of UPHL, arrears of property rates amounting to UGX.2,159,699,800 had accumulated with regard to plots 29A-41A Spring Road Bugolobi – Kampala. The arrears were in respect of outstanding property rates of UGX.1,063,469,400 and ground rent of UGX.1,096,230,400. I noted that UPHL had not recognized these arrears to provide a basis upon which budget provisions can be made so as to necessitate settlement of the obligation. The premises were reportedly allocated to an investor Fine Spinners (U) limited without an MOU. I could not establish under what arrangement the new investor was utilizing government property.

Failure to recognize and disclose the arrears implies the payables are understated. There is a risk of accumulating avoidable interest.

Management explained that they were coming across this liability for the first time and needed time to verify with the interested parties before making a decision to include it in the entity financial statements.

I advised the Accounting Officer to follow up the matter with KCCA to finalize with the reconciliation with a view of clearing the arrears.
138.0 **Uganda National Bureau of Standards for the Financial Year**
*Ended 30th June 2016*

138.1 **Under Funding by Government – UGX.2,418,898,120**

The entity had budgeted to receive UGX.12,828,194,000 as funding from Government but only UGX.10,409,295,880 was received. In a correspondence from the Bureau to the PS/ST dated 28/10/2015 the issue of underfunding was raised as causing a general public outcry on enforcement of standards due to inadequate capacity by UNBS to enforce standards *See details in the table.*

<table>
<thead>
<tr>
<th>Exp. Category</th>
<th>Budget (UGX)</th>
<th>Actual (UGX)</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent (Wage &amp;</td>
<td>9,248,446,000</td>
<td>7,569,897,239</td>
<td>1,678,548,761</td>
</tr>
<tr>
<td>Nonwage)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>3,579,748,000</td>
<td>2,839,398,641</td>
<td>740,349,359</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12,828,194,000</strong></td>
<td><strong>10,409,295,880</strong></td>
<td><strong>2,418,898,120</strong></td>
</tr>
</tbody>
</table>

As a result of the shortfall, budget items such as medical, workman’s compensation, terminal benefits, staff training, office rent, laboratory supplies, subscriptions to international organisations, construction of office building, and purchase of ICT equipment were affected and the activities were not undertaken as planned. UNBS may not achieve its desired objectives.

The Accounting Officer explained that they have continued to engage Ministry of Finance, Planning and Economic Development to ensure full release of the approved budget.

I advised the Accounting Officer to continue engaging the relevant authorities to ensure that the whole budget is funded.

138.2 **Increased Laboratory repairs costs**

Analysis of laboratory repair and maintenance costs as reported in the financial statements of the past four years revealed a rising trend. The Bureau has continuously incurred high costs on laboratory repairs and maintenance over the
years. For instance, the budget for this item of UGX.50,000,000 for the year was overspent by UGX.211,682,609. See details in table below;

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (UGX)</th>
<th>(%) Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>67,553,930</td>
<td>N/A</td>
</tr>
<tr>
<td>2014</td>
<td>119,115,120</td>
<td>76.33</td>
</tr>
<tr>
<td>2015</td>
<td>236,358,936</td>
<td>98.43</td>
</tr>
<tr>
<td>2016</td>
<td>261,682,609</td>
<td>10.7</td>
</tr>
<tr>
<td>Total</td>
<td>684,710,595</td>
<td></td>
</tr>
</tbody>
</table>

I also noted that the authenticity of the cost of repairs over time could not be verified due to failure to provide the following;

- No agreement with a contractor for the civil works was presented to the team for verification.
- Certificate of completion, which should form the basis of payment were not provided for verification.
- The Premises currently housing the laboratories are owned by UIRI. However, there is no rental agreement in place between UNBS and UIRI to ascertain how the rental costs and repairs are being shared.

Persistent repairs are symptoms of old laboratory equipment which may need replacement.

Management explained that the laboratory equipment were old and in need of replacement but the budget of UGX.10,865,750,000 is prohibitive given a fixed MTF. See summary costing in table below;

<table>
<thead>
<tr>
<th>#</th>
<th>LABORATORY</th>
<th>FUNDS REQUIRED TO REPLACE EQUIPMENT (USD)</th>
<th>FUNDS (UGANDA SHILLINGS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>CHEMISTRY LAB</td>
<td>1,848,100</td>
<td>6,468,350,000</td>
</tr>
<tr>
<td>2.</td>
<td>MICROBIOLOGY LAB</td>
<td>400,800</td>
<td>1,402,800,000</td>
</tr>
<tr>
<td>3.</td>
<td>ENGINEERING MATERIALS LAB</td>
<td>561,600</td>
<td>1,965,600,000</td>
</tr>
<tr>
<td>4.</td>
<td>ELECTRICAL LAB</td>
<td>294,000</td>
<td>1,029,000,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>3,104,500</td>
<td>10,865,750,000</td>
</tr>
</tbody>
</table>
I advised the Accounting Officer to liaise with Treasury to identify funding for a complete replacement of old equipment to save on un-sustainable ever increasing repair costs.

138.3 **Procurement Review**

(i) **Payments above Estimated Amount**

Section 5 (3) regarding assessment of market price further provides that where the price of the best evaluated bidder is higher than the market price established at the commencement of the procurement, the Accounting Officer shall re-assess the market price to ascertain that the market price is still valid. Section 5 (4) also states that where the Accounting Officer ascertains that the market price established at the commencement of the procurement is still valid, the procurement shall be cancelled and re-tendered.

Review of a sample of procurements revealed that 3 payments were made over and above the original estimates as indicated in PP Form 20/5. There was no second market re-assessment on file carried out as a way of revising the estimates. PPDA guidelines were therefore floated. See details in table below;

<table>
<thead>
<tr>
<th>Ref No</th>
<th>Contract Name</th>
<th>Contractor</th>
<th>Estimated Cost</th>
<th>Actual Cost</th>
<th>Variance</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNBS/SUPL S/15-16/00073</td>
<td>Supply of verification stickers</td>
<td>Paperco Ent Ltd</td>
<td>UGX. 9,950,000</td>
<td>UGX. 16,638,000</td>
<td>UGX. 6,688,000</td>
<td>67%</td>
</tr>
<tr>
<td>UNBS/SUPL S/15-16/00001</td>
<td>Supply &amp; delivery of double cabin pick up</td>
<td>MAC E A LTD</td>
<td>USD. 27,000</td>
<td>USD. 38,250</td>
<td>USD. 11,250</td>
<td>42%</td>
</tr>
<tr>
<td>UNBS/NCONS/14-15/00009</td>
<td>Medical Insurance services</td>
<td>UPA Insurances U Ltd</td>
<td>UGX. 264,000,000</td>
<td>UGX. 477,611,000</td>
<td>UGX. 213,611,000</td>
<td>81%</td>
</tr>
</tbody>
</table>

PDU did not technically advise management in determining estimated values used in committing available funds as per PP Form 20. There is a risk that the procurements were not sourced competitively and value for money may not have been achieved.
Management explained that the market price re-assessment for the above items was based on the bids received from the competitive procurement processes. I explained that these should have been based on actual market surveys and advised that Accounting Officer should always ensure that proper estimates are made through informed market assessments as guided by PPDA regulations.

LANDS AND HOUSING SECTOR

139.0 National Housing And Construction Company Limited for the Financial Year Ended 31st December 2015

139.1 Mbuya Land Ownership

It was noted that whereas the company has legal ownership of land in Mbuya, comprised in Freehold Register Volume 66, Folio 12 measuring 16.5 acres, as disclosed under Note: 14 (Property, Plant and Equipment), it does not recognize the land. There is an ownership claim for the same land by the Ministry of defense who currently occupy the land. The Company has for years been denied access to the land, and the matter is before courts of law under Civil Suit No.60 of 2016.

Under the circumstances, the company does not enjoy the benefits of ownership of this land, as it has not been able to collect any rental revenues arising there from.

I have advised the Chief Executive Officer to ensure that the company continues undertaking lawful measures aimed at securing and/or exercising their legal rights over the land in question. This matter was also observed in my previous audit report.

139.2 Kireka Land

Included in the investment properties in the Statement of Financial position, and in particular under Note:16 (Investment Properties), is Kireka Land comprised in Freehold register Volume 31 Folio 8, measuring 292 acres and carried at a value
of UGX.68.75 Billion. The Company acquired this land in 2012, and applied for freehold title in 2013. However, by the closure of this financial year, the process of acquiring title was still on going. Under the circumstances, there is uncertainty as to whether the current valuation can be fully relied upon. I advised the Chief Executive Officer to ensure that they secure a title deed so as to confirm ownership of the land, as well as its valuation. This matter was also observed in my previous audit report.

139.3 Available for Sale Investments

Included in the statement of Financial Position as at 31st December, 2015, are condominium properties available for sale, valued at UGX.3.031Bn (Note 21). This amount includes Buganda Road flats (valued at UGX.2.465Bn) which have not been sold for a continuous period exceeding five years due to a disagreement in the offer price between the sitting tenants and the Company. There is uncertainty as to the value the company will eventually be able to recoup from the investments in question. I have advised the Chief Executive Officer to ensure that the company continues undertaking lawful measures aimed at resolving the current stalemate. This matter was also raised in my previous audit report.

139.4 Failure to Pay Staff Contributions into the Provident Fund – UGX.402,217,809

NHCCCL staff operate a provident fund (an in-house savings scheme) to which employees contribute 5% of their monthly gross pay while 5% is contributed by the company. Every month, the company withholds the staff contribution as well as its own contribution and is expected to pay this into the staff provident fund by the 15th day of the following month. During the year under review, I noted the company’s failure to make payments (both the deductions from staff as well as its own contribution) for up to 18 months leading to an outstanding payable of UGX.402,217,809 as at 31st December 2015. I further noted that of the total amount due at the end of the financial year, a sum of UGX.91,144,152 had remained outstanding for more than 12 months and that the 2016 budget showed no provisions were made to pay outstanding arrears of the provident fund.

Non remittance of contributions is in breach of the Memorandum of Understanding (MOU) entered into with the investment manager which requires
that all contributions should be made at the intervals of payment. Besides, it also deprives the beneficiaries of the interest and investment income and that NHCCCL risks legal action arising out of non-payment of the outstanding amounts.

In his response, the Chief Executive Officer indicated that the above arrears were to be settled in installments and that at the time of closing the audit (October, 2016), the outstanding amount had been reduced to UGX.254,864,766. I have advised that there is need to comply with the provisions in the MOU and always remit staff contributions as soon as they fall due. In addition, all outstanding amounts should be paid to the Fund without further delay.

### 139.5 Low Liquidity Levels

It was noted that the company was experiencing persistent liquidity challenges and was struggling to meet its working capital requirements. The lack of adequate cash flows in the company has made it fail to meet its obligations as they fall due. A Current Ratio analysis (i.e. current assets divided by current liabilities) revealed the growing inability of the company’s current assets to meet its short term obligations. For example, the current ratio stood at 0.02 as at 31st December 2015 (down from 0.59 in 2010). This is further evidenced by: the long outstanding payables, failure to make staff contributions to gratuity and Provident fund (UGX.402,217,809), non-remittance of statutory deductions, such as NSSF (UGX.395,653,513) and PAYE (UGX.320,000,000); and non-contribution to the sinking fund for the maintenance of Crested Towers, which is the main Income Generating Unit of the Company. Under such circumstances, there is a risk that this may impair its going concern status in the event it is not addressed.

In his response, the Chief Executive Officer explained that the company is progressively managing to settle its obligations and is confident that it will extinguish all of them. In addition, the company has compiled a long-term investment strategy for the period 2015 – 2020, which was awaiting board approval. I have advised that there is need to initiate and expedite deliberate investment actions that will enhance the company’s liquidity position so as to curtail the continued drifting into impairment of its going concern status.
140.0 National Social Security Fund (NSSF) for the Year Ended 30th June, 2016

140.1 Notice of Assessment for Corporation Tax

As noted in my previous year’s report, the Fund is in court with URA over a disputed assessment for Corporation tax amounting to UGX.84.4 billion. This matter has not been resolved. I await the outcome of the court proceedings.

140.2 Unallocated members’ contributions

Contributions received by the Fund are receipted and matched against employer schedules before being posted to individual members accounts. The contributions that remain unreconciled are recorded as unallocated members’ contributions. As at 30th June 2016, I noted that unallocated Members’ Funds amounted to UGX.35.8 billion for the period before June 2015 and UGX.17.9 billion for the period under audit.

Table below shows the annual movement in unallocated contributions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount as at 30 June 2016</th>
<th>Amount as at 30 June 2015</th>
<th>Movement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>4,040,400,370</td>
<td>4,621,107,762</td>
<td>-13%</td>
</tr>
<tr>
<td>2012</td>
<td>11,447,052,340</td>
<td>12,658,416,039</td>
<td>-10%</td>
</tr>
<tr>
<td>2013</td>
<td>5,220,893,829</td>
<td>6,628,044,148</td>
<td>-21%</td>
</tr>
<tr>
<td>2014</td>
<td>8,308,399,392</td>
<td>12,374,368,926</td>
<td>-33%</td>
</tr>
<tr>
<td>2015</td>
<td>6,827,197,892</td>
<td>30,778,567,961</td>
<td>-78%</td>
</tr>
<tr>
<td>2016</td>
<td>17,893,229,304</td>
<td>-</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>53,737,173,127</td>
<td>67,060,505,106</td>
<td>-20%</td>
</tr>
</tbody>
</table>

Whereas the old unallocated balances are reducing, the continued existence of unallocated balances and unsubstantiated accounts could be used to process and conceal unauthorized transactions and/or fraud.
Management explained that although a lot of effort is dedicated to match contributions to contributors, a sizeable proportion of the old un-allocated member contributions have been proved totally untraceable and as per the NSSF Act, they will recommend to the Minister to authorise transfer to the statutory reserve account.

Furthermore, the ongoing automations (e-collections) are also geared to ensuring that, in future, this problem is significantly eradicated.

I advised the Fund Management to present to the Board for approval of transfer to reserves of those contributions that can no longer be reconciled.

141.0 National Library Of Uganda for the Financial Year Ended 30th June, 2016

141.1 Book Discard Provision

It was noted that the accumulated fund balance of UGX.10,266,081,402 reflected in the Statement of changes in equity was arrived at after taking into account a provision for book discards amounting to UGX.614,439,350. However, I could not establish the reasonableness of this figure since the policy regarding book discard was not documented and/or stated in the accounting policies of the library.

This issue was brought to the attention of the Library management of the Library in the previous years and advised the Accounting Officer to streamline the book discard policy and have them documented.

142.0 Uganda National Cultural Centre for the Year Ended 30th June 2016

142.1 Failure to collect Rental Income from Nomo Gallery

A tenant - Creations Ltd has been occupying the UNCC premises from January 1997 and had not paid the rent thereof. It should be noted that there is no tenancy agreement between UNCC and the tenant. However according to the Government
Chief Valuer’s report, issued on 18th August 2014, the rent value of the premises occupied is UGX.8,100,500 (162.01 sqm at a rate of UGX.50,000) per month.

According to the 191st meeting held on 10th Dec 2014 (ref:min.1029/191/2014 [vi]), the outstanding arrears totalled UGX.1,620,100,000. By the time of this report, the rent due should have increased accordingly.

Audit noted that although there was evidence of initiation of recovery through the Courts of law, the process was halted due to lack of funding, and yet tenant continues to occupy the UNCC’s premises unabated. This implies more loss of revenue.

In response, the Accounting Officer explained that management had engaged the Ministry for Gender, Labour and Social Development to support it with the required funding to pursue the case and was still awaiting the response and guidance.

I await the outcome of management’s actions towards the recovery of the rental income.

AGRICULURE SECTOR

143.0 National Animal Genetic Resources Centre And Data Bank For The Year Ended 30th June, 2016

143.1 Utilization of revenue at source – UGX.157,134,000
Section 29(2) (a) of the Public Finance Management Act, 2015 requires all revenue collected or received by a vote, state enterprise or public corporation under subsection 29 (1) to be paid into and form part of the Consolidated Fund. The entity earned UGX.157,134,000 revenue from the disposal of various livestock in different ranches. I noted that the funds were utilised at source instead of banking it on the Centre’s Non-Tax Revenue (NTR) account in Bank of Uganda. I also noted that the revenues were not disclosed in the statement of financial performance as NTR earned to reflect the true balances as at year end.

Utilization of NTR at source leads to diversion of Government funds to unapproved activities.

I advised the Accounting Officer to remit all NTR collected to the Consolidated Fund as required.

143.2 Breeding bulls

Management purchased and kept eight (8) breeding bulls in Republic of South Africa at a cost of UD $.212,000 in 2011 with the aim of obtaining semen. The supplier was required to collect process and store semen on a weekly basis upon which 24,000 doses of semen were to be shipped to Uganda after every 6 months. Because of the high cost of maintenance, management decided to air lift the bulls and maintain them in Uganda.
During the year under review, management transferred funds worth UGX.200,000,000 to the supplier in September 2015 to airlift the bulls to Uganda, to enable continuous processing of semen. However, some issues were noted as below;

- **Non-delivery of Bulls**
  It was observed that nine (9) months after payment, the bulls had not been delivered raising doubt as to their existence.

- **Non-compliance to contractual conditions**
  While the contract provided for shipment of 24,000 doses to Uganda after every 6 months, I noted that only 24,000 doses were delivered in the entire year instead of the required 48,000 doses despite the high costs of maintenance.

Funds paid out for bull’s maintenance could become wasteful since management did not achieve the intended purpose. Further, delayed deliveries of the bulls may necessitate extra maintenance costs that could otherwise have been avoided.

Management explained that plans were underway to airlift the bulls to Uganda.

I advised management to review the contract and provide for either liquidated damages in case of non-delivery. Further, maintenance remittances to the contractor should be tagged to previous performance and expected deliveries.
143.3 Lost Livestock worth – UGX.107,120,000

I observed during the year that management lost up to UGX.107,120,000 through illegal sales of ninety three (93) and theft of ten (10) cattle at Nshaara stock farm at the average disposal rate of UGX.1,040,000 per cattle. Irregular sale of animals hamper the entity revenue collection efforts thus affecting the Appropriation in Aid (AIA) targets required for the operations of the farm.

Management explained that after being alerted of the illegal movements of cattle out of the ranch, a team was immediately constituted for a head count which established that 93 head of cattle were missing. On interrogating the staff involved, it was established that both the Manager and the Veterinary Officer in collaboration with cattle traders in the area were involved. A case was immediately reported to Police in Kiruhura District and both the Manager and the Veterinary Officer were arrested and interdicted. The case was before Resident State Attorney in Mbarara who was yet to sanction the case for prosecution.

I advised the Accounting Officer to institute strict controls for management of livestock in the farm. In the meantime, a follow up is required to ensure that the suspects are prosecuted.

144.0 Coordinating Office for Control of Trypanosomiasis in Uganda (COCTU) for the Year Ended 30th June, 2016

144.1 Institutional gaps hindering achievement of mandate

COCTU’s mandate is to initiate and supervise the formulation, negotiation and implementation of all policies, programs and projects for Trypanosomiasis control in Uganda.

A review of the entity strategic plan and discussions with management revealed that COCTU had limited institutional capacity to deliver its mandate as envisaged due to various factors as outlined below;
• Inadequate human resources to coordinate the suppression of sleeping sickness, animal trypanosomiasis and tsetse fly vector.

• Lack of infrastructural strength in that the institution lacks laboratories to analyse samples in the field thus being forced to rely on other entities not within their control. In addition, it lacks a resource centre which could assist in undertaking surveillance and a source of information for the country.

• Lack of in-country capacity building which threatens sustainability of the Tiny Target Project (4 year Project) where tsetse traps are being imported yet they could be manufactured in Uganda using local materials which capacity has not been built from within the entity.

• Inadequate funding of the programme given that financing of Tsetse and Trypanosomiasis (T&T) activities has been and is still heavily dependent on project funding which is predominantly donor funded. Although, COCTU receives some funds from GoU, these are insufficient and cannot support COCTU to effectively coordinate, supervise and monitor all T&T activities in the country. The capacity to mobilize resources and champion T&T policy and institutional activities is therefore still low.

All the above are due to challenges of funding which limits capacity of the entity to recruit staff, construct and build internal capacity. Inadequate capacity of COCTU exposes the country to a risk of failure to eradicate the vector and the disease which has adverse effects on the economic wellbeing of citizens.

Management explained that COCTU had developed a T & T Control Program intended to address the key Institutional gaps and submitted it to the Planning department of MAAIF for consideration and funding by Government. In addition, management pledged to continue engaging the current and other development partners to support some of these pertinent issues.

I advised the Accounting officer to continue lobbying Government for additional funding for institutional capacity building to enable achievement of organisational strategic objectives.
145.0 Dairy Development Authority for the Period Ended 31st December 2015

145.1 Audit of Financial Statements

(a) Delayed Submission of Financial Statements

Section 19 (3) (b) of the Dairy Industry Act 1998 requires the Board of Directors to prepare Financial Statements within three months after the end of each financial year and submit to the Auditor General for auditing. However, the Authority did not submit financial statements for the financial year ended 31st December, 2015 for audit within the statutory period. The financial statements were submitted on 3rd May 2016, one month after the statutory deadline.

The Accounting Officer attributed the delayed submission of the financial statements to the absence of Board of Directors to approve recruitment of the Principal Accountant to prepare accounts.

I advised management to follow up the appointment of the Board with the Minister responsible for Agriculture to ensure that the authority executes its mandate.

(b) Non-functional Revolving Fund

The National Agricultural Advisory Services (NAADs) purchased and supplied milk cooling equipment to DDA Stakeholders who run Milk Collection Centers. A Memorandum of Understanding (MOU) was signed between DDA and the vendors requiring the vendors to pay back 30% of the cost of the milk cooling equipment into a revolving fund.

A total of UGX.91,765,600 was collected during the year following the MOU. However, I was not availed with the schedule of vendors that received the milk cooling equipment to determine how much was outstanding at the beginning and
close of the financial year. Besides, the financial statements do not include what was expected from the Milk Vendors (receivables) into the Revolving Fund. I was therefore unable to ascertain the collections for the year and outstanding amount as at end of the financial year.

In response, the Accounting Officer explained that the Permanent Secretary and Secretary to the Treasury (PS/ST) directed that this money be collected and banked on the consolidated fund intact, hence the revolving fund became non-operational.

I advised management to explain to the PS/ST the need to plough back these funds to support the operations of DDA.

145.2 Failure to receive compensation for lost CESS revenue

Regulation 18 (1- 4) of the Dairy Regulations, 2003 requires the Authority to levy, charge and collect a CESS on processed milk and milk products at a rate of one percent of the ex-factory price per litre or kilogram of the milk or milk products.

I noted that the levy of CESS on milk or milk products was suspended by H.E The President in 2007 and a directive was issued for DDA to receive compensation from Ministry of Finance, Planning and Economic Development (MoFPED). However, I observed that DDA postponed levying CESS but has not received compensation from MoFPED as directed. This has adversely affected the operations of the Authority. My assessment indicates that UGX.1.2 bn is meant to be paid by Government to DDA annually as compensation.

In response, management explained that efforts to demand compensation from MoFPED yielded no results. I advised management to continue following up the compensation with the MoFPED to ensure implementation of the presidential directive.
146.0 Dairy Development Authority for the Six Months Period Ended 30th June, 2016

146.1 Failure to implement planned procurements

Chapter 7 of the DDA Financial Accounting Manual requires management to plan for all resources to accomplish all the intended activities and ensure project implementation by controlling actual implementation costs against budgeted expenditure in line with the strategic plan and annual budget. Budget estimates are based on outputs to be achieved for the financial year and during implementation, effort should be made to achieve the agreed objectives or targets of the entity within the availed resources.

<table>
<thead>
<tr>
<th>S/n</th>
<th>Subject of Procurement</th>
<th>Estimated cost (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Procurements of June Dairy Month Items</td>
<td>45,120,000</td>
</tr>
<tr>
<td>2</td>
<td>Procurements for National Quality Awards 2016</td>
<td>129,890,000</td>
</tr>
<tr>
<td>3</td>
<td>Dairy Supplies and Equipment</td>
<td>345,291,000</td>
</tr>
<tr>
<td>5</td>
<td>Rehabilitation of Milk Collection Centre under project</td>
<td>150,000,000</td>
</tr>
<tr>
<td>7</td>
<td>Supply of 50KVA Generator for Dairy Training School</td>
<td>50,000,000</td>
</tr>
<tr>
<td>8</td>
<td>Supply of In-calf Heifers</td>
<td>38,618,000</td>
</tr>
<tr>
<td>9</td>
<td>Provision of Consultancy services</td>
<td>90,797,000</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>849,716,000</strong></td>
</tr>
</tbody>
</table>

of the approved procurement plan for the year under review revealed that seven (7) approved procurements valued at UGX.849,716,000 were not implemented at the time. Details are as per the table below;

According to management, the planned procurements were not executed due to inadequate release of funds.

I advised the Accounting Officer to prioritise the critical activities in the procurement plan and ensure that key deliverables are achieved within the stipulated deadline.
146.2 **Failure to receive compensation for lost CESS revenue**

Regulation 18 (1- 4) of the Dairy Regulations, 2003 on Levy and Collection of CESS requires the Authority to levy, charge and collect a CESS on processed milk and milk products at a rate of one percent of the ex-factory price per litre or kilogram of the milk or milk products as the case may be. It further provides for revision of the CESS from time to time.

I noted that the collection of CESS was suspended by H.E The President in 2007 and instead, he issued a directive for the authority to receive compensation from Ministry of Finance, Planning and Economic Development (MoFPED). However, I observed that the Authority did not levy or collect CESS on milk or milk products worth UGX.8,000,000,000. Furthermore, DDA did not received compensation from MoFPED as directed. This adversely affected achievement of DDA mandate.

In response, management explained that efforts to demand compensation from MoFPED yielded no results.

I advised the Accounting Officer to continue following up the matter with the MoFPED to ensure implementation of the presidential directive.

147.0 **Cotton Development Organisation for the Year Ended 31st October, 2015**

147.1 **CDO Ginning Machinery housed in private premises**

It was observed during audit that CDO machinery and equipment valued at UGX.2,320,632,000 was located in private premises belonging to ginners at Kachumbala, Masindi, Ngetta and Kasese without setting clear terms under which these assets are housed by private entities. This implies that management has limited control over such assets which exposes them to risk of mismanagement or loss. There is also a risk that private persons may be utilizing the assets without the knowledge CDO.
In response, the Accounting Officer explained that, CDO had acquired land at Pajule in Pader district and embarked on construction of a new seed processing plant with the aim of relocating the ginning machinery and related assets located in private premises to CDO’s own facility. This will enable the CDO to consolidate the assets at Kachumbala, Masindi and Ngetta dressing stations. The project will be completed in 2017. The assets at Kasese dressing station will continue to be housed in the premises of Nyakatonzi Co-operative Union Ltd and a memorandum of understanding will be signed to ensure that the assets are secure. Management further explained that there is need for Government to provide more funding to CDO to enable the construction of a smaller dressing station in Kasese to complete reallocation of all CDO assets to our own premises.

I advised management to expedite the construction of the seed processing plant and also finalize with the MoU setting clear terms for those assets housed by private persons with a view of ensuring proper management of the assets.

147.2 Emergency procurement of cotton seed from Zimbabwe

The Public Procurement and Disposal of Assets (PPDA) regulations 2014, statutory instruments 2014 No. 8, section 9 recognizes that the choice of procurement method may be determined by the availability of supplies from only a limited number of providers or a sole provider. Subsection 9 (3) requires that a recommendation by the procurement and disposal unit to use supplies from a limited number of providers as the criterion for determining the choice of a procurement method shall include;

(a) a comprehensive analysis of the market supplies made at the level of manufacturer,

(b) full details of the relevant circumstances concerning the limited number of providers and

(c) a clear statement as to why other sources cannot be used to open the requirement to a competitive procurement method.

On 1st April 2015, Cotton Development Organization (CDO) signed an agreement with an International Seed Company in Zimbabwe to supply and delivery of
1320MT of cotton planting seeds at a contract sum of USD.2,640,000. However, the procurement was not advertised through competitive bidding but was instead treated as an emergency and the direct procurement method was used. There was no evidence that this firm was the only available seed supplier. There is a risk that the service provider may have charged higher rates than the market rates for the seed cotton.

The Accounting Officer explained that the supplier was the only known producer and marketer of certified cotton planting seed in the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) regions, adding that cotton varieties produced by the company was tested and proved that it is likely to perform well on yield, fiber characteristics and resistant to pests and diseases in Uganda and Zimbabwe regions. I requested management to avail evidence of the justification but this information was not availed.

**147.3 Failure to determine the contract amount - USD 2,640,000**

Regulation 3 (2) (a) of statutory instruments 2014 No.8 of the public procurement and disposal of public assets regulations, 2014 requires that in estimating the value of the supplies required and confirming the availability of funds, a procuring and disposing entity should base the estimate on an assessment of the market price.

A review of the contract agreement and other documents revealed that management did not provide evidence how the contract price of USD.2,640,000 was determined. Besides, there was no evidence that the supplier submitted a pro-forma invoice for indicative prices. There is a risk that the contract price could have been higher than the market price.

Although the Accounting Officer explained that an inquiry into the price was made to the supplier before quotations this evidence was not availed for confirmation.
I advised Management that in future, market prices should be determined first as a procurement requirement to ensure that contract awards are at prevailing market rates.

147.4 Failure to establish quantity and varieties of cotton required

A review of the contract agreement, the notification of award and other relevant documents revealed that the supplier was contracted to supply three types (varieties) of cotton seed totalling 1320 MTs as per the table below;

<table>
<thead>
<tr>
<th>SN</th>
<th>Cotton seed type</th>
<th>Quantity in MTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>QM 301</td>
<td>780 MTs</td>
</tr>
<tr>
<td>2</td>
<td>MSI</td>
<td>150 MTs</td>
</tr>
<tr>
<td>3</td>
<td>SZ9314</td>
<td>390 MTs</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1320 MTs</td>
</tr>
</tbody>
</table>

During the audit, there was no evidence to show how the quantity and varieties of cotton seeds was computed as there was no preliminary farmers’ requirements data availed for verification. There is a risk that the cotton seeds imported may not have been in line with the farmers’ requirements.

Management explained that whereas the varieties were based on growth characteristics, the quantity estimates were based on the national cotton planting seed requirement on potential/target acreage per district.

I advised Management to maintain a database of farmers’ cotton seed requirements to avoid over or under supplies and or emergency procurements.

148.0 Uganda Livestock Industries Ltd for the Six Months Period Ended 30th June 2014

148.1 Understatement of Value of Land

International Public Sector Accounting Standards (IPSAS) 17 provides that the value of an asset be stated at the lesser of the netbook value and the market value. It was observed that Uganda Land Commission in a letter dated 6th July
2011, informed ULI of the completion of the valuation exercise of Company land as indicated in the table below.

<table>
<thead>
<tr>
<th>Property</th>
<th>Value (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Land at Kijumbura - Buruli</td>
<td>1,877,000,000</td>
</tr>
<tr>
<td>2 Plot 1, 31, 32, &amp; 53 at Kiryana Estate</td>
<td>2,058,000,000</td>
</tr>
<tr>
<td>3 Land at Maruzi - Lango</td>
<td>1,760,000,000</td>
</tr>
<tr>
<td>4 Land at Achwa - Kitgum</td>
<td>2,058,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,753,000,000</strong></td>
</tr>
</tbody>
</table>

However, management did not adjust the value of the land reported in the financial statements as advised by the expert valuation report. Besides, the land at Soroti was not valued at all further understating the value of the entity fixed assets.

I advised the Accounting Officer to adjust the financial statements accordingly.

148.2 Delayed divestiture of ULI

Uganda Livestock Industries was established for purposes of breeding improved beef and dairy cattle for sale to private/ranchers and improve the national herd. In June 1999, all employees were terminated and the divestiture exercise was expected to begin immediately thereafter and end by June 2000. However, to-date, ULI has not been privatized and has accumulated losses to the tune of UGX.12,388,894,344 besides the assets of UGX.1,514,218,622 cannot sustain the current liabilities of UGX.7,768,995,391. The Company is highly geared and is therefore not sustainable.

Management explained that the Company intends to retain residual ownership of leased land and monitor its operations. There are also proposals to embark on Public-Private Partnerships (PPPs) for the re-development of Aswa and Maruzi ranches.
I urged the Accounting Officer to liaise with the responsible authorities to ensure that the Partnership arrangements are finalized to enable smooth operations of the company.

148.3 Un-formalized occupation of Maruzi Ranch

According to the available documentation between Management and National Animal Genetic Resources (NAGRIC & DB), it was observed that the latter has been occupying approximately 30 square miles of the Maruzi ranch. However, NAGRIC has failed to respond to request by ULI for meetings to formalise the occupation of the land. Without a Memorandum of Understanding (MoU) spelling out the terms of occupation of this land, I could not establish NAGRIC’s basis for utilising the land. There is a risk that rental fees for the land use are not accruing to Uganda Livestock Industries Ltd.

Management explained that they communicated to the Parastatal Monitoring Unit, the line Ministries of Finance, Planning and Economic Development and Agriculture, Animal Industry and Fisheries to conclude and legalise NAGRIC & DBs occupancy of ULI land.

I await the Accounting Officer’s action on the matter.

149.0 Vegetable Oil Development Project (VODP), Phase II, IFAD Loan No.806-UG For The Year Ended 30th June, 2016

149.1 Status of funds absorption

The approved project expenditure estimates for the financial year 2015/1026 amounted to UGX.33,903,272,527 and a sum of UGX.25,577887195 was released for spending during the year. I noted that the project had a sum of UGX.12,519,116,730 brought forward from the previous year, bringing the total funds available for spending to UGX.38,097,033,925. However, only UGX.27,512,170,264 was spent during the year, representing an absorption capacity of only 71%. UGX.10,584,833,661 was still held on the project account.
as at the close of the financial year. Moderate absorption is likely to attract commitment fees charged on undrawn amounts and also negatively affects implementation of planned activities despite the availability of funds. The status of some the procurements that were still pending at the time of writing this report is detailed in the Table below;

<table>
<thead>
<tr>
<th>Goods/Supplies</th>
<th>Quantity</th>
<th>Estimated costs (UGX)</th>
<th>Commencement date</th>
<th>Expected Completion date</th>
<th>status as at December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor boats (10-15 pple)*</td>
<td>1 units</td>
<td>500,000,000</td>
<td>Oct. 2015</td>
<td>May 2016</td>
<td>The users took too long to agree on the specifications. The procurement process is in progress. Bidding document and draft advert have been submitted to IFAD for review and clearance.</td>
</tr>
<tr>
<td>MIS Software</td>
<td>1</td>
<td>50,000,000</td>
<td>July 2015</td>
<td>Nov 2015</td>
<td>The contract was awarded; the consultant in liaison with the user is carrying out system review. The system is expected to be running in the month of January 2017.</td>
</tr>
<tr>
<td>Seed production &amp; storage- Cold rooms/Deep freezers renovation (1 per institution)</td>
<td>2 units</td>
<td>123,826,500</td>
<td>Aug. 2015</td>
<td>Dec. 2015</td>
<td>This procurement was put on halt because the research centres that required these facilities were undergoing a detailed assessment of renovations required before embarking on works. It will be implemented when the research Institutes submit details of what is required.</td>
</tr>
<tr>
<td>Description</td>
<td>Quantity/Details</td>
<td>Cost</td>
<td>Start</td>
<td>End</td>
<td>Status</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>------------------</td>
<td>------------</td>
<td>-------</td>
<td>-------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ox-plough for demos</td>
<td>16 sets</td>
<td>40,000,000</td>
<td>Aug. 2015</td>
<td>Dec. 2015</td>
<td>The procurement was delayed due to issues raised by Contracts Committee (CC) at the stage of procurement approval. CC raised issues regarding lack of plans in place for utilization, management and sustainability for the ox-ploughs. The user has now addressed the issues and concerns raised by CC and the procurement process is in progress.</td>
</tr>
<tr>
<td>Computer accessories-KOPGT</td>
<td>Assorted</td>
<td>6,517,000</td>
<td>Sept. 2015</td>
<td>Nov. 2015</td>
<td>The existing KOPGT server was upgraded from 2GB to 8GB and SQL server software installed. The procurement was therefore suspended.</td>
</tr>
<tr>
<td>Oil palm seedlings-Buvuma</td>
<td>76,500 seedlings</td>
<td>669,375,000</td>
<td>July. 2015</td>
<td>Dec. 2016</td>
<td>The contract delayed due to quotation in USD by the evaluated supplier. The project sought a waiver from the Ministry of Finance, Planning and Economic Development (MoFPED) to contract in US Dollars. MoFPED has now cleared the project to go ahead and enter into contract in US Dollars with the service provider.(Communication from MoFPED attached).</td>
</tr>
<tr>
<td>Construct fertilizer stores in outlying islands</td>
<td>2</td>
<td>240,000,000</td>
<td>July. 2015</td>
<td>Nov.2015</td>
<td>The construction process was affected by the loss of the Project Engineer. In addition, Kalangala district was requested to provide land with clear ownership before construction is initiated. The district is working on the land issue, while recruitment of an engineer for the project is</td>
</tr>
</tbody>
</table>
Unless planned activities are implemented, the project may not achieve the set objectives of alleviating poverty in the targeted areas.

Management explained that the project is expected to remain with funds at the closure of the financial year as a liquidity measure to ensure that activities are not affected due to inadequate funds. Under-absorption was mainly due to the long process of contracting five new Pay-for-Service extension service providers and business development services and time taken to appraise the previous extension service providers before contract renewal. The passing away of the project Engineer and breakdown of road equipment also affected implementation of civil works in Kampala.

I advised the Accounting Officer to plan adequately and ensure that incomplete activities are handled within the stipulated time.

149.2 Delayed Procurement of land in Buvuma Island

According to the agreement signed between Oil Palm Uganda Ltd (OPUL) and GOU, the Government through the Project Management Unit (PMU) was to acquire 6,500ha of land, free of any encumbrance to be handed over to OPUL for consolidation and expansion of oil palm growing/development in Buvuma district. The 6,500 hectares of land would enable OPUL initiate investments for the development of nucleus estate and infrastructure required for development of oil palm plantations by OPUL and smallholders, establishment of nurseries for seedlings, warehouse for inputs supplies and a crude palm oil mill. In addition,

<table>
<thead>
<tr>
<th>Activity</th>
<th>Quantity</th>
<th>Amount</th>
<th>Duration</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct Vehicles packing shed for KOPGT</td>
<td>1</td>
<td>55,000,000</td>
<td>Aug. 2015</td>
<td>Dec. 2015</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,184,718,500</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Management was supposed to establish oil palm nursery beds and mobilize farmers to participate in the smallholder scheme.

I noted that the project had acquired 6,405 hectares of land against 6,500 hectares required by the Investor, leading to a shortfall of 95 hectares. Of the 6,405 hectares acquired, titles for 1,191.51 hectares have been transferred to Uganda Land Commission (ULC), while 1,679.23 hectares submitted to land office for transfer to ULC, 1,121.93 hectares are still being subdivided and 1,802 hectares transfer process is on-going. As a result of the delays in acquiring land, the planned activities were not fully undertaken.

Management explained that the process of land acquisition was slowed down by factors such as lack of land titles, multiple claims on a piece of land by Landlords, absentee landlords and claimants for compensation not known to the landlords. The slow-down was also attributed to failure to identify landlords who are willing to sell land, tenants who are willing to vacate after compensation, survey and boundary opening and valuation of properties. Overall, delays in acquisition of land have affected the take-off of the project activities in Buvuma that was supposed to be in full implementation. Bidco plans to start development of the land in early 2017.

I advised the Accounting Officer to engage Uganda Land Commission for speedy processing of land title to enable the investor start of project implementation.

150.0 Uganda Seeds Limited for the Year Ended 30th June 2016

150.1 Partial Revaluation of Property, Plant and Equipment

IAS 16 requires that items of Property, Plant and Equipment have to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date.
It was noted that the Company had not yet concluded the revaluation of all the assets as recommended in my previous report.

As a consequence, I was unable to confirm the accuracy of the Property, Plant and Equipment disclosed in the financial statements of UGX.2,915,471,015 as at 30th June, 2016.

Management explained that revaluation of all the company’s assets is on-going.

I await the Accounting Officer’s effort in this regard.

150.2 Unrecovered Debtors

It was noted that the Debtor’s position has not improved as the lease term progresses. The following debtors remained outstanding;

- The amount owed by the farmers in 2005 to the tune of UGX.52,121,900 has never changed although management recommended to the Board of Directors for its write off.
- Although Farm Inputs Care Centre Ltd (FICA) had paid UGX.130,000,000 as concession fees during the year, the total amount of UGX.305,495,410 remains outstanding.
- Nyakatoni Growers Cooperative Union Ltd has paid minimal amounts since the commencement of the lease agreement in 2005 and has failed to optimally utilize the leased assets leading to low income levels of less than UGX.1,000,000 annually which has accumulated to a total debt of UGX.15,728,728.

Management promised to ensure that the lessees comply with their obligation.

I advised management to improve on the debt collection measures so that Government funds are urgently recovered.

150.3 Depreciation of land and buildings
It was noted that the Company has been depreciating land and buildings together as a consolidated figure. Land and buildings are separate assets and must therefore be treated differently as required by the International Financial Reporting Standards (IFRS). This is because land is not depreciable and normally appreciates in value. I was therefore unable to separate the value of the entity land from that of the buildings.

This implies that the value of the land and buildings is under stated to the extent of the unwarranted depreciation.

Management explained that revaluation process of all company assets is on going to enable separation of value of land from the other assets and come up with accurate value of all USL assets.

I await management’s effort in the matter.

150.4 Non-compliance with agreed Terms & Conditions as per the Lease & Concession Agreements between the Lessor and the Lessees

(a) Farm Inputs Care Centre Limited (FICA)

FICA paid UGX.130,000,000 as Concession fees during the year. However, it was noted that the annual Concession fees amounting to UGX.78,295,785 for the year ended 30th June, 2016 and other arrears have not been paid.

The accumulated unpaid concession fees as at 30th June 2016 was UGX.305,495,410.

Management indicated that FICA Ltd had pledged to settle its indebtedness by 31st December, 2016.

(b) Nyakatonzi Growers Cooperative Union Ltd

Clause 8.1 of the lease and concession agreement requires the Lessee to be responsible for the payment of all Bills accruing after the completion date including, without limitation, Rent, Rates and Services and other payments related to the Assets.
Revenue from seed production at Kasese remains inadequate and the lessee has failed to comply with the requirements of the lease and concession agreement where the lessee is required to produce and sell seed in order to pay 1% of the gross sales in form of the concession fees.

However, it was noted that the Ground rent for the leased land at Plot 15 Block 100 in Kasese to Nyakatonzi Co-operative Union Ltd has not been paid since the assets were leased in year 2005 contrary to the agreement.

The USL management expected at least over UGX.7,500,000 concession fees annually from the (NCUL) according to the projection production plan submitted at the time of the lease agreement in the year 2005 and not UGX.379,202 in form of concession fees arising from seed sales and UGX.347,100 arising out of the land rent for the financial year ended 30th June, 2016. The total accumulated unpaid concession fees amount to UGX.15,728,728.

The concessions are not delivering as envisaged by Government.

Management promised to ensure that the outstanding dues are paid before the end of the current financial year.

I advised management to consider reviewing this concession given that the anticipated benefits to farmers are not realised.

150.5 Non maintenance of leased assets -FICA

The leased assets at Masindi factory have been renovated and the power has been extended to Kisindi but the damaged roofs of the office block and Workshop buildings at Kisindi Farm have not been repaired to date.

Management explained that FICA management had promised to do the required repairs by the end of the current financial year.

I await management’s action on the matter.
WATER AND ENVIRONMENT

151.0 National Water And Sewerage Corporation for the Year Ended 30th June, 2016

151.1 Failure to undertake revaluation of Property, Plant and Equipment (PPE)

In my prior year audit reports (YE 30th June 2014 and 30th June 2015), I reported that management of NWSC failed to carry out revaluation of the Corporation’s Property, Plant and Equipment (PPE) as required by the Corporation’s Accounting Policy. Although the policy provides for revaluation to be carried out every three years, the last revaluation exercise was done in January 2008.

Although management had initiated the process of sourcing for a professional valuer, this position had not changed by the time of reporting. I explained to management that because of the failure to revalue the PPEs, the Assets figure in the financial statement could be misstated.

I advised management to expedite the process of procuring a valuer so as to ensure that all assets are properly revalued to reflect their net worth.

152.0 Water Management And Development Project Implemented By National Water And Sewerage Corporation (NWSC) For The Year Ended 30th June 2016

152.1 Delays in implementation of Arua Water and Sanitation project

During field work, I noted that there has been slow progress in the implementation of the Arua Water and Sanitation Project. This has been caused by delays;

- in approval of new designs, variation orders and additional works,
- in compensations by NWSC hence creating a delay in handing over sites to the contractor and
• by the contractor operations among others.

Delays in project implementation leads to failure to absorb project funds in the period in which they are budgeted and creates a risk of project time overruns with cost implications.

Management explained that the Arua project which was originally scheduled for substantial completion on 31 October 2016 is now projected to be delayed to 30 June 2017, although water infrastructure will be substantially completed by the end of 2016. The resulting eight months delay was attributed to:

Re-routing of sewer pipes, and part re-design of sewage collection system (including addition of two pumping stations), plus re-design of Dadamu waste water treatment works with addition of a faecal sludge treatment facility – 8 months in total;

The 3 months delay in the development of additional boreholes was attributed to;

a) Exploration for groundwater started with commencement of works at the time when it was not possible to determine where the best resources would be located.
b) Geo-technical investigations showed that the Edioffe (Prisons) waste water treatment works needed to be shifted to higher ground, within the allocated compound.
c) Faecal sludge treatment was added to the sanitary project scope to treat wastewater from households not covered by sewer connections.
d) The Sewer routing needed to be reviewed as there were housing developments on some of the originally planned sewer routes. These happened in the time between design and start of implementation which had an impact on timely compensation of project affected people.

I advised Management to streamline project management arrangements and meet with all stakeholders of this project to ensure that all necessary approvals of redesigns, variation orders, additional works and compensations are expedited.
153.0 National Environment Management Authority for the Year Ended 30th June, 2016

153.1 Failure to value Assets

IAS 16 paragraph 51 requires that the residual value and the useful life of an asset should be reviewed yearly with sufficient regularity to ensure that the carrying amount does not differ materially from its fair value at the end of the reporting period.

Verification of the asset register, ledgers and Board of Survey report for the year under review revealed that a number of vehicles and a generator with a cost value of UGX.839,000,000 and UGX.150,000,000 respectively had fully been depreciated to nil book value although the Authority was still using them. This implies that the book values of the stated assets were understated.

Management indicated that assets revaluation had been planned in financial year under review but the activity could not be undertaken due to budgetary constraints.

I advised the Accounting Officer to ensure that periodic reviews of residual values of Authority’s assets in comparison with useful life with the view of initiating the revaluation process before the carrying amounts fall below the residual value.

153.2 Surcharge on used Imports

Section 93 (C) of the NEMA Act on empowers the Minister responsible for Finance to, on the advice of the board and the policy committee, to include in the annual budget tax disincentives to deter bad environmental behavior that leads to depletion of environmental resources or that cause pollution.

Information obtained from the official website of Uganda Revenue Authority indicated that UGX.561.96 billion had been collected as environmental charges in the financial years 2006/2007 to 2015/2016. This revenue has not been remitted to National Environmental Fund (NEF). The purpose for which the fund was created may not be achieved.
Management explained that in 2015/2016 financial year the committee recommended to Government to release environmental fees collections to the Fund to enable the Authority fund its programs but no releases were made.

I advised management to continue liaising with relevant stakeholders, including MoFPED to ensure that environmental levy funds are remitted to the fund.

154.0 Uganda National Meteorological Authority for the Year Ended 30th June, 2016

154.1 Lack of Regulations

Sec. 41(1) of the Uganda National Meteorological Authority (UNMA) Act, 2012, states that the Minister may by statutory instrument make regulations generally for the better carrying into effect of the provisions of the Act.

However, audit noted that the regulations to operationalize the Uganda National Meteorological Authority, Act 2012 have not been made.

Management explained that the draft regulations had been discussed and forwarded to the first parliamentary counsel for review and further processing.

I advised the accounting Officer to liaise with the responsible officers and ensure that the process is expeditiously completed to enable detailed guidance to stakeholders.

155.0 National Forestry Authority for the Year Ended 30th June 2016

155.1 Failure to Value Land

Paragraph 7 of the International Accounting Standards (IAS) 16 requires assets to be recognized if it is probable that future economic benefits associated with them will flow to the entity and the cost can be measured reliably. IAS 41 also requires biological assets (other than bearer plants) that are physically attached to land to be measured as biological assets separate from the land.
A review of the Financial statements revealed that UGX.1,833,833,000 was reported as the value of buildings while the Biological assets (plantations) were reported at UGX.105,825,174,000. However, I noted that the land on which the two sets of assets (buildings and plantations) are situated had not been valued for inclusion in the financial statements. Failure to include the value of land in the financial statements leads to misrepresentation of the reported asset balances.

Management explained that the Authority had initiated the process of land valuation and expected the process to be completed within the financial year 2016/17.

I advised the Accounting Officer to expedite the process and include the value of land in the financial statements.

155.2 Rampant Forest Encroachment

Sec 32 of the National Forestry and Tree Planting Act, 2003 stipulates that no person shall, except for forestry purposes and in accordance with management plan or granted under this Act, carry out unauthorized activities.

Audit noted that an estimated 179,471 ha (13.4%) out of 1,339,284 ha of forest cover had been encroached on. The encroachers are undertaking various activities in the affected areas without serious actions. Notable among the highly encroached on forests were the following;

<table>
<thead>
<tr>
<th>Forest Reserves</th>
<th>Encroached Area (Ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sango-Bay</td>
<td>42,500</td>
</tr>
<tr>
<td>Budongo Systems Range</td>
<td>33,172</td>
</tr>
<tr>
<td>Muzizzi</td>
<td>19,433</td>
</tr>
<tr>
<td>Karamoja</td>
<td>18,703</td>
</tr>
<tr>
<td>Katuggo</td>
<td>17,149</td>
</tr>
<tr>
<td>Achwa</td>
<td>17,043</td>
</tr>
<tr>
<td>South Busoga</td>
<td>13,886</td>
</tr>
<tr>
<td>Kyoga</td>
<td>11,163</td>
</tr>
</tbody>
</table>

Management explained that the Authority it had come up with a number of interventions such as Boundary demarcation, consultation and sensitization with
stake holders and deployment of environmental police to ensure that all encroached on forests are recovered.

I advised the Accounting Officer to strengthen the Authority’s internal mechanisms which prevent encroachment rather than evict those who have encroached. I also await the outcome of the interventions instituted by management.

ACCOUNTABILITY SECTOR

156.0 Bank Of Uganda – Year Ended 30th June 2016

156.1 VAT not accounted for on disposal of fixed assets and other taxable income

Section 7 (2) of the VAT Act states the annual registration threshold is one hundred and fifty million shillings.

I noted that sales proceeds on disposal of the fixed assets and the funds received from other taxable income such as rental income exceeded UGX.150 million within the year 2015/2016. As a result of the review income resulting from disposal of fixed assets and rental income amounted to UGX. 349,131,870 (2015: UGX 741,001,720). It was evident that the Bank exceeded the UGX.150m threshold and the Bank ought to have accounted for VAT at a rate of 18%.

This exposure could lead to fines and penalties and reputational damages for the Bank.

Management explained that the Bank had in the past registered for VAT when its vatable income was above the threshold but was automatically deregistered when the Bank’s vatable income went below the required threshold. Meanwhile the Bank has commenced the re-registration process and already paid the computed VAT into the URA Tax Collections Account at Bank of Uganda.
I advised the Bank to account for VAT at a rate of 18% in compliance with the VAT Act whenever the income within the financial year exceeds the threshold.

156.2 Taxation of insurance premiums towards death in service insurance

As per the Income Tax Act, section 19(1) e); insurance premiums paid by a tax exempt employer for the benefit of the employee or his/her dependents should be included within employment income. According to section 21 (1) (s) of the Act, the income of the Bank is exempt for tax purposes. As such, any life insurance premiums paid by the Bank for its employees should be taxed through the payroll.

I noted that the bank paid death in service insurance of UGX.637,983,584 (2015: UGX. 920,864,404) and this amount was not taxed through the payroll for the period under review and retrospectively.

This exposes the Bank to the extent of the PAYE payable on the insurance premiums and may lead fines and penalties as well as reputational damages for the Bank.

Management explained that the Bank sponsors a retirement benefits scheme named the BOU Defined Benefits Scheme (DBS) in line with URBRA Act 2011. Under the Trustee Deed and Rules (TDR) setting up the Scheme, the Trustees of the DBS provide for Group Life Assurance to members. The Trustees will update the TDR accordingly, to align it with the full responsibilities and contributions of the Sponsor to the Scheme.

I advised the bank to include death in service insurance premiums in the gross income when computing the PAYE payable.

156.3 Information Technology control issues
Weakness in the active directory password settings and the Bank’s policy governing the Domain Passwords

(a) **Weakness in the password settings of the active directory**

During the review of the Active directory settings in the current year, I noted that the password complexity of the end users was set to “Disabled”. The current settings are:

- Password complexity – disabled
- Audit privilege use - Success

Management explained that the complexity of the password was disabled due to the fact that the users forget their passwords.

(b) **Weakness in the Bank’s policy governing the Domain**

The password policy of the bank titled BCNet PASSWORD MANAGEMENT REGULATION_RMC_FINAL does not require the end users to have a complex password; it only requires the user to have a password of 8 letters (minimum). Lack of complexity of passwords makes it easy for unauthorised users to run password crackers and get the password. This being a setting on the Active Directory is high risk to information security.

Management explained that password complexity and Audit Privilege use have been enabled. The BOU Password Management Regulation will be updated and submitted to the Bank’s Risk Management Committee (RMC) for approval by 31st March 2017.

I advised management that the following improvements could be made to strengthen password and login controls for the end users:

Parameters:

- Password complexity – enabled
- Audit privilege use: Success, Failure
157.0 **Bank Of Uganda Projects**

157.1 **Agricultural Credit Facility (ACF) for the Year Ended 30th June, 2016**

(a) **Capacity utilization of Agricultural Credit Facility**

The loan absorption capacity for the funds so far provided by GOU falls short by UGX 90.93 billion. Since inception of ACF in 2009/2010 financial year, the GoU has allocated UGX.210 billion and released UGX.119.07 billion to Escrow account for utilization. The funds utilized from Escrow account so far amount to UGX.93.06 billion.

The table below shows the utilization capacity of the funds.

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Amounts allocated by GOU (UGX Billion)</th>
<th>Amounts Remitted to BoU (UGX Billion)</th>
<th>Amounts Unutilized (UGX Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/2010</td>
<td>30</td>
<td>28.51</td>
<td>1.49</td>
</tr>
<tr>
<td>2010/2011</td>
<td>30</td>
<td>12.06</td>
<td>17.94</td>
</tr>
<tr>
<td>2011/2012</td>
<td>30</td>
<td>7.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2012/2013</td>
<td>30</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2013/2014</td>
<td>30</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>2014/2015</td>
<td>30</td>
<td>26</td>
<td>4</td>
</tr>
<tr>
<td>2015/2016</td>
<td>30</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>210</strong></td>
<td><strong>119.07</strong></td>
<td><strong>90.93</strong></td>
</tr>
</tbody>
</table>

The objective for which the ACF was formed, as anticipated by the annual funds allocations, has not been fully achieved.

Management explained that the ACF is a revolving fund and operates in such a way that repayments from PFIs are reinvested to finance other projects that may require funding. Therefore any amount remitted to BoU from Ministry of Finance is on a needs basis and not according to amounts allocated. BOU has already embarked on a marketing strategy to sensitize the general public on the availability of the ACF.
I advised management that more efforts are needed to increase the demand for agricultural funds.

(b) Increase in Delinquent loans

Clause 2.3(i) of the MoU provides that the PFIs under which the delinquent loans are taken should provide BoU with indications of all actions taken to recover the loans.

It was observed that there was an increase in delinquent loans. For the year under review, the delinquent loans increased by UGX 1,965,077,048, representing an increase of 88% from the previous year. The table below refers.

<table>
<thead>
<tr>
<th>Names of NPA's</th>
<th>Disbursed Amounts by GoU (UGX)</th>
<th>Delinquent 2014/2015 (UGX)</th>
<th>Delinquent 2014/2016 (UGX)</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearl Mixed Farm</td>
<td>500,000,000</td>
<td>392,857,142</td>
<td>392,857,142</td>
<td>0</td>
</tr>
<tr>
<td>Formula Feeds Ltd</td>
<td>1,415,520,000</td>
<td>1,314,411,429</td>
<td>1,314,411,429</td>
<td>0</td>
</tr>
<tr>
<td>Soroti Dairy Ltd</td>
<td>68,599,059</td>
<td>48,019,341</td>
<td>48,019,341</td>
<td>0</td>
</tr>
<tr>
<td>Bunya Sacco</td>
<td>21,167,045</td>
<td>18,521,164</td>
<td>18,521,164</td>
<td>0</td>
</tr>
<tr>
<td>Lira Integrated</td>
<td>47,309,000</td>
<td>23,654,500</td>
<td>23,654,500</td>
<td>0</td>
</tr>
<tr>
<td>Bukanga Area Cooperative</td>
<td>30,051,000</td>
<td>18,030,600</td>
<td>18,030,600</td>
<td>0</td>
</tr>
<tr>
<td>Kapchorwa Commercial Farmers</td>
<td>194,445,360</td>
<td>77,778,144</td>
<td>77,778,144</td>
<td>0</td>
</tr>
<tr>
<td>Katongore Godfrey</td>
<td>27,981,450</td>
<td>2,798,145</td>
<td>2,798,145</td>
<td>0</td>
</tr>
<tr>
<td>Tom Olalobo</td>
<td>325,000,000</td>
<td>325,000,000</td>
<td>325,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Igara grower’s tea factory</td>
<td>2,222,898,203</td>
<td>0</td>
<td>889,019,294</td>
<td>889,019,294</td>
</tr>
<tr>
<td>Kahunga Investments Ltd</td>
<td>758,482,573</td>
<td>0</td>
<td>639,016,706</td>
<td>639,016,706</td>
</tr>
<tr>
<td>West Acholi Cooperative</td>
<td>686,835,123</td>
<td>0</td>
<td>437,041,048</td>
<td>437,041,048</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,221,070,465</strong></td>
<td><strong>4,185,877,513</strong></td>
<td><strong>1,965,077,048</strong></td>
<td></td>
</tr>
</tbody>
</table>

Governments risks losing funds through delinquencies.
Management explained that during the period under review, there was a general increase in the trend of delinquent facilities especially in the Agricultural Sector owing to the uncertainty in the weather and market conditions.

I advised management to ensure PFI’s adequately monitor and recover loans and also assess beneficiaries to reduce on delinquencies.

158.0 Uganda Revenue Authority Revenue Collection for the Year Ended 30th June, 2016

158.1 Delays in collecting outstanding taxes – UGX.710,208,669,503

The Authority had tax arrears for Customs and Domestic taxes, all totaling UGX.710,208,669,503 at the year end compared with UGX.375,527,650,042 in the prior year registering an overall 89.12% increase. It was noted that Domestic Tax arrears registered the highest growth of 108.69% from UGX.321,677,441,987 in the prior year to UGX.671,299,167,552 for the year under review. I also noted incidences where there were delays in collecting and accounting for assessed taxes. For instance, Uganda Telecom Ltd; has accumulated tax arrears of UGX.85,246,352,694 (approximately 13%) of the total Domestic arrears since 2007/08. Others include WBS UGX.9,095,635,790 (since 2006), GM Tumpeco UGX.5,834,795,425 (since 2008), Roko Construction UGX.1,352,018,380 (since 2008) and Uganda Electricity Transmission Company Ltd, UGX.14,993,056,019 (since 2009).

Under Customs taxes, BIDCO has accumulated UGX.20,088,300,806 (51.63%) of total Customs arrears for the year since 2014. A sum of UGX.5,782,558,733 has not been collected from Pioneer Easy Bus Limited since 2012 and another UGX.1,460,005,693 have been outstanding from MTN (U) since 2013.

Delays in recovery of assessed taxes have greatly contributed to the growth in tax arrears. There is a risk that the arears may reach un-manageable levels which may lead to loss of revenue.
Although management had indicated that they had taken some actions aimed at recovery, only Uganda Electricity Transmission Company Ltd made some steps in recovering some funds and the rest had submitted commitments that have not yet yielded good results.

I advised the accounting officer to put in more efforts towards the recovery measures currently in place to ensure timely collection of already assessed taxes.

158.2 Un-budgeted for tax revenues - UGX.208,940,345,539

I reviewed the statement of comparison of target and actual revenue collection by tax head and noted that some tax heads were not budgeted and yet significant collections were made in the past two years. Compared with the prior year performance, these tax heads have registered growth with the exception of WHT on winning on games and VAT on local service tax. Details are in the table below. The prior year collections would have provided a basis for setting targets and therefore guide the budgeting process.

<table>
<thead>
<tr>
<th>Tax Heads</th>
<th>Amount 2014/15</th>
<th>Amount 2015/16</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundries and Penalties</td>
<td>32,630,451,260</td>
<td>37,590,237,11</td>
<td>15.20%</td>
</tr>
<tr>
<td>Other Customs Penalties</td>
<td>9,740,062,265</td>
<td>23,494,342,919</td>
<td>141.21%</td>
</tr>
<tr>
<td>VAT on Imports Non-Registered</td>
<td>15,160,419,462</td>
<td>30,710,957,441</td>
<td>102.57%</td>
</tr>
<tr>
<td>VAT on Local Service Tax</td>
<td>5,856,963,938</td>
<td>2,470,418,146</td>
<td>-57.82%</td>
</tr>
<tr>
<td>Withholding Tax on Government Payments</td>
<td>89,367,474,380</td>
<td>150,823,606,078</td>
<td>68.77%</td>
</tr>
<tr>
<td>Withholding Tax on Management and Professional Fees</td>
<td>45,446,896,612</td>
<td>61,860,358,660</td>
<td>36.12%</td>
</tr>
<tr>
<td>WHT on Dividends</td>
<td>61,822,730,821</td>
<td>69,109,031,167</td>
<td>11.79%</td>
</tr>
<tr>
<td>WHT on Treasury Bills</td>
<td>218,014,763,575</td>
<td>280,860,745,063</td>
<td>28.83%</td>
</tr>
<tr>
<td>WHT on Non-Residents</td>
<td>57,105,841,599</td>
<td>79,583,036,029</td>
<td>39.36%</td>
</tr>
<tr>
<td>WHT on Winnings on Games</td>
<td>10,292,505,311</td>
<td>7,234,495,861</td>
<td>-29.71%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>545,438,109,223</strong></td>
<td><strong>706,184,545,612</strong></td>
<td><strong>29.47%</strong></td>
</tr>
</tbody>
</table>
Failure to budget for revenue may distort performance of a tax code. It is also an indicator that there are revenue sources not given much attention to yet these could increase the revenue base and yield.

Management explained that the target for each revenue line is set by Ministry of Finance. MOFPED did not provide targets for the categories noted but URA will follow up the matter with the responsible persons. Management action on the matter is awaited.

### 158.3 Accounting for Gross Tax Payment (GPA) balances at the year-end

According to the URA Accounting manual part C1 section-E procedure (8), Gross Payments Account (GPA) is defined as a pre-payment account which is credited with all tax collections banked in respective banks which are connected to ASYCUDA world system as deposits and will be debited when the tax payers utilize these deposits to clear goods.

According to the statement of revenue collection, customs and exercise taxes amounting to UGX.3.533 trillion was collected during the year. This figure includes GPA balance deposits at the year-end of UGX.154,139,727,715 which was considered as part of revenue performance.

I appreciate that revenue is recognized on the cash basis of accounting as per URA policy. However, if considered in the perspective of substance over form, these deposits are not yet government income and can be reclaimed through the tax refund process by the respective tax payers. It should be noted that the same issue was raised in the FY 2014/2015 and URA management had promised to consider this matter while revising the URA accounting manual. However, no update was availed for my verification in regard to its implementation. There is a risk of misstatement of revenue performance for both the year under review and the previous year.

Management explained that accrual accounting for revenue will be considered with the implementation of e-tax 2 as this calls for changes in processes and policies. Management is considering phasing out the use of GPA since it does not
comply with the accounting standards for revenue recognition. The banks are now efficient and tax payers can make their payments through RTGS, EFT, TT, etc.

I advised the accounting Officer that for as long as GPA has not been phased out, management should consider revising the revenue accounting policy towards accrual and also encourage importers to consider the current banking systems in place like online banking to replace GPAs.

158.4 Domestic Tax Department
(a) Un-Declared incomes by service providers to Government

Section 59 of the VAT Act CAP 349 provides that anyone who makes a statement to an officer of URA that is false or misleading or omits from a statement made to an officer of the Uganda Revenue Authority any matter or thing without which the statement is misleading, commits an offence. Furthermore, section 65 of the VAT Act requires taxpayers who are found to have submitted misleading returns to be penalized and interest collected before they are allowed to register again.

A review of IFMS payment files for various government entities which I limited to Ministry of Finance, Planning and Economic Development (MoFPED), Ministry of Local Government (MoLG), Jinja Municipal Council and Iganga local government, it was observed that from a sample of 117 taxpayers who received government payments worth UGX.14,196,378,727 made false declaration of VAT in their monthly VAT returns by excluding output tax (sales) arising from services rendered to government from their monthly VAT returns and some were not actually registered for VAT.

This resulted from failure by MoFPED to exclusively interface the e-tax system and the IFMS system for purposes of information sharing to enable accurate ascertainment of output VAT by service providers. A sample results include:

<table>
<thead>
<tr>
<th>TIN</th>
<th>Amount received as per IFMS</th>
<th>Government institution paying</th>
<th>Tax station</th>
<th>Audit remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1006679504</td>
<td>4,416,826,376</td>
<td>Jinja Municipal Council</td>
<td>KAMPALA NORTH</td>
<td>Not Declaring Vat In Their Monthly Vat Returns</td>
</tr>
<tr>
<td>Code</td>
<td>Amount</td>
<td>Type</td>
<td>Authority</td>
<td>Reason</td>
</tr>
<tr>
<td>------------------</td>
<td>-----------------</td>
<td>---------------------------</td>
<td>-----------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1000042626</td>
<td>483,898,305</td>
<td>Ministry of Local Government</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1000042626</td>
<td>423,728,814</td>
<td>Ministry of Local Government</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1000042626</td>
<td>392,279,531</td>
<td>Ministry of Local Government</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>383,555,117</td>
<td>Jinja Municipal Council</td>
<td>Not Registered For Taxes By Ura</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000133913</td>
<td>310,128,000</td>
<td>Ministry of Finance</td>
<td>MTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>271,840,337</td>
<td>Jinja Municipal Council</td>
<td>Not Declaring Vat In Their Monthly Returns Because They Deal In Petroleum Products Which Are Exempt</td>
<td>MTO</td>
<td></td>
</tr>
<tr>
<td>247,941,926</td>
<td>Ministry of Finance</td>
<td>NOT DECLARING VAT IN MONTHLY RETURNS</td>
<td>LTO</td>
<td></td>
</tr>
<tr>
<td>1000104195</td>
<td>211,574,293</td>
<td>Ministry of Finance</td>
<td>KAMPALA EAST</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>205,439,741</td>
<td>Ministry of Local Government</td>
<td>Not Registered For Taxes By Ura</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000023875</td>
<td>192,888,746</td>
<td>Ministry of Finance</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1000025760</td>
<td>176,001,066</td>
<td>Ministry of Finance</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1000026243</td>
<td>156,970,000</td>
<td>Ministry of Finance</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1000024365</td>
<td>125,773,571</td>
<td>Ministry of Local Government</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1001071568</td>
<td>114,321,383</td>
<td>Ministry of Local Government</td>
<td>KAMPALA EAST</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>1000042626</td>
<td>113,964,273</td>
<td>Ministry of Local Government</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
<tr>
<td>111,139,099</td>
<td>Ministry of Local Government</td>
<td>Not Registered For Taxes By Ura</td>
<td></td>
<td></td>
</tr>
<tr>
<td>110,403,331</td>
<td>Jinja Municipal Council</td>
<td>Not Registered For Taxes By Ura</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000740170</td>
<td>107,337,291</td>
<td>Ministry of Finance</td>
<td>LTO</td>
<td>Not Declaring Vat In Monthly Returns</td>
</tr>
</tbody>
</table>
Management admitted that there is a gap between the information availed by the suppliers to government and the actual payments made by Government. An IFMS tool was designed and launched in September 2014 whose purpose was to enable registration of all government employees and suppliers to ensure that they have TINs before any payment is advanced to them by government and relaying this information to URA. However, the information provided is limited since there is no direct interface to the IFMS data base. A Public Sector Office (PSO) has been established to analyze the transactions being relayed in the IFMS tool and take further action on it.

I advised the Accounting Officer to consider the identified tax payers for audit investigation and recovery of all due taxes arising from undeclared incomes. Management should also partner with the Accountant General’s office to work out modalities aimed at interfacing e-tax with IFMS for purposes of enhancing tax collections.

(b) **Un-Authorized part payments and outstanding VAT obligations**

Section 65(3) states that, a person who fails to pay tax imposed under the VAT Act on or before the due date is liable for a penal tax on the unpaid tax at a rate specified in the fifth schedule for the tax which is outstanding.

A comparison was made between the taxpayers appearing on the VAT register (for Jinja DT, Iganga DT, Busia DT, Mbale DT, Tororo DT, Kampala Central and Kampala South as at August 2016) with the list of taxpayers who filed VAT returns from July 2015 to May 2016.

It was noted that tax payers in VAT payable position did not make any payment towards settlement of their outstanding VAT tax liabilities by the due date of 15th
of the every month. An inspection of a sample of 7 stations indicated that UGX.6.673bn was outstanding. The respective individual verification results are as per table below.

<table>
<thead>
<tr>
<th>DT Stations</th>
<th>Number of Taxpayers filled returns</th>
<th>VAT amount filled i.e. in the filled return (UGX.)</th>
<th>VAT amount actually paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jinja</td>
<td>06</td>
<td>12,768,002</td>
<td>0</td>
</tr>
<tr>
<td>Iganga</td>
<td>06</td>
<td>4,825,681</td>
<td>0</td>
</tr>
<tr>
<td>Busia</td>
<td>11</td>
<td>18,445,717</td>
<td>0</td>
</tr>
<tr>
<td>Mbale</td>
<td>04</td>
<td>24,903,576</td>
<td>0</td>
</tr>
<tr>
<td>Tororo</td>
<td>23</td>
<td>2,615,630</td>
<td>0</td>
</tr>
<tr>
<td>Kampala Central</td>
<td>560</td>
<td>6,413,993,436</td>
<td>0</td>
</tr>
<tr>
<td>Kampala South</td>
<td>120</td>
<td>195,999,453</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>6,673,551,495</strong></td>
<td></td>
</tr>
</tbody>
</table>

In addition, it was noted that tax payers who made tax payments in relation to their VAT payable positions, paid less than the amount of VAT payable that they had declared in their VAT returns for the period July 2015 to May 2016 thus creating an outstanding balances of UGX.3.170bn between total VAT payable and total actual amount paid. The individual verification results as per table below.

<table>
<thead>
<tr>
<th>DT Stations</th>
<th>Number of Taxpayers filled with VAT payable</th>
<th>VAT variance from the payable to actual payments in the bank (UGX.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jinja</td>
<td>28</td>
<td>42,584,803</td>
</tr>
<tr>
<td>Iganga</td>
<td>12</td>
<td>1,943,640</td>
</tr>
<tr>
<td>Busia</td>
<td>09</td>
<td>2,672,421</td>
</tr>
<tr>
<td>Mbale</td>
<td>28</td>
<td>48,008,365</td>
</tr>
<tr>
<td>Tororo</td>
<td>19</td>
<td>117,532,564</td>
</tr>
<tr>
<td>Kampala Central</td>
<td>141</td>
<td>1,306,636,256</td>
</tr>
<tr>
<td>Kampala South</td>
<td>141</td>
<td>1,651,271,339</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>3,170,649,388</strong></td>
</tr>
</tbody>
</table>

This situation was attributed to insufficient monitoring of taxpayer compliance and enforcement mechanism by the stations. Unless due amounts are recovered in a timely manner, there is a risk that tax arrears will grow.
Management explained that when the taxpayer files their returns, they can make payments bit by bit however the full payments of the tax for the respective period are expected by the due date of filing the return. DT has put in place units in each station to monitor normal flows i.e. identifying the amounts declared viz a viz the amounts paid by the due date. In case of non-payment by the due date, enforcement measures are taken up which include sending of reminders, issuing of agency notices and finally forwarding the cases to Debt Collection Unit (DCU) for further management.

I advised the Accounting Officer to institute a monitoring system that will enable prompt reconciliations and collection.

159.0 **Uganda Revenue Authority - Corporate Services for the Year Ended 30th June, 2016**

159.1 **Retentions of Operations Funds by URA**

Section 15 of the URA Act, 1991 requires the funds for the Authority to be appropriated by Parliament and that its expenditure shall be a charge on the Consolidated Fund. Section 15 of the Public Finance Management Act, 2015 further provides that after approval of the annual budget by Parliament, the Secretary to the Treasury shall issue the annual cash flow plan of Government which shall be the basis for release of funds by the Accountant General to the Accounting Officers.

The authority retained a total of UGX.437,279,609,180 from the revenue collection accounts, out of which UGX.201,739,609,186 was to cater for operations and UGX.235,540,000,000 for tax refunds. The authority has continued to base its releases on retentions from the revenue collection accounts instead of a direct charge on the Consolidated Fund as required. This action is not in compliance with the above cited sections of the law.

Management explained that Funds for URA operations for the year were appropriated by Parliament and the retentions were based on the authority of the
Honorable Minister of Finance. The retention was on the understanding that revenue collection accounts are part of the Consolidate Fund Account and therefore the retention by URA is a direct charge on the Consolidated Fund account.

I advised the Accounting Officer to comply with the law by liaising with Treasury to harmonize the Act and the method of financing the Authority.

159.2 Disclosure and Management of Land and Buildings

A sum of UGX.18,696,610,905 was disclosed in the statement of financial position as land and building. A review of the financial statements together with the supporting asset register revealed that thirty six (36) plots of land captured in the asset register have not been revalued for a long time because they were recorded in the books at their nominal values. For instance, Malaba (plots 20-32) with running lease of 49 years and Busia (plots 48-60 & 111-127) with a running lease of 94 years have been developed with existing new structures under the one stop border post but have its land disclosed at UGX.1,000 and UGX.300,000 respectively in the books of accounts.

I further noted that URA Malaba customs enforcement office operates on land whose ownership is uncertain. I was not availed with the ownership titles to this land.

The value of land reported in the financial statement is likely to be misstated.

Management explained that URA has had a challenge with full adoption of revaluation model having consulted with the Government valuer whose response has not been forthcoming.

I advised the Accounting Officer to ensure that land is revalued to reflect the current market rates. Management should consider in liaison with the Government Value the use of private valuers in case the challenges are not resolved.
159.3 **Failure to revalue fully Depreciated Assets**

A review of note (28) regarding Intangible Assets on page (103) to the accounts revealed that with the exception of e-Tax, all the intangible assets were fully depreciated despite being in use. For instance, the Sun System and Electronic Cargo Tracking Systems are still fully operational yet they are disclosed at zero net book value in the current financial statements.

The other assets that are still actively in use to date include Disaster Recovery Solution, Audit Management Software and Procurement Software System whose treatment appeared inconsistent. Failure to revalue the depreciated assets may misrepresent the asset balances in the financial statement and also mislead the users of the financial statements to believe that these assets are no longer in use yet they are in productive use.

Management explained that URA is facing a challenge with Ministries responsible for Land & Works that are mandated to carry out valuations because they have not been responsive. Besides, NITA-U which would have been the alternative to value the entity IT systems has not developed capacity yet. Management further indicated that there is lack of funds in the budget to hire professional private valuers since hiring them would cost the entity a lot of money.

I advised the Accounting Officer to liaise with Ministry of Finance, Planning & Economic Development with a view of funding the gap and have the assets revalued.

159.4 **Un-utilized property (Scanners)**

The authority acquired two mobile scanners in 2007 and the capitalized cost was UGX.5,178,194,999 for each scanner all totaling to UGX.10,356,389,998. However, these scanners have never been deployed to their respective operational areas mainly because the required site specifications for X-ray operation and maintenance services had not been built at the border posts of Malaba and Busia.
The scanners had been depreciated to NIL by the end of FY 2011/12 but were later revalued in 2015 at UGX.1,140,000,000 as per table below.

<table>
<thead>
<tr>
<th>Asset Code</th>
<th>Description</th>
<th>Name</th>
<th>Accounting Period</th>
<th>Base Amount</th>
<th>Transaction Date</th>
<th>Accumulation Depreciation up to FY 11/12</th>
<th>Revalued amount May 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>3010114</td>
<td>Volvo Mobile Scanner</td>
<td>9002 Data Modem</td>
<td>2008/011</td>
<td>5,178,194,999</td>
<td>5/6/2008</td>
<td>(5,178,194,999)</td>
<td>570,000,000</td>
</tr>
<tr>
<td>3010115</td>
<td>Volvo Mobile Scanner</td>
<td>9002 Data Modem</td>
<td>2008/011</td>
<td>5,178,194,999</td>
<td>5/6/2008</td>
<td>(5,178,194,999)</td>
<td>570,000,000</td>
</tr>
</tbody>
</table>

According to the recovery plan issued by NUCTECH (manufacturers), management currently requires USD.514,407.60 to have the equipment restored to full operation. The assets are likely to wear down to scrap before being put to use.

Management explained that the scanners can only be deployed after an up-grade in technology to be compatible with the ASYCUDA World. Data from the scanners needs to be captured into ASYCUDA World through an interface and be detached from the scanner operator to allow for independent management by Customs Business Center.

I urge the Accounting Officer to lobby for additional resources to enable the upgrade of the scanners and have them operationalized.

159.5 **Failure to Adjust the Sun System to provide detailed cash book**

According to the URA Accounting manual reference B5, the authority should comply with the Treasury Accounting Instructions to the extent funds are drawn from the Uganda Consolidated Fund.

Accordingly, section 403 of the Treasury Accounting Instruction (TAI) provides that the cash book is a register, where all receipts and payments shall be entered. Posting or maintaining the cash book will be done as prescribed in Appendix D to the Treasury Accounting Instructions (TAI) which guides that unless authorized
by the Accountant General, Accounting Officers/Receivers of revenue/imprest holders will maintain cash books which will show:

- DR: i.e. receipts side – (Date, Particulars, Folio, Receipt No. /Voucher No, Cheque No, Amount received, Cost center & Accounts to be credited).
- CR: i.e. payments side – (Date, Particulars, Folio, Voucher No, Cheque No, Amount paid, Cost centre & Accounts to be debited).

However, the Authority has continued to present a cash book that lacks particulars and the payee details. The narrations explaining the nature of payment and the particulars of the payees were omitted from the cash book provided for audit.

Management seems not to have implemented the recommendation that the system will be adjusted as promised in the previous year. This limited the scope of my audit since the cash book could not be properly analyzed in terms of selection of key items by nature or category of expenditure during the audit planning and execution.

Management explained that this matter will be addressed once the Enterprise Resource Planning (ERP) software applications is implemented as configuration of the current system necessitates the change order from the vendor with costs implications.

I advised the Accounting Officer to expedite the change to enable capture of the relevant information as provided for in the TAI cash book format.

160.0 Financial Intelligence Authority For The Year Ended 30th June 2016

160.1 Lack of Training to Accountable Institutions

Section 20(i) of the Anti-money laundering Act 2013, requires the authority to provide training programs for accountable institutions in relation to customer
identification, record keeping, reporting obligations and the identification of suspicious transaction.

I noted that there was neither a budget line nor expenditure undertaken towards the training of accountable institutions like IG, DPP, BoU, CPAU among others as per the Act. These institutions work hand in hand with the Authority towards execution of the objective of monitoring money laundering and financing of terrorism in the country and as such should not be left out. Failure to have these trainings may affect the performance of the authority and the value of the investigations may not be realized.

Accounting Officer explained that the Authority was not able to fund its own training programs due to funding gaps despite this being one of the core mandates. It was also indicated that some training activities were carried out, primarily at the initiative of some of the stakeholder partners like the Banks.

I advised the Accounting Officer to continue liaising with the MoFPED with a view to securing resources for the activity.

160.2 Failure to implement EGMONT group of FIUs prerequisite

According to the Financial Action Task Force (FATF) recommendation 29 of the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation; - Financial Intelligence Unit (FIU) plays a central role in a country’s Anti-Money Laundering (AML)/Countering Financing of Terrorism (CFT) operational network and provides support to the work of other competent authorities. As such, FIUs were encouraged to use analytical software to process information more efficiently and assist in establishing relevant links.

It was noted that FIA purchased goAML system during the year as a measure to develop FIU infrastructure. However, an analysis and security tool as required by the FATF 29 recommendation was not procured contrary to the EGMONT prerequisite.
Failure to have proper systems with proper confidentiality of information collected compromises its integrity hence not achieving its main objectives and this may lead to the loss of membership to the EGMONT due to failure to meet the required prerequisite.

Management explained that to gain admission to EGMONT, FIA must prove to the satisfaction of the EGMONT FIU heads that they are operationally independent, has sufficient security both physical and electronic and that the legal framework meets international standards. Management therefore is working on all three areas with target date of admission being June/July 2017.

I await management actions in ensuring that the respective mandatory information sites are given priority during the budgeting process.

161.0 National Planning Authority for the Year Ended 30th June, 2016

161.1 Long Outstanding APRM Subscription liability to Uganda

Uganda acceded to the membership of African Peer Review Mechanism (APRM) in 2003 and accordingly was required to make annual contributions of USD.100,000 from the year 2004.

However, it was noted that the Authority has an outstanding obligation to pay the APRM Trust fund arrears of USD.404,936 arising from accumulation of four (4) previous years’ contributions which were never remitted due to lack of funds. This liability is likely to accumulate if management does not budget and pay this obligation.

Management explained that no dedicated funds have been provided for subscription as a consequence the country has always been in arrears.

I advised the Accounting Officer to liaise with the Ministry of Finance with a view of budgeting and paying the outstanding subscription.
161.2 **Lack of guidelines to be followed by NPA technical staff while reviewing certificates of compliance of the annual budgets of various sectors/MDA’s**

Section 13(7) of the Public Finance Management Act requires National Planning Authority to issue certificates of compliance of the annual budget of the previous year to accompany the current budget of all MDAs. Accordingly, the authority issued a certificate of compliance for the annual budget 2015/16 dated 9th March, 2016. It was indicated that the assessment was based on consistence of the annual budget and national budget framework paper with the National Development Plan-II.

However, the authority has not developed guidelines to be followed by its technical staffs/professionals while analysing the compliance of the various sectors/MDAs in line with the prior year annual budgets. For instance, several Ministries, Departments and Agencies have complained about the parameters and respective percentage scores used as a basis for assessing compliance. There is a risk that the analysis made by the technical staffs in respect to the certificate of compliance of the sectors/MDAs annual budget performance may not clearly bring out how the different sector/MDA goals and targets were achieved.

Management explained that guidelines exist but also agreed that at the sectoral level they require more work to make them more objective. To ensure technical consistency of results, NPA technical officers are now being guided through in-house trainings on the use and application of the guidelines and scoring criteria used in carrying out the assessment.

I advised management to circulate the guidelines to all stakeholders. In the meantime, management action on the matter is awaited.

161.3 **Lack of a clear intervention plan by NPA for sectors without development plans(SDPs) and non-alignment of SDPs to NDPII**

A review of the certificate of compliance based on the annual budget at the sector and MDA level indicates that there are seventeen (17) sectors in the Country out
of which, nine (9) sectors do not have approved Sector Development Plans (SDPs). Out of the eight sectors that have SDPs, only three (3) sectors have their SDPs aligned to the NDPII and the remaining five (5) do not have their SDPs aligned to NDPII in terms of focus and timeframe.

Management appear not to have developed a formal road map and plan that will be followed by the government sectors in developing their sector Development Plans (SDP) and guiding the other five (5) sectors in alignment of their SDPs to the NDPII in terms of focus and time frame. This implies that assessing performance in the nine sectors that do not have approved SDPs may prove cumbersome. In addition, assessing compliance in the five (5) sectors whose SDPs are not aligned with the NDP II may not be possible in both short and long term.

Management explained that a formal road map to support the nine sectors to develop sector plans exists, but is challenged by the staffing levels of NPA. The approved structure of the institution required NPA to have a staff compliment of 157 but to date only 87 are in post.

I advised management to liaise with the responsible authorities with a view of improving the staffing levels. This action should be aimed at providing knowledge for MDAs towards aligning SDPs and NDPs.

161.4 Lack of capacity to undertake planning audits in government entities

The primary function of National Planning Authority is to produce a comprehensive and integrated development plans for the country elaborated in terms of the perspective vision and the long term and medium term plans. Although the Authority reviews the respective entity annual budgets when coming-up with the certificates of compliance, there is no specific course of action required to compel the MDAs and Local Government to align their annual budgets to the NDP-II as expected.

In the assessments of compliance, the Authority does not come out clearly as to what is required of the respective entities to bridge the gap during their
budgeting processes. It appears the Authority has limited capacity to undertake planning audits of all government MDAs and Local Governments’ annual budgets in aligning them (annual budgets) with NDPII annual activities. There is a risk that the annual implementation of NDPII activities at macro, national, sector and MDA levels may be distorted.

Management explained that wage provision permitting the NPA to fill the staffing structure has been affected. The proposed capacity building project to resolve the weakness will be addressed once the staffing levels are improved.

I advised management to develop a strategy to compel the assessed entities to bridge the identified planning gaps to ensure full compliance with the NDP-II.

162.0 DFID/World Bank Grant for Development Plans Under NDP-II (National Planning Authority) for the period ended 31st December 2015

162.1 Compliance with the Financing Agreement and Government of Uganda Provisions

Project Management complied in all material respects with the provisions in the agreement and GoU regulations except in the following matters;

(a) Delayed development of SDPs for tourism and agriculture sectors

Section 2.01 of the grant standard conditions provided that the project was set to support the institutionalization of a harmonized sectoral and national planning framework through formulation of two pilot Sector Development Plans (SDPs), among others. The two pilot SDPs included Tourism and Agriculture which were meant to feed into the NDP-II launched in June, 2015. However, the inputs of these two sectors were not incorporated into the NDP-II. Management explained that the non inclusion of the two sectors was attributed to the procurement delays and the slow responses from the affected institutions.
I advised Management to ensure that the sector development issues for financial year 2015/2016 evolving from the SDPs of the Agriculture and Tourism sectors are rolled over and implemented in the next sector budgets for the financial year 2016/2017 in order to align the plans with the NDPII.

(b) Lack of Project Monitoring and Evaluation Reports

Section 2.04 articles II of the grant agreement required the grant recipient (NPA) to monitor and evaluate the progress of the project and prepare project reports in accordance with the provisions of the section 2.06 of the standard conditions and on the basis of the indicators set forth in paragraph (b) of this section. Each project report was to cover the period of one calendar semester, and was to be furnished to the World Bank not later than one month after the end of the period covered by such report.

However, the project monitoring and evaluation reports were not provided for audit review. I was therefore unable to confirm whether the project implementation was monitored and the progress evaluated in the absence of these reports.

In response, management acknowledged the shortcoming and explained that the Project Coordinator provided updates through emails to the World Bank Project Account manager.

I advised management to prepare formal reports as evidence of having monitored and evaluated the progress of the project implementation.

163.0 Uganda Investment Authority (UIA) for the Year ended 30th June, 2016

163.1 Un-Collected Revenue

Section 4.3.1.5 of the UIA Financial Policies regarding Accounting for Revenues provides that it is the duty of management to ensure that all Authority revenue which is due is promptly billed, collected and fully accounted for in the appropriate accounting records. The authority leases out land to investors from
which it collects lease premium fees which are eventually used to provide services to the industrial parks.

A review of the Memorandum Statement of Revenue and receivable register revealed that revenue arrears recorded a significant increase of 125% (UGX.11,050,734,897) from UGX.8,789,288,677 in the prior year to UGX.19,840,023,574 in the current year. Out of the actual collections of UGX.6,326,139,954 during the year, only UGX.926,139,954 relates to the previous arrears which translates to 4.67% recovery rate. It was further noted that most of the investors with outstanding dues have left the land un-utilized for long without developing it as per approved plan. There is a risk that the receivables may grow to unmanageable levels where management will fail to collect and therefore the arrears becoming bad debts. The activities which are supposed to be financed from these receivables may never be achieved.

Management explained that the biggest ten (10) Investors who form 80% of the total revenue arrears have continued to withhold payment of premium pending the provision of services like access to the plot, power and water points. Management has been actively involved in the collection of revenue arrears through constant follow up calls, issuance of timely reminders and paying special visits to the respective investors.

The Accounting Officer was advised to mobilize resources and ensure that power and other facilities are provided to the investors as planned. The Accounting Officer should also continue following up with the investors and recover the arrears. For those who fail to pay, Management should consider withdrawing and re-allocating to investors with capacity to both develop and pay premiums as they fall due.

163.2 Un-Spent balance not returned to Treasury

Section 17 of the Public Finance management Act, 2015 provides that every appropriation by Parliament shall expire and cease to have effect at the close of
the financial year for which it is made and that unspent money at the close of the financial year shall be returned to the Consolidated Fund.

It was observed that Bank and Cash balance of UGX.15,203,609,174 reported in the statement of financial position that remained unspent was not returned to the UCF. The authority did not therefore comply with the provisions of the Act. There is a risk that the funds may be retained and spent without authority.

Management explained that Parliament appropriated a total of UGX.12.4 billion for the development KIBP and an electronic One Stop Centre. UIA signed various agreements to implement those planned activities and by 30th June 2016 some projects had not been fully completed thus funds were committed. The balance of NTR funds of UGX.2,523,832,090 was returned to the treasury on the 18th November 2016 and subsequently transferred to the Consolidated Fund.

I advised the Accounting Officer to liaise with the MoFPED on the modalities of release of funds already committed on ongoing projects at the close of the financial year. Meanwhile, I advised him to comply with the law.

163.3 Unrealized potential revenue - USD.1,488,000

Uganda Investment Authority has developed guidelines against which different categories of land are allocated and against which a waiver for land fees are given. Under this categorization, industries that will produce agricultural based products or those that support tourism are fully subsidized, but pay rates and management fees. The un-subsidized categories are required to pay USD.80,000 per acre.

A review of the fully subsidized investors revealed that a local investor was allocated 11.6 acres of land fully subsidized despite not qualifying for this allocation due to the nature of its investment (paper manufacture). As a result, UIA has lost potential revenue of USD.1,488,000 (USD80,000 × 18.6). The land has since remained unutilized. It was further observed that another seven (7) acres of land has been allocated by UIA on condition that they pay lease fees.
The investor accepted the allocation but has not paid the fees to date. There is a risk that the intentions of the KIBP may not be achieved.

Management explained that UIA Board of Directors had withdrawn the land from the local investor, but the company appealed to the Minister.

I advised the Accounting Officer to follow up the matter to its final conclusion.

163.4 Delays in Amending the Investment Code Act CAP 92 of 1991

The current law on investment in Uganda is the Investment Code Act CAP 92 which commenced on 25th January, 1991. Over the years various amendments have been made to the Investment Code Act, 1991 but there has been no attempt to reform the law to be compatible with the emerging international best practices. There is, therefore, the need for significant changes in the law to bring it in line with current Government policy.

Although there is a proposed Investment Code Bill 2015, it’s yet to be tabled in parliament for consideration. In its current form, the investment act requires amendment in the following areas;

- It is proposed that the membership of the Board be reduced from the present fifteen members to nine members and that the quorum of the Board reduced from the current eight members to five members. The re-composition will be effective to undertake revised functions of the authority
- Currently, the Authority is a statutory body; however, it is not self-accounting and does not run its own vote. This is a major constraint to its operations. UIA only operates as a department under the Ministry responsible for finance.
- It is proposed financial provisions for the Authority be included to cater for money appropriated by Parliament; fees and charges levied for the supply of services by the Authority; and any other monies received by the Authority.
It was noted that the current Government policy is focused on economic liberalization and provision of an enabling environment for private sector investment and growth. It is therefore imperative that this change of direction from control and regulation to promotion and facilitation be reflected in the investment law. Delays in amending the investment laws implies that UIA may not be performing to its maximum level as expected.

Management explained that the Investment Code Act is under amendment and the Investment Code Amendment Bill 2015 was tabled and is still before Cabinet for action.

I advised the accounting officer to engage all stake holders to ensure that the amendments proposed in the investment code are made and the bill is enacted into law.

163.5 Inconsistencies in land originally gazetted and land currently available

According to the Statutory Instrument No.1 of 1997 dated 3rd January, Government handed over to Uganda Investment Authority an approximate area of 1006 hectares (about 2,485.83 acres). The land was originally comprised of Namanve Central Forest Reserve set out in compartments 1, 2, 10, 13, 15 and 16.

However, physical verification conducted by land surveyors reported only 896 hectares (about 2214.02 acres) of land. This implies that currently UIA owns less land than originally allocated. A variation between the instrument and physical verification is indicated in the table below. These are material inconsistencies that require explanation.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Hectares</th>
<th>Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>At De-gazettement Instrument 1997 No. 1 dated 3rd January 1997</td>
<td>1,006</td>
<td>2,486</td>
</tr>
<tr>
<td>Physical verification by surveyors</td>
<td>896</td>
<td>2,214</td>
</tr>
<tr>
<td>Variation</td>
<td>110</td>
<td>271</td>
</tr>
</tbody>
</table>
Management explained that they had addressed this matter to the Minister responsible and are waiting for his response.

I advised the Accounting Officer to urgently investigate the matter to provide assurance that the entity did not lose land. In case of any short falls, land should either be recovered or compensated.

### 163.6 Unutilized fully subsidized land allocation

Government directed that 60% of all land in the industrial parks be allocated to investors in priority sectors of agro processing, mineral processing, ICT development and tourism related activities (fully subsidized). The benefits from the setup of these projects would thus accrue to the economy as a whole including employment creation, introduction of new research technologies as well as boosting national revenue through taxes.

Accordingly, investors in the above categories were allocated fully subsidized land. It was noted that eighty eight (88) investors who were allocated a total of 387.5 acres did not utilize the land at all and the allocated land has remained un-developed for a long time. There was no mechanism in place of monitoring the non-performing allocations of land. There is a risk that investors could have obtained subsidized land for specific investments which may not be realized.

Management explained that they are following up on these investors and has been able to withdraw land for those that have not developed the land allocated to them. To-date, 118 such investors have had their land withdrawn i.e. 453 acres of which 32.5 acres is fully subsidised land.

I advised the Accounting Officer to put in place a mechanism for monitoring progress after land allocation to ensure timely developments as per approved investment plans.

### 163.7 Changes in the Master Plan
(a) **Encroachment on reserved land and wasteful expenditure:**

The Master plan for Namanve reflects that 1,068 acreage of land was reserved in the entire park to serve as a green belt recreation area, waste management area, roads and also have wetlands. These were not to be allocated to any investor for purposes of setting up industrial concerns/factories. These areas were set up to serve as public places/utility areas for the good of the investors in the park. Details of protected allocated acreage area are provided in the table below:

<table>
<thead>
<tr>
<th>No</th>
<th>Particulars</th>
<th>Acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Green Belt /Recreation</td>
<td>28</td>
</tr>
<tr>
<td>2</td>
<td>Waste Management</td>
<td>75</td>
</tr>
<tr>
<td>3</td>
<td>Roads</td>
<td>670</td>
</tr>
<tr>
<td>4</td>
<td>Wet lands</td>
<td>295</td>
</tr>
<tr>
<td></td>
<td><strong>Total acreage</strong></td>
<td><strong>1,068</strong></td>
</tr>
</tbody>
</table>

However, the verification exercise established that the reserve areas have since changed and some portions of the reserved land were actually allocated to investors to set up industrial concerns contrary to the original master plan. The acreage so far affected amounts to 219 acres allocated to six (6) investors which reserve land had been designated for wetlands. It therefore calls for serious consideration of the provision of drainage facilities because naturally the wetlands handle the runoff waters after every heavy down pour and hence controlling any possibilities of flooding. There is a risk that when the park is fully operational, waste management will be affected and floods may become a menace.

Management explained that adequate drainage reserves were provided between the plots to cater for surface run off that eventually drains into River Namanve. The concern for floods is being addressed by widening the Namanve Channel to Lake Victoria by the Ministry of Works as directed and financed by Government.

I advised the Accounting Officer to ensure that encroachment of the gazetted land for common amenities and green belt is avoided. Any developments outside
the master plan are irregular. The costs related in the widening of the channel are therefore wasteful.

(b) **Encroachment on residential land**

A number of changes have been made in the distribution and allocation of land at the park. This therefore calls for revision of the master plan to accommodate these changes. Some of the changes include reallocation of land that was initially planned for residential housing now changed to industrial use. It was noted that a total of 48.50 acres that had been set aside for residential housing was allocated to two (2) investors to set up industrial businesses. This action distorted the master plan. The firms/projects that benefited from the said distortion are given below:

<table>
<thead>
<tr>
<th>No</th>
<th>Particulars/Name of the project</th>
<th>Acreage</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AK Oils and Fats</td>
<td>38.50</td>
<td>Manufacture of oil and fat</td>
</tr>
<tr>
<td>2</td>
<td>National Enterprises Corporation</td>
<td>10.00</td>
<td>Manufacturing of metal and metal products</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>48.50</strong></td>
<td></td>
</tr>
</tbody>
</table>

The above changes in land use and subsequent re-allocations have affected the master plan. There is a risk that the original objectives of reserving land for both residential purposes as well as wetland were not achieved.

Management in their response explained that they will soon undertake a review of master plan to accommodate the changes that have taken place over time.

I await management action in addressing the changes that have taken place from since it was issued.

**163.8 Procurement of land outside the gazetted parks**

UIA has procured land in several Districts and gazetted them as industrial areas. This was meant to promote investment across the country and ease the provision of necessary infrastructure such as water, electricity and access roads.
It was noted that in some cases UIA has procured investment land outside the gazette areas. These procurements seem to be outside the mandate of UIA. See details in table below;

<table>
<thead>
<tr>
<th>Name of Industrial park/Agricultural land</th>
<th>Location</th>
<th>Date of Purchase</th>
<th>Size</th>
<th>Purpose of acquisition</th>
<th>Current land use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land at Kimengo Sub county</td>
<td>Off Kampala-Gulu Road-Branching at Kafu, Masindi District</td>
<td>19/5/1998</td>
<td>20 sq. Miles</td>
<td>Ranching</td>
<td>No income from this land</td>
</tr>
<tr>
<td>Land at Kashari</td>
<td>Kashari (Mbarara)</td>
<td>6/03/2013</td>
<td>59.6 acres</td>
<td>Commercial farming</td>
<td>Vacant, No plans in the near future to use this land</td>
</tr>
<tr>
<td>Land at Mubende</td>
<td>Kaweri 6km from Mubende Town</td>
<td>20/04/2001</td>
<td>10 Square Miles</td>
<td>Coffee Production</td>
<td>Vacant, No plans in the near future to use this land</td>
</tr>
<tr>
<td>Land at Buikwe</td>
<td>Lukali Goli Buikwe District</td>
<td>31/08/2005</td>
<td>84 acres</td>
<td>Fish Farming</td>
<td>Although UIA has the title It does not earn any income from the land. The land seem to belong to the Fishing company.</td>
</tr>
<tr>
<td>Land at Namanve</td>
<td>Kireku zone Wakiso District</td>
<td>28/01/2010</td>
<td>2.2 acres</td>
<td>Playground for the community</td>
<td>How did UIA get into playground business?</td>
</tr>
<tr>
<td>Land at Kasangati</td>
<td>Kasangati on Gayaza Road</td>
<td>20/7/2003</td>
<td>20 acres</td>
<td>Poultry farming</td>
<td>Not Valued and not paying his rent yet in production</td>
</tr>
<tr>
<td>Land at Kirinya Block</td>
<td>Byeyogerere</td>
<td></td>
<td>234 acres</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
There is a risk that most land procured outside the established industrial parks does not generate lease rental incomes as expected. There is also a risk that such land may remain idle for a long period of time.

Management explained that land purchased outside gazetted Industrial parks was for specific use, most of which was agricultural land.

I advised the Accounting Officer to monitor this land with a view of achieving the intended objectives.

163.9 **Lack of Solid Waste Management Policy**

UIA has over the years acquired and allocated over 1,500 acres of land for different types of industrial developments across the country. According to the master plans availed for verification, all industrial and business parks have gazetted specific areas for waste management. The Authority however does not have a solid waste management policy in place. Most investors are expected to generate solid waste when they become fully operational hence the need for planned approach in waste management. Lack of solid waste management policy will not enable proper management of the parks. There is a risk that soon the waste will be hazardous to the neighbouring community and may also affect other developments within the park.

Management explained that all Industrial and Business Parks have approved Master Plans that gazette specific areas for waste management. UIA management is continuously engaging the Ministry of Finance through the budgeting process to provide funds to develop these waste management areas.

I advised the Accounting Officer to continue engaging the stake holders to ensure that these sites are protected and developed. The solid waste management policy should be developed to guide the users and UIA in managing the waste.

163.10 **Mbale Industrial Park**
Government of Uganda through MoFPED procured land for Mbale industrial park and handed it to Uganda Investment Authority. During the year, a total of UGX.3bn was spent on compensating 486 families while another 334 families that signed payment agreements are yet to be compensated.

It was noted that the squatters in this park have had running battles with UIA for a long time despite an estimated compensation of UGX.4.5bn. Due to delays in releasing all the funds to enable full compensation, the values of the claimants keep rising over time and it is not known when UIA will take full control of the park. There is a risk that the outstanding balance may be rejected by the claimants as insufficient. There is also a risk that new claims may continue causing more running battles as has been the case.

Management indicated the desire to finalise this matter by putting an end to the plight of the people and start redevelopment of the land. Management is following up the balance on compensation from the relevant parties.

I advised the Accounting Officer to continue liaising with the Ministry of Finance to ensure sufficient funds are released at once to enable timely compensation of all registered squatters.

**163.11 Unresolved disputes in Karamoja Industrial Park**

The Authority procured 168.860 Hectares (417.262 acres) of land located on plot 15 Block 1 Matheniko County and plot 18 Block 4 Bokora County at Loputiput, Nandunget Matheniko / Bokoro, in Moroto and Napark Districts at a cost of UGX.626 million for the development of the Karamoja region Industrial and Business Park. This land has been surveyed and proper land boundaries developed. UIA has also developed a master plan which is comprehensive. However, development on the land has lagged due to a dispute between the two districts resulting into violence regarding the location of the land. For instance, Napak District claims that while the land is assumed to have been bought from Moroto most of the land is located in Napak district and so the developments should be approved by both districts. In addition, due to culture of communal
ownership of land in this area, several people still claim UIA land because the seller did not compensate them. It appears that UIA has failed to resolve these matters to allow development. Failure to resolve these disputes may delay the development of the land.

Management explained that the UIA team led by the Minister in charge of Privatisation and Investment will meet the District Leaders to map out a strategy of how to resolve the disputes and have the interested developers start developing the land.

I await the outcome of the efforts of the team to resolve the dispute.

163.12 Failure to bill and collect revenue from some companies

The Authority leases out investment land in return for rental premium payments. Usually, companies are assessed, billed and invoiced to enable payment of due revenues. Collections are based on such bills and reminders of prior years’ outstanding where applicable.

A review of the investors register, invoices issued and actual collections revealed that Thirty seven (37) companies were not billed and invoiced during the year as expected. For instance, customer reference NA0264 had not been billed and invoiced in the last two years, The Memorandum statement of arrears of revenue was therefore misstated. These investors are a source of revenue and UIA is obliged to invoice and demand for collections. Failure to make timely bills poses the risk of accumulated revenue arrears.

Management explained that they are in the process of introducing an electronic alerting system which prompts the responsible officer to invoice the client due for invoicing.

I advised the Accounting Officer, action is awaited;
164.1 Shortfall of Government Funding

The project budgeted an amount of UGX.7,929,967,000 expected from the Divestiture of Public Enterprises Account and subvention from Ministry of Finance, Planning and Economic Development. However, only UGX.4,536,501,000 was received leading to a shortfall of UGX.3,273,466,000 representing 41.3% of the budgeted funds. As explained above, the funding gap affected settlement of statutory obligation of PAYE UGX.2,100,681,000 and NSSF of UGX.797,593,000 among others.

A review of the PU work plan indicated that there were a number of activities that had been planned to be undertaken during the year. However, it was noted that activities estimated at UGX.222,500,000 were not achieved reportedly due to lack of funding. See details in table below;

<table>
<thead>
<tr>
<th>S/N</th>
<th>Activity</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Support to Care-Taker management of Concessions</td>
<td>100,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Gazzeting all Concluded Divestitures</td>
<td>20,000,000</td>
</tr>
<tr>
<td>3</td>
<td>Up-Grade of Bandwidth to 3-4MBps &amp; Back-up services</td>
<td>72,500,000</td>
</tr>
<tr>
<td>4</td>
<td>Legal Fees for Acquisition of Untitled Encumbered DCL Land</td>
<td>30,000,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>222,500,000</strong></td>
</tr>
</tbody>
</table>

Failure to implement planned activities as per the work plan undermines the achievement of the entity objectives.

Management explained that they are in consultations with the Ministry of Finance, Planning and Economic Development to explore means of bridging the funding gap.
I urged the Accounting Officer to continue liaising with the Ministry further to secure resources to implement the activities.

165.0 **Capital Markets Authority (CMA) – Year ended 30th June 2016**

165.1 **Market supervision**

The vision of the Capital Markets Authority is to foster a fair, transparent, and robust capital market in Uganda through efficient and effective regulation and market development.

During the year under review, I noted that penalties were levied on the Uganda Securities Exchange and other players in the Market for breach of regulations and fraud.

As the Securities Market in Uganda grows, such instances of fraud and breach of regulations will become even more rampant, unless steps are taken now to prevent and detect such occurrences. The Securities market is by nature a vulnerable market that is susceptible to fraud.

Lack of adequate and vigilant supervision of the market will allow fraud to thrive, and this will in the long term lead to loss of investor confidence, financial loss in investor compensation payments, loss of reputation, long civil proceedings, and in extreme circumstances, crush of the entire market, among other things.

Management explained that risk based inspection of selected market players would be conducted this year and more adhoc and thematic inspections for the Stock Exchange and Broker Dealers would be done this year. Besides, the capacity needs of the Market Supervision Department would be considered in the planned Institutional Needs Assessment exercise.

I advised management to enforce market supervision and strengthen the capacity of the Authority to oversee the industry. Also Internal Audits of the
Uganda Securities Exchange may also need to be carried out regularly in order to assess the operating effectiveness of the USE’s internal controls. There is also need to lobby for more funding against this objective, to ensure that the Authority can fulfil its mandate.

166.0 Insurance Regulatory Authority for the Year ended 30th June 2016

166.1 Regulation of the activities of the Insurance Institute of Uganda

Insurance Institute of Uganda (IIU) is a public institute recognized by the governing regulation for the insurance industry mandated to train and certify training programs as per section 94 of the Insurance Act. Section 15 of the Act highlights the objective of IRA in ensuring the effective administration, supervision, regulation and control of the business of insurance in Uganda. In addition, Section 94(5) provides that the accounts of the Insurance Institute of Uganda shall be audited by an auditor approved by the Authority.

I observed that the activities of IIU have not been monitored, evaluated and regulated by IRA as expected. A review of the file relating to the Insurance Institute of Uganda revealed that the IIU was not comfortable with being supervised by IRA arguing that they are independent with a full decision making board. There was no evidence on file to show that IRA has been monitoring the activities of IIU. In the circumstances, I could not establish the extent of IRA’s oversight role in the institute. There is a risk that the institute may not be performing effectively and efficiently as expected.

Management explained that in the recent past they have improved the supervision of the IIU. Going forward, the Insurance bill 2016 has proposed that IRA develops regulations which will bring the institute fully under the supervision of IRA in line with Section 137.

I advised the Accounting Officer to follow up the passing of the Bill into law which will ensure proper supervision of the institute.
167.0 Third Financial Management and Accountability Programme (FINMAP III) for the Year ended 30th June 2016

167.1 General Standard of Accounting and Internal Control

A review of the system of accounting and internal control was carried out and in all material respects, the internal control system and measures to ensure proper accountability for the project funds put in place by management was satisfactory except for the matter below;

i. Discrepancy between expenditure in quarterly reports and ledgers

The Program Management Team is required to prepare and submit quarterly financial reports to Development Partners. During the audit, I noted a discrepancy between cumulative quarterly report expenditure and the underlying ledgers amounting to UGX.160,076,181 (Shillings One Hundred Sixty Million Seventy Six Thousand One Hundred Eighty One) as follows;

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative quarterly expenditure</td>
<td>50,474,973,703</td>
</tr>
<tr>
<td>Cumulative ledger expenditure</td>
<td>50,635,049,884</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>160,076,181</strong></td>
</tr>
</tbody>
</table>

Quarterly financial reports should be derived from underlying accounting ledgers. The discrepancy between the two implies misstatement of quarterly financial reports.

Management explained that the Customized Expenditure by Activity Report was specifically designed to report based on expenditure on various programme activities, to meet the reporting requirements of Development Partners. In contrast, the Government of Uganda Financial Management System (The Integrated Financial Management and Information System-IFMS), through which budgeted funds are accessed, procurements initiated and payments facilitated, also provides a reporting framework which is based on the Chart of Accounts. It is
along this framework, that the Programme Final Accounts are prepared and audited.

The inaccuracy of the Customized Expenditure by Activity Report is attributed to the fact that it only came into operation in the second quarter of the financial year.

Management promised to follow up the reconciliation between the Customized Expenditure by Activity Report and the IFMS generated accounts on a monthly basis to ensure that there are no more differences and that quarterly reports are accurate.

I advised management to ensure that quarterly financial reports are derived from underlying accounting records.

ii. **Bank balance reconciliation**

It was noted that bank balance on project bank account number 00080088400229 FINMAP III Operations Account - UGX included in the statement of financial position as at June 30th 2016 was not properly reconciled. The cash book balance included in the financial statements was UGX.388,066,003 while bank statement balance was UGX. 413,846,832. The difference between the two balances of UGX.25,780,829 was not explained while preparing the bank reconciliation statement.

Failure to reconcile the two balances implies understatement of bank balances in the financial statements.

Management explained that the unreconciled difference was actually UGX 10,794,099, occurring as a result of system challenges. The Accountant General was informed of the challenge and evidence of this was provided. The Accountant General resolved this difference in the subsequent month (July 2016).
I advised management to properly reconcile the cash book balances included in project financial statements to the bank statement balance as at June 30th, 2016.

168.0 Uganda Bureau of Statistics for the Year ended 30th June, 2016

168.1 Transfer of Funds to Staff Personal Accounts - UGX.1,996,400,867

Sections 227, 228 and 229 of the Treasury Accounting Instructions (TAI) 2010, require that all payments should be made by the Accounting Officer directly to the beneficiaries. Where this is not convenient, an imprest holder should be appointed by the Accounting Officer with the approval of the Accountant General.

However, an analysis of payments made during the year revealed that a sum of UGX.1,996,400,867 was transferred to personal bank accounts for undertaking various UBOS activities contrary to the above provisions in the TAI. Such a practice exposes government funds to a risk of misuse and loss, given that the accounting officer has no control over such bank accounts.

In his response, the Accounting Officer acknowledged the observation, but stated that it was unavoidable given the nature of their activities of collecting data from the field. I advised the Accounting Officer to stop the practice of paying funds into staff personal accounts and ensure strict adherence with the requirements under the Treasury Accounting Instructions, and seek permission and/or guidance from the PS/ST where circumstances do not permit application of the laid down guidelines.

168.2 Unrecovered Funds for Utilities from Tenants - UGX.349,339,194

Uganda Bureau of Statistics (UBOS) owns Statistics House which is located on Colville Street. The building comprises of eight (8) floors, of which, six (6) are occupied by UBOS, one each by NITA-U and Population Secretariat (POPSEC) as tenants. The Bureau entered into Memorandum of Understandings (MoU’s) with NITA-U and POPSEC for payment of electricity and water bills. In the MoU, the Bureau is required to make regular invoices to the tenants for onward payments.

During the year under review, it was noted that recoveries amounting to UGX.349,339,194 in lieu of utilities remained outstanding from the tenants, although the Bureau had made payments to the utility service providers. Under
the circumstances, non-recovery of funds paid for services and utilities consumed by other entities negatively impacts on the bureau’s cashflows and therefore its capacity to fully implement its planned activities. Further noted was that the amount outstanding has not been reflected in the Bureau’s Financial statements as a receivable. This implies that the Bureau’s Asset position is understated by the same magnitude.

In his response, the Accounting Officer acknowledged the anomaly and indicated that efforts to follow up the matter were to be undertaken. I advised the Accounting Officer to expedite the follow up action and ensure that going forward, the tenants are reminded to strictly follow the provisions under the MoU. In addition, the amount due should be reflected in the Bureau’s financial statements.

169.0 **Special Account Operations Microfinance Support Centre Limited for the Year ended 30th June 2016**

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

(a) **Weaknesses in the Credit Origination Process**

I noted that for all loans, clients were required to provide quarterly reports. However, I did not obtain evidence to confirm these progressive reports were sought by MSC and provided by the different loan clients. Other weaknesses included cases of loan clients who borrowed for onward-lending. For these, the offer letters did not define the maximum interest rate that should be charged on their clients. Lapses were also noted in cross-checking auditors used by loan clients against the list of approved auditors provided by ICPAU.

There is increased risk of credit and reputation against the company.

In response, management explained that there are still a few clients who have not made timely submissions due to the complexity of the reporting tool. However, a simplified reporting tool has been developed to ease reporting for such clients.
I advised management to ensure that the lapses noted are resolved and ensure compliance with the operations manual and internal processes as required.

**Areas of Non-Compliance with the Teachers’ SACCO Contract Provisions**

I noted the following with the Teachers’ SACCO product:

- Low absorption rates. Table I below refers.

- Other non-compliance with contract provisions of fund management services for the teachers’ SACCOS and lack of evidence of resolution of correspondences from the Ministry. Table II refers.

Total receipts versus total loan disbursements as at 30 June 2016

**Table I**

<table>
<thead>
<tr>
<th></th>
<th>Amount (UGX)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total receipts to date:</strong></td>
<td></td>
</tr>
<tr>
<td>Ministry quarterly releases</td>
<td>9,317,424,000</td>
</tr>
<tr>
<td>Share of interest (9%)</td>
<td>121,079,000</td>
</tr>
<tr>
<td></td>
<td>9,438,503,000</td>
</tr>
<tr>
<td><strong>Total loan disbursements to date</strong></td>
<td>1,805,000,000</td>
</tr>
<tr>
<td><strong>Balance as at 30 June 2016</strong></td>
<td>7,633,503,000</td>
</tr>
</tbody>
</table>

**Table II**

<table>
<thead>
<tr>
<th>Section</th>
<th>Requirement</th>
<th>Status as at 30 June 2016</th>
<th>Management comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCC 30.1 of the contract and 3(d) of terms of reference to the said contract</td>
<td>The Fund Manager is required to submit quarterly reports on performance of the Teachers’ SACCO fund to the Ministry of Education, Science, Technology and Sports (MoESTS) and Ministry of Finance, Planning and Economic Development.</td>
<td>Quarterly reports were not submitted to the Ministry for the financial year 2015/2016.</td>
<td>MSC has since submitted the required reports. However, MoESTS frustrated the contract and required a review and the terms have since then not been reviewed. MoESTS breached the contract as they stopped disbursing the funds.</td>
</tr>
<tr>
<td>Section 4 of the financial proposal</td>
<td>For ease of accountability and monitoring, a separate bank account to handle this fund will be maintained at MSC head office and collection accounts at Zonal Offices.</td>
<td>No separate bank account and collection accounts were maintained at head office and zones respectively by MSC for the teachers’ SACCO fund.</td>
<td>MSC maintains a separate account in the system which has enabled MSC to accurately track, monitor and report on the teachers’ fund account. The fund has been audited for the last two years and found accurate. MSC found it costly to maintain 13</td>
</tr>
<tr>
<td>Section 2.1 of the guidelines for management of the teachers' SACCO fund 2014</td>
<td>Interest rate charged by MSC to the SACCO will be 11% annually (calculated on declining balance method).</td>
<td>Mukono and Kayunga Teachers SACCO was charged an interest rate of 13%.</td>
<td>The clients in question accessed a regular loan product of MSC rather than the teachers SACCO fund. The loan was accessed before the launch of the teachers fund.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Section 2.2 of the financial proposal and section &quot;g&quot; of the terms of reference</td>
<td>In turn, the SACCOs will retain the funds to the teachers' members at an interest rate not exceeding 15% per annum (calculated on declining balance method) which works out to an interest rate of 1.25% per month.</td>
<td>Section provisions not enforced by MSC. South Buganda Teachers' SACCO Masaka for example, charges 24% annually for commercial loans and 18% annually for agricultural loans.</td>
<td>MSC has written to the SACCOs calling their attention to charging interest rates not exceeding 15% per annum. MSC encourages membership of the SACCOs to demand for lower interest rates.</td>
</tr>
<tr>
<td>Communication from the PS of Ministry of Education, Science, Technology and Sports (MoESTS)</td>
<td>In a letter dated 7 December 2015, the PS of MoESTS directed MSC to: ✓ sign an addendum to the contract before 11 December 2015 and transfer UGX. 5.7 billion funds to the Uganda Teachers Savings and Co-operative Union (UTSCU) as agreed in the meeting on 3 December 2015 and the communication alluded to H.E the President's directive to transfer the management of the Teachers' SACCO funds from MSC to UTSCU. ✓ avail the PS of MoESTS a detailed status report on the funds disbursed as of the communication date as well as the plan for committing the funds that had not yet been committed for purposes of preparing a hand over report.</td>
<td>MSC has not implemented these directives to date and continued disbursing loans on the basis that there are still a number of unresolved issues arising out of the proposed transaction. Subsequent to the letter, loans of UGX. 330 million were disbursed.</td>
<td>MSC was guided by the opinion of the Solicitor General in implementing the Presidential directive alluded to by the PS of MoESTS, It guided that MSC should continue with the funds already received from the MoESTS (i.e Shs 9.3 Bln) While the balance of Shs 15.7 Bn is passed on to the relevant teachers Institution.</td>
</tr>
</tbody>
</table>
The Ministry may feel compelled to invoke GCC 14.1 (f) to terminate the entire contract due to such contract breaches by the company.

In response, management explained that the first tranche of the teachers fund was received on 23 June 2014, at the time, not all teachers’ SACCOs had the capacity to utilise the funds and only disbursed to the few SACCOs that had the capacity to manage the fund. MSC has since then built the capacity of a number of teachers’ SACCOs which shall improve the absorption of the fund.

I advised management ensure that such cases of non-compliance are resolved and ensure full compliance with the General Conditions of Contract.

170.0 Microfinance Support Centre for the Thirteen Month Period Ended 31st July 2015

170.1 Compliance with the Financing Agreement and Government of Uganda Provisions

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

(a) Inadequate monitoring, follow up and recovery of loans written off

I noted weaknesses in monitoring, follow up and recovery of delinquent loans as evidenced by low recovery rates from previously written off loan accounts. Of the written-off loans and advances amounting to UGX.6.198 billion in the financial year 2012/2013, only UGX.405 million has been recovered as of 31 July 2015. This represents a recovery rate of about 6.5% as a percentage of total write-offs as indicated in the table below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Write-offs</td>
<td>UGX'000</td>
<td>-</td>
<td>UGX'000</td>
<td>UGX'000</td>
<td>UGX'000</td>
</tr>
<tr>
<td></td>
<td>6,197,730</td>
<td>-</td>
<td>8,091,110</td>
<td>-</td>
<td>14,288,840</td>
</tr>
</tbody>
</table>
The company wrote-off loan accounts in the year ended 30 June 2015 amounting to UGX.8.091 billion. This is a financial loss that may result in company’s failure to meet its strategic objectives.

Management explained that in February 2015 a Debt Collection Unit was established to minimize the rate of default in addition to following up all delinquent and written off loans. Besides, in July 2015, management contracted Debt Collectors to continuously follow debts with the assistance of zonal staff. Management is also in the process of ascertaining the collectable loans out of the written off loans so that performance is in future is measured against collectable loans.

I advised management to continue strengthening the monitoring and recovery function of loans written off by also engaging external lawyers and use of bailiffs with a view of reducing the outstanding loan amount.

(b) Low level of disbursements

I noted that some loan products exhibited insignificant growth as detailed in the table below.

<table>
<thead>
<tr>
<th>Loan Product</th>
<th>2014/2015</th>
<th>2013/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disbursements</td>
<td>Disbursements</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Value</td>
</tr>
<tr>
<td>Environmental loans</td>
<td>3</td>
<td>200,000</td>
</tr>
<tr>
<td>Teachers’ SACCO loans</td>
<td>17</td>
<td>1,105,000</td>
</tr>
</tbody>
</table>

Out of the UGX.9.3 billion available for Teachers’ SACCO loans, the company only disbursed UGX.1.1 billion during the year. This may adversely affect stakeholders’ expectations and hence the company’s failure to fulfil its obligations.
Management promised to intensify the marketing and sensitisation of the environmental loan to the public. The low disbursements on the teachers fund were mainly attributed to the negative pronouncements by UNATU advising the SACCOs not to access the funds from MSCL. Besides, management started by offering capacity building support to the groups before disbursement; hence causing some delay.

I advised management to set a target weighting for all its credit categories to ensure that it is meeting its objective and mission.

171.0 Public Procurement and Disposal of Public Assets Authority (PPDA) for the Year ended 30th June 2016

171.1 Low absorption of the development budget

The Authority had budgeted to receive transfers from Treasury amounting to UGX.10,722,547,751 but only UGX.8,184,455,389 was released, creating a shortfall of UGX.2,538,092,362. The shortfall mainly affected the development budget where only UGX.1,070,306,735 was released. The expenditure on the development budget was only UGX.425,940,443 (40%) leaving a balance of UGX.644,366,293 un-spent and was eventually returned to the UCF.

Management explained that the low absorption of the funds was due to the ongoing consultations regarding the construction project. Following the completion of designs of the building, the procurement of a supervising consultant and contractor were underway.

I advised the Accounting Officer to ensure that the pending procurements regarding the consultants are finalised, to pave way for construction of the entity office.
172.0 Postbank Uganda Limited for the Financial Year ended 31st December 2015

172.1 Lack of evidence of review of the IFRS impairment workings

I noted the following during the review of the IFRS impairment workings;

a) There was no evidence of sufficient review of impairment workings by the finance team to ensure completeness and accuracy of the computation.

b) I also noted errors in inputs used in deriving the IFRS impairment provision. These included, wrong interest rates and wrong collateral values. These were subsequently corrected for financial reporting purposes.

c) It was also noted that the IAS 39 impairment working is computed by the credit department based on a template developed by management including populating the forced sales values of securities.

Failure to appropriately review impairment workings may result into errors that end up filtering through the financial statements. Additionally, credit department carrying out an impairment review of the loans that are under their control may pose a conflict of interest.

Management explained that the responsible credit department will review and document all impairment workings every month before sending to the Finance Department.

I advised management to ensure that the impairment working is reviewed on a monthly basis. It may also be appropriate to have an independent resource other than from credit to handle the impairment calculation to ensure objectivity during the process.
172.2 Uninsured Loans

During the audit of the loan portfolio, I noted that all loans that are issued to UPDF officers have not been insured since 2013. The total outstanding balance for which the bank has no insurance cover totalled UGX 1,086,937,407 as at the 31st December 2015. Failure to insure the loans exposes the bank to the risk of financial loss in the event of default.

Management explained that most insurance providers were avoiding taking on this exposure citing the difficulty in obtaining disclosures relating to the National Army. The bank has however engaged the current insurance service provider (UAP Insurance) who subsequently enriched the current loan protection policy to include the UPDF portfolio.

I advised management to follow up with the insurance provider and ensure that the bank’s risk of financial loss is mitigated.

172.3 Charges made on customer deposits without communication

BOU requires all banks to pay Deposit Protection Fund as per FIA (2004) based on last year’s average weighted deposits. During 2015, PostBank was invoiced UGX 361,501,775. I noted that management resolved to recover some of the money paid from the customer deposits accounts. As such on 31 July 2015, all deposit accounts that existed by the end on 31 December 2014 were debited with UGX 2000 except for Giro and fixed deposits accounts. This was done without notifying the customers and as such, the bank is not required to recover the cost from the customers under the Act. Making deductions on customer deposits without communicating to them and Bank of Uganda may result into fines and penalties from the regulator. This may also constitute non-compliance with regulatory requirements.

Management promised to discuss the matter with BoU at a tripartite meeting.

I advised that all deductions are communicated to the customers prior to the deductions. Management should also ensure compliance with the existing
regulatory requirements at all times.

173.0 Pride Microfinance Limited (MDI) for the Year ended 31st December 2015

173.1 Single access to the ATM

Pride Microfinance Limited operations manual require that the ATM is accessed by a minimum of two branch staff and they should both sign in the ATM access register. During the audit of the various branch ATM access register, I noted instances where the ATM was accessed by one person at a given time as summarized below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Branch</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>10th March 2015</td>
<td>Gulu</td>
<td>At 8:55am Allan accessed the ATM alone to carry out air conditional servicing without any supervision by the branch staff</td>
</tr>
<tr>
<td>21st March 2015</td>
<td>Gulu</td>
<td>At 9:00am Allan accessed the ATM alone to carry out air conditional servicing without</td>
</tr>
<tr>
<td>21st February 2015</td>
<td>Katwe</td>
<td>ATM was accessed by Yasin only</td>
</tr>
<tr>
<td>3rd March 2015</td>
<td>Katwe</td>
<td>ATM was accessed by Christine only</td>
</tr>
<tr>
<td>22nd May 2015</td>
<td>Jinja</td>
<td>ATM was accessed by one individual at 7.57 am</td>
</tr>
<tr>
<td>4th July 2015</td>
<td>Jinja</td>
<td>ATM was accessed by one individual at 11.25am</td>
</tr>
</tbody>
</table>

The failure to exercise appropriate controls around cash exposes the company to a risk of loss of such cash resources.

Management explained that dual control is observed although one custodian forgot to sign the register however, disciplinary action was taken against the branch staff that did not sign in the access register. Besides, the risk is managed by ensuring that each set of keys for access to the ATM is held by a different staff.

I advised Management to ensure compliance with the company operations policy at all times with a view of minimising eventual risks.
173.2 **Single access to the Strong room**

Section 5.2 of the operations policy states that at least two branch personnel must be present when the strong room is accessed and must append their signatures to the strong room register indicating reasons for, and duration of access. During the audit of the branch strong room access register, I noted instances where the strong room was accessed by only one person as summarized below;

<table>
<thead>
<tr>
<th>Date</th>
<th>Branch</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 July 2015</td>
<td>Arua</td>
<td>At 2:18 pm Aggrey accessed the strong room alone</td>
</tr>
<tr>
<td>04 September 201</td>
<td>Arua</td>
<td>At 9:40 Aggrey accessed the strong room alone</td>
</tr>
<tr>
<td>16 October 20</td>
<td>Arua</td>
<td>At 3:05pm Bernard Muwanga accessed the strong room alone</td>
</tr>
<tr>
<td>06 January 2015</td>
<td>Gulu</td>
<td>At 8:55pm Gardson accessed the vault alone</td>
</tr>
<tr>
<td>22 January 2015</td>
<td>Gulu</td>
<td>At 8:10pm Kagoya accessed the vault alone</td>
</tr>
<tr>
<td>14 March 2015</td>
<td>Gulu</td>
<td>At 10:11am Nyeko accessed the vault alone</td>
</tr>
<tr>
<td>02 June 2015</td>
<td>Mbarara</td>
<td>only Francis accessed the vault at 4:05pm</td>
</tr>
<tr>
<td>14 September 2015</td>
<td>Kabale</td>
<td>Only Alex accessed the vault at 10:40am</td>
</tr>
<tr>
<td>17 February 2015</td>
<td>Wandegeya</td>
<td>Christine accessed the strong room alone</td>
</tr>
<tr>
<td>10 September 2015</td>
<td>Wandegeya</td>
<td>the branch manager accessed the strong room alone</td>
</tr>
<tr>
<td>06 January 2015</td>
<td>Jinja</td>
<td>Only one person accessed the strong room at 8.04 am</td>
</tr>
<tr>
<td>16 April 2016</td>
<td>Jinja</td>
<td>Only one person accessed the strong room at 8.04 am</td>
</tr>
</tbody>
</table>

This exposes company cash resources to a risk of loss.

I advised management to always ensure compliance with the operations policy at all times.

173.3 **Lapses in the loan documentation process**

A review of the loan documentation process revealed that some loan files lack certain documentation as shown below; Failure by the credit staff to adhere to pre-disbursement conditions and documents as set in the credit policy may expose the entity to loss of income and bad publicity.
<table>
<thead>
<tr>
<th>Branch</th>
<th>Customer name</th>
<th>Amount (UGX)</th>
<th>Disbursed Amount (UGX) and exception noted on the file reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arua</td>
<td>Customer 'A'</td>
<td>15,000,000</td>
<td>As per the signed agreement the loan was disbursed on 25&lt;sup&gt;th&lt;/sup&gt; March 2015 and repayment date 20&lt;sup&gt;th&lt;/sup&gt; March 2016. However the system has the disbursement date of 31&lt;sup&gt;st&lt;/sup&gt; March and repayment date as 21&lt;sup&gt;st&lt;/sup&gt; March 2016.</td>
</tr>
<tr>
<td>Arua</td>
<td>Customer 'B'</td>
<td>10,000,000</td>
<td>As per the signed agreement the loan was disbursed on 9&lt;sup&gt;th&lt;/sup&gt; September 2015 and repayment date 9&lt;sup&gt;th&lt;/sup&gt; September 2015. However the system has the disbursement date of 14&lt;sup&gt;th&lt;/sup&gt; February 2015 and repayment date as 14&lt;sup&gt;th&lt;/sup&gt; August 2015.</td>
</tr>
<tr>
<td>Arua</td>
<td>Customer 'C'</td>
<td>1,500,000</td>
<td>letter of offer not on client file.</td>
</tr>
<tr>
<td>Arua</td>
<td>Customer 'D'</td>
<td>1,200,000</td>
<td>letter of offer not signed by branch manager.</td>
</tr>
<tr>
<td></td>
<td>Customer 'E'</td>
<td>1,000,000</td>
<td>As per the signed agreement the loan was disbursed on 5&lt;sup&gt;th&lt;/sup&gt; May 2015 and repayment date 5&lt;sup&gt;th&lt;/sup&gt; November 2015. However the system has the disbursement date of 6&lt;sup&gt;th&lt;/sup&gt; May 2015 and repayment date as 6&lt;sup&gt;th&lt;/sup&gt; November 2015.</td>
</tr>
<tr>
<td>Gulu</td>
<td>Customer 'F'</td>
<td>3,000,000</td>
<td>Disbursed on 9&lt;sup&gt;th&lt;/sup&gt; July 2015 as per the agreement the loan was disbursed on 1&lt;sup&gt;st&lt;/sup&gt; July 2015 and to be repaid on 1&lt;sup&gt;st&lt;/sup&gt; May 2016 however as per the system the loan was disbursed on 9&lt;sup&gt;th&lt;/sup&gt; July 2015 and to be repaid on 10&lt;sup&gt;th&lt;/sup&gt; May 2016.</td>
</tr>
<tr>
<td>Kabale</td>
<td>Customer 'G'</td>
<td>12,000,000</td>
<td>Disbursed on 8&lt;sup&gt;th&lt;/sup&gt; May 2015 at interest rate of 21% as oppose to 22% on the letter.</td>
</tr>
<tr>
<td>Kabale</td>
<td>Customer 'H'</td>
<td>15,000,000</td>
<td>Disbursed on 23&lt;sup&gt;rd&lt;/sup&gt; January 2015 at interest rate of 21% and yet the loan agreement indicates 26%.</td>
</tr>
<tr>
<td>Kabale</td>
<td>Customer 'I'</td>
<td>10,000,000</td>
<td>Disbursed on 18&lt;sup&gt;th&lt;/sup&gt; June 2015 at interest rate of 22% had no chattel mortgage on file.</td>
</tr>
<tr>
<td>Kabale</td>
<td>Customer 'J'</td>
<td>10,000,000</td>
<td>Disbursed on 8&lt;sup&gt;th&lt;/sup&gt; September 2015 at interest rate of 26% had no chattel mortgage on file and no kfd.</td>
</tr>
<tr>
<td>Kabale</td>
<td>Customer 'K'</td>
<td>15,000,000</td>
<td>Disbursed on 21&lt;sup&gt;st&lt;/sup&gt; May 2015 at interest rate</td>
</tr>
</tbody>
</table>
Management explained that for cases involving differing loan interest rates, the responsible staff were cautioned. A review is yet to be done and where customers are found to have been overcharged, the bank will refund the difference and where they are found to be under charged the responsible staff shall be held accountable as per policy. Besides, plans are underway to review the process at disbursement with a view of having an independent verification of...
terms in the system compared to the ones on the loan agreement in order to enhance accuracy.

I advised management to continue strengthening the loan documentation process by ensuring that there is compliance with the credit policy at all times.

173.4 Difference in community banking loan interest rates

During the audit of the loan book as at 30th September 2015, I noted that community bank loans amounting to UGX.11,410,000 were disbursed at interest rates that were different from rates as per the Pride Microfinance tariff guide of 30% applicable during the year. Details are summarized below. There is a risk that Interest income may be misstated.

<table>
<thead>
<tr>
<th>Account ID</th>
<th>Disbursed Amount (UGX)</th>
<th>Tariff guide interest (%)</th>
<th>Interest rates charged (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20181000000462</td>
<td>1,200,000.00</td>
<td>30</td>
<td>25.00</td>
</tr>
<tr>
<td>2118100000343</td>
<td>1,200,000.00</td>
<td>30</td>
<td>25.00</td>
</tr>
<tr>
<td>2488100000204</td>
<td>800,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2118100000595</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2118100000181</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2128100000070</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2118100000152</td>
<td>900,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2118100000594</td>
<td>810,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2118100000181</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2118100000596</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2128100000071</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2128100000072</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2148100000537</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2418100000076</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2438100000329</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2438100000330</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2438100000334</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
<tr>
<td>2488100000213</td>
<td>500,000.00</td>
<td>30</td>
<td>30.50</td>
</tr>
</tbody>
</table>

11,410,000
Management explained that the differences in interest rates quoted in community banking were noted, and the bank will refund the difference were over charged is discovered.

Management action on the matter is awaited.

**174.0 Uganda Development Bank Limited for the Financial Year ended 31st December 2015**

**174.1 Low recovery rates for projects written off**

I noted that the bank has low recovery rates from previously written off loans. Over the past four years from 2012 to 2015, the bank wrote-off loans amounting to UGX 26.97 billion, of which an amount of UGX. 902 million had been recovered as of 31 December 2015. Refer to the table below;

<table>
<thead>
<tr>
<th>Year</th>
<th>Write-offs Ushs'000</th>
<th>Recoveries Ushs'000</th>
<th>Overall percentage of Recoveries to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>9,429,089</td>
<td>657,819</td>
<td>3.35%</td>
</tr>
<tr>
<td>2014</td>
<td>1,008,280</td>
<td>236,850</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>16,176,503</td>
<td>7,650</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>360,303</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>26,974,175</td>
<td>902,319</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

The Loss in earnings could impact on the company’s ability to meet its strategic objectives.

Management explained that the recovery process in a development bank is quite lengthy and can straddle over a period of 6 years or more. Because of the nature of projects and their development impact on the economy, it is not feasible to simply foreclose and recover at the expense of the development. It should also be noted that this process hardly goes un-challenged in the Courts of law and this in itself, takes too much time and is not within the control of the bank.

I advised management to enhance the recovery efforts to increase the recovery of written off loans and non-performing loans.
174.2 **High NPA ratio and impairment losses**

The bank’s NPA ratio is on an increasing trend despite the significant loan write-offs in 2013 and the recent write offs in 2015. As of 31 December 2015, the ratio had increased to 32% from 25% as at 31 December 2014. The provision for credit losses increased from UGX.10.5 billion as at 31 December 2014 to UGX.12.1 billion as at 31 December 2015.

High credit losses give an indication of increased credit risk in the company’s portfolio. Loss in the earnings as a result of increased loan client defaults.

Management explained that at a similar period as in the previous issue/observation, the NPA ratio was over 60% in 2012 and has now been halved. This has been achieved not only by write offs but by working closely with the projects to ensure their revival. The bank funds inherently high risk projects compared to commercial banks.

Further, the write offs are mainly for legacy projects that have been non-performing for over a period of 6 years. Management and the board continually review the Bank’s portfolio and ensure that all risks identified are covered.

I advised management to perform a comprehensive review of its loan portfolio to ensure all credit risk has been identified and accounted for.

174.3 **Loans issued above approved turn around time (TAT)**

I noted delays in issuance of loans over and above the target Turn-Around Time (TAT) of 21 days stated in the bank’s development finance credit procedures manual in section 2.2. Examples are outlined in the table below;
The fact that the Bank has communicated a TAT of 21 days in its charter and is not living by it may result in customer dissatisfaction especially where customer expectations are not managed.

Management explained that they are in discussion with the Board to seek a revision in the TAT that supports credit origination processes, in the Bank’s performance interest.

I advised management should revisit the current Turn-Around Time to define a realistic target and this should be timely communicated to its clients.

<table>
<thead>
<tr>
<th>Loan Account</th>
<th>Customer Name</th>
<th>Product type</th>
<th>Disbursement Amount (UGX)</th>
<th>Start Date</th>
<th>Maturity Date</th>
<th>TAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>100106013003</td>
<td>ATOPE</td>
<td>MEDIUM TERM LOANS - UGX</td>
<td>130,000,000</td>
<td>05/23/2013</td>
<td>05/23/2018</td>
<td>59</td>
</tr>
<tr>
<td>100106013002</td>
<td>ATOPE</td>
<td>MEDIUM TERM LOANS - UGX</td>
<td>112,599,440</td>
<td>06/25/2013</td>
<td>06/25/2018</td>
<td>59</td>
</tr>
<tr>
<td>100106014103</td>
<td>CEPHAS INN LTD</td>
<td>MEDIUM TERM LOANS - UGX</td>
<td>720,000,000</td>
<td>06/17/2014</td>
<td>06/17/2019</td>
<td>178</td>
</tr>
<tr>
<td>100109020903</td>
<td>GIMEX UGANDA LTD</td>
<td>TRADE FINANCE LOANS - USD</td>
<td>2,183,400,000</td>
<td>04/17/2015</td>
<td>04/17/2016</td>
<td>151</td>
</tr>
<tr>
<td>100116017802</td>
<td>MAYUGE DISTRICT FARMERS ASSOCIATION</td>
<td>WORKING CAPITAL - UGX</td>
<td>201,996,000</td>
<td>08/06/2014</td>
<td>06/06/2015</td>
<td>145</td>
</tr>
<tr>
<td>100116021202</td>
<td>KAKOMA IBUMBA FARMERS ASSOCIATION</td>
<td>WORKING CAPITAL - UGX</td>
<td>400,000,000</td>
<td>05/15/2015</td>
<td>05/15/2016</td>
<td>139</td>
</tr>
</tbody>
</table>
SECURITY SECTOR

175.0 Uganda Air Cargo Corporation for the Year ended 30th June, 2016

175.1 Failure to disclose value of Land

Uganda air cargo owns plot of land in Entebbe at plot 103A-107A and plot 137 which were allocated to the Corporation in 2010. However, these plots of land have not been disclosed in the accounts of the corporation. Besides, this land has not been revalued for the past six (6) years after its acquisition.

In response, the Accounting Officer stated that the valuation report from the Government Valuer had not yet been received by the close of financial year. The land has now been included in the Fixed Assets Register and adjustments will be made in the 2016/2017 financial statements.

I advised the Accounting Officer to ensure that the land is valued and disclosed in the financial statements.

175.2 Afrik Aviation

Included in the outstanding debtors is Afrik Aviation which owes the corporation a sum UGX.3,678,234,512 for the transportation of cargo that has been outstanding for a period of over one year. Failure to collect money due to the organization affects the operations of the entity.

The Accounting Officer explained that efforts are being made to pursue full recovery of this debt from the debtor.

I await the Accounting Officer’s action on the matter.
175.3 **Grounded Aircraft - C130-5X-UDF**

It was noted that the entity’s Aircraft, C130-5X-UDF had been grounded for over a year. The aircraft required major repairs on a centre wing box. It appears the entity has not taken any step to have it repaired and has continued to incur maintenance expenses in form of insurance costs and crew salaries. The aircraft has continued to depreciate and may get impaired.

In response, the Accounting Officer explained that they are pursuing US$.8 million from Ministry of Finance, Planning and Economic Development (MoFPED) as capitalization to the Corporation for the repair of the grounded C-130 aircraft.

I await the outcome of the Accounting Officers follow up.

175.4 **Returned Air Crafts (Y12s)**

It was noted that Ministry of Defence returned two aircrafts (Y12s) previously taken from the Corporation. These two air crafts had been taken over by the Ministry for a period of more than a year but all the associated running costs in form of salaries for the pilots, insurance costs and spare parts were being met by Uganda Air Cargo. I was not availed with any document from the Corporation demanding refund of all costs incurred during that period.

In response, the Accounting Officer stated that prior to the return of the aircrafts, management had prepared a hand over report that was never received by the Ministry. In the said report, management demanded that the ministry reimburses the Corporation for costs incurred in keeping the aircraft airworthy and the associated overhead costs.

I advised the Accounting Officer to forward the bills related to this activity to the Ministry for reimbursement.
NEC & SUBSIDIARIES

176.0 National Enterprise Corporation (NEC) Construction, Works and Engineering Ltd for The Year ended 30th June, 2016

176.1 General Performance of the Company

NEC Construction Works and Engineering Limited is a subsidiary of the National Enterprise Corporation which was incorporated in 1989. The company’s main objectives are:

- To provide quality construction services in the atmosphere of mutual trust.
- To impact technical, managerial and service skills to personnel of the armed forces so that they can improve their welfare.
- To equip forces with skills that can be gainfully used upon retirement.
- To create direct and indirect employment in the country.

A review of the available documents revealed that the above mentioned objectives have not been achieved. The company does not have construction equipments to favourably compete in the construction industry. This was evidenced by the fact that the Non-Current Assets of the company as at the close of year was valued at UGX.16,110,650.

This implies that the objectives of impacting technical, managerial and service skills to personnel of the armed forces in order to improve their welfare has been overtaken by time, the company no longer employs serving men and officers. The company has running contracts with some MDAs, Statutory Corporations and private companies valued at UGX.1.8bn, which business appears to be very low for its future sustainability. It appears management has taken limited effort to improve business and compete in this type of industry. Many of the planned activities in the budget were thus not implemented.

In response, the Accounting Officer explained that the targeted cash inflow levels were not attained and that capitalization of the entity is still lacking in terms of
working capital, machinery and equipment resulting in poor performance. The concern has been presented to all stake-holders who promised to avail the required capital. The company’s financing gap has also been presented to the Ministry of Defence for consideration.

I await the Accounting Officer’s follow up on the matter.

177.0 National Enterprise Corporation (NEC) Uzima Limited for the Year ended 30th June, 2016

177.1 Undisclosed Salaries

It was noted that NEC Uzima technical staff salaries were paid by the Ministry of Defence, the line Ministry. The salaries were paid directly to staff without going through the collection account. An analysis of the income statement revealed that the salary receipts were not captured as revenue and the related payments were not included in the entity expenditure. Non-inclusion of salaries in the administrative expenses understated the total expenditure of the company.

In response, the Accounting Officer stated that he could not reflect the salary component from Ministry of Defence paid to the technical staff of NEC Uzima Ltd into the financial statements because it was not received in the collection account of the company. Only the allowances paid to these staff excluding allowances were reflected in the expenditures of the company. Their salary was paid by the Ministry because they are serving officers of the UPDF.

I advised the Accounting Officer to consult the Accountant General on the appropriate treatment of salaries paid by the Ministry.

177.2 Loan from Ministry of Defence

A review of the financial statements revealed that the entity had an outstanding loan of UGX.328,000,000 received from UPDF Headquarters as at the close of the financial year. I was not able to verify the terms such as principal agreed on,
interest to be paid and the repayment period as there was no formal documented understanding between the parties.

The Accounting Officer stated that although the loan was reflected in the financial statements of NEC Uzima Ltd, in reality it was an internal funding to the company with no interest.

I advised the Accounting Officer to avail the MoU between the NEC Uzima Ltd and Ministry of Defence to enable assess to what extent the funding arrangement was entered into.

178.0 National Enterprise Corporation (NEC) Headquarters for the Year ended 30th June, 2016

178.1 Staff in Acting Positions
Public Service Standing Orders (A-c) 9 provides that an appointment on acting basis is expected to last not more than six months, and are subject to direction by the appointing authority. Any period of acting appointment beyond six months will be null and void and the officer holding such an appointment shall automatically revert to his or her substantive post, unless the appointing authority extends the appointment for another period of six months, but shall not exceed 12 months in total.

A review of staff personnel files revealed that four (4) officers have been holding acting positions for periods longer than the stipulated without renewals of their acting appointments. The confirmations for their previous appointments were not availed for verification.

The employees have been denied benefits of substantial appointments. In response the Accounting Officer stated that they are still waiting for the appointment of the Board to take appropriate action.

I advised the Accounting Officer to always follow the standing orders.
179.0 National Enterprise Corporation (NEC) Farm Katonga Limited for the Year ended 30th June 2016

179.1 General performance of the Farm

NEC Farm Katonga Ltd is a subsidiary of the National Enterprise Corporation which was acquired from Kisozi Ranchers in 1990 located on Gomba District measuring 17 square miles. Its initial objective was to supply the army with meat requirements and the bi-products (hides and skins) to the shoe factory that was to be established. The farm had over 500 heads of cattle consisting mainly of Borans, Brahman/boran crossed and Boran/charolais crossed.

A review of the available documents established that the initial objective of supplying meat to the army had not been achieved. Besides, the shoe factory had never been established.

Additional objectives of establishing the company included;
• To impart farming skills, managerial and service skills to personnel of the armed forces so that they can improve their welfare.
• To equip forces with skills that can be gainfully used upon retirement.
• To create direct and indirect employment in the country.

The above objectives may not be achieved because the farm land was allocated to an investor through a bilateral arrangement. The sustainability of the farm is questionable as the land has not been utilised. Documentation reviewed indicated that the number of animals had reduced over time from 351 animals valued at UGX.225,200,000 as at 30th June 2015 to 337 animals valued at UGX.221,700,000 as of 30th June 2016. At the close of the financial year, the company had made a loss of UGX.44,680,894.

Management explained that the former Farm Manager and his accomplices stole 25 heads of cattle from the farm. They were arrested and the matter is being pursued in court. Going forward, management is in the process of setting up a
“Fast tracking production of high grade slaughter animals for abattoirs” which is anticipated to improve the performance of the company.

Management action on the matter is awaited.

180.0 NEC Tractor Hire Scheme Ltd for the Year ended 30th June, 2016

180.1 General performance of the Company

NEC Tractor Scheme Ltd is a subsidiary of the National Enterprise Corporation which was established to extend tractor hire services to farmers in selected districts. The main objectives of this company were;

- To deliver affordable tractor hire services with efficient after sales services at the community level.
- To promote expansion of farmland which will ultimately result in increased food security for Uganda and the Great Lakes region.
- To transform the agricultural production process by making it faster through mechanization and post-harvest activities.
- To improve the efficiency of agricultural process by ensuring all year round production through irrigation and timely transportation of the produce to the market centers.

I established that none of the above objectives has been achieved to date. The company had invested in tractors to the tune of UGX.1,733,032,690 since 2010, but to date no additional investments have been made. The book value for these tractors currently stands at UGX.408,892,152 after taking into consideration disposals worth UGX.798,683,640. I was not availed with a replacement policy for these ageing tractors despite high maintenance costs. It is likely that the company may not achieve the intended objectives in the near future. This year alone, the company made a loss of UGX.304,321,615.
In response management stated that they plan to undertake an aggressive tractor upgrading exercise that will involve replacing old problematic and inferior parts with new-durable ones for deployment in the Crop Farming Project. I wait the outcome of this planned exercise.

181.0 National Enterprise Corporation (NEC) Tractor Project Limited for the Year ended 30th June, 2016

181.1 General Performance of the Company

NEC Tractor Project Limited was incorporated as a private company on 23rd January 2013 with the major objective of providing affordable tractors and implements to Ugandan farmers and establishing a tractor assembly plant in Uganda. The company is also mandated to generate money through sale of tractors and implements. Other objectives for establishing this company included;

- To assemble various models of tractors inclusive of their implements, ready for the Ugandan and regional markets.
- To become the strong support in repairs, maintenance and provision of spare parts through establishment of maintenance and after-sale centres.
- To train and deploy able technicians for repair and maintenance, and agricultural tractor operators.
- To create direct and indirect employment in the country.

It was however established that none of the above objectives has been achieved since inception to date. The company initially imported 21 tractors at a cost of UGX.1,768,946,400 for resale in 2013 but to date only two tractors have been sold off while the balance is still reflected as stock valued at UGX.1,473,738,319. The turnover for the current year was only UGX.108,770,000 with a loss of UGX.148,263,672. The company has not registered any growth and with this trend, it is anticipated that the company will continue to make losses.
It was also noted that the company was allocated land in Namanve Industrial Area by Uganda Investment Authority but to date no development has been made and land is likely to be re-allocated to another investor. It appears the company may not achieve the intended objectives in the near future.

Management explained that the company was set up with no basic requirements to allow it compete favourably in the market. Management had and would continue to request for capitalization to create an orderly display show room, widen product base, implement a robust marketing and maintain a sizeable stock of spare parts for all categories of products. Management further explained that the company intended to start development of the land in Namanve as soon as the factory established.

Management follow up on the matter is awaited.

**PUBLIC WORKS AND TRANSPORT SECTOR**

182.0 Civil Aviation Authority for the Financial Year ended 30th June 2015

182.1 Financial Statements and Accounting issues

(a) **Property, plant and equipment - Valuation of Property, Plant and Equipment**

CAA’s accounting policy is to record its Property, Plant and Equipment (PPE) initially at cost and subsequently at market value, based on independent periodic valuations, less subsequent depreciation and impairment. However, I noted that the Authority’s PPE was last revalued in 2006. CAA engaged a professional valuer to establish the market value of PPE as of 30 June 2015. I reviewed the results of this revaluation and proposed adjustments to recognise PPE at the market value. The Table below includes a summary of the value of PPE before and after the revaluation exercise;
The comparatives for PPE in the financial statements for the year ended 30 June 2015 could be misstated given that management has not performed a revaluation of PPE since 2006.

Management explained that the valuation of Property Plant and Equipment was delayed for 10 years due to cash flow constraints and procurement challenges. Management further explained that the asset valuation was done in financial year 2014/15.

I advised Management to ensure that Property Plant and Equipment are regularly revalued to ensure non-current assets are fairly stated in the financial statements.

(b) **Trade receivables**

A review of CAA trade receivables revealed that the Authority had significant trade receivables that were long outstanding. As of year-end, the entity had trade receivables of UGX 141,311 million (2014: UGX 105,770 million), of which only UGX 16,980 million (2014: UGX 13,992 million) had been provided for. I noted that Management did not make a sufficient provision for doubtful receivables to recognize the likelihood that receivables amounting to UGX 18,084 million which were owed by entities that CAA either no longer traded with or organizations that were now defunct, may not be recoverable. I was also unable to obtain sufficient evidence from Management to demonstrate any robust effort to recover the amounts or Government’s commitment to settle the amounts attributed to them in the foreseeable future. Refer to the Table below for details;

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (UGX’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of PPE after revaluation</td>
<td>592,741,877</td>
</tr>
<tr>
<td>Value of PPE before revaluation</td>
<td>224,867,960</td>
</tr>
<tr>
<td><strong>Variance</strong></td>
<td><strong>367,873,917</strong></td>
</tr>
</tbody>
</table>
Table: Summary of debtors' aging and the proposed provision for impairment losses.

<table>
<thead>
<tr>
<th>Aging (Days)</th>
<th>0-30</th>
<th>31-60</th>
<th>61-90</th>
<th>91-120</th>
<th>121-270</th>
<th>271-360</th>
<th>361+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables (UGX'000)</td>
<td>40,073,494</td>
<td>19,806,736</td>
<td>1,709,133</td>
<td>1,543,444</td>
<td>2,650,026</td>
<td>4,704,297</td>
<td>70,823,859</td>
<td>141,310,989</td>
</tr>
<tr>
<td>Proposed provision (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
<td>100%</td>
<td>-</td>
</tr>
<tr>
<td>Computed provision (UGX)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>385,861</td>
<td>1,325,013</td>
<td>3,528,223</td>
<td>70,823,859</td>
<td>76,062,956</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (UGX'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed provision based on aging above:</td>
<td>76,062,956</td>
</tr>
<tr>
<td>Additional provision for dormant accounts:</td>
<td>8,873,263</td>
</tr>
<tr>
<td>Total proposed provision: c = a + b</td>
<td>84,936,219</td>
</tr>
<tr>
<td>Amount per TB: d</td>
<td>16,979,932</td>
</tr>
<tr>
<td>Proposed additional provision: c - d</td>
<td>67,956,287</td>
</tr>
</tbody>
</table>

Given that the balance of trade receivables has been consistently growing over the last three years, and that I have not been provided with sufficient verifiable evidence to demonstrate subsequent recovery of the outstanding amounts, I have proposed an additional impairment provision of UGX 67,956 million. Under the circumstances, Trade receivables could be overstated.

Management stated that whereas 49% of the debtors (UGX 69 billion) relating to Government Departments and Agencies are considered non-performing, Management does not regard Government as a bad debtor since a previous debt amounting to UGX 54 billion was settled in 2010. Management further stated that the provision for bad and doubtful debts of UGX 16.9 billion was made as per CAA current credit policy. Management explained that the Authority has strengthened the staffing of the debt management section by recruiting more credit officers and hiring of professional debt collectors in order to improve the debt collection function.
(c) **Employee Benefits**

i) **Gratuity scheme and long service award**

CAA has a gratuity scheme under which members of staff who have been in employment for more than 4 years, depending on their tenure of service, receive payment based on their final gross pay upon retirement. The scheme has the characteristics of a defined benefit plan, as set out under IAS 19, Employee benefits, however, it was not provided for in the financial statements for the year ended 30 June 2015. I also noted that the CAA’s practice is to provide or settle the amounts due under the gratuity scheme upon termination or expiry of an employee’s contract.

The above practice is not consistent with the requirements of IAS 19. Under IAS 19, gratuity schemes such as the one operated by CAA should be accounted for using the projected unit credit method. I also noted that the Authority has a long service award for members of staff who have been in employment for over 10 continuous years. The accrual for the long service award of UGX 1,525 million in the financial statements is based on the grade of the employee and their related entitlement however Long service awards should be typically accounted for in the same way as defined benefit plans by use of methods such as projected unit credit method for more accurate estimate of the obligation arising from Long service awards.

Management explained that the Authority had already secured the approval of the Board to establish a staff Retirement Benefits Fund and implementation was already in process. Management further explained that an actuary will be engaged in 2016/17 to determine the requirements of the Fund with a view of making an appropriate estimate of the obligation arising gratuity and Long service wards in the financial statements.
I wait the outcome of Management’s efforts to conduct an actuarial valuation of employee benefits to guide and enhance the accuracy of estimates made for short and long terms obligations arising of gratuity scheme and long service award.

**ii) Provision for leave pay**

IAS 19 – Employee benefits states that when an employee has rendered services to an entity during an accounting period, the entity should recognise the undiscounted amount of short-term employee benefits (e.g. paid annual leave) expected to be paid in exchange for those services as a liability.

As part of review of employee benefits, I recomputed the provision for leave pay using the employees’ basic pay and outstanding leave days and noted an understatement of UGX. 4,051million. Refer to the table below for details of this understatement.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (UGX’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision based on Audit computation</td>
<td>4,574,841</td>
</tr>
<tr>
<td>Amount per Trial Balance</td>
<td>523,502</td>
</tr>
<tr>
<td>Proposed additional provision</td>
<td>4,051,339</td>
</tr>
</tbody>
</table>

I noted that the provision of UGX 4,575 million is equivalent to approximately twice CAA’s total monthly basic pay, implying that many employees do not take leave as required by the Authority. Further, accumulating significant leave balances might result in liquidity risk challenges for CAA. Additionally, when employees do not take their leave entitlement, there is a heightened risk of fraud.

Management explained that the Department of Human Resources has tried to ensure that staff leave days are kept to a maximum of 72 days as per CAA HR manual. However deficiencies in required staff numbers for some jobs have forced some staff to take less leave days than their entitlement. Management is doing everything possible to fill the staffing gaps.
I advised Management to ensure that the provision for leave pay is accurately computed. Further, I recommend that management streamlines the internal processes to ensure that employees utilize most of their leave entitlement during the fiscal year.

182.2 Business and internal control

(a) Delays in financial reporting and non-compliance with statutory requirements

As part of the audit, I noted significant delays and inefficiencies with respect to some information. This is also evident in the number of audit and accounting issues I have raised, the internal control recommendations I have shared and the magnitude of the adjustments I have proposed to correct the misstatements identified in the draft financial statements.

Inevitably, in completing the audit, my view is that the vast majority of the exceptions I have identified should have been routinely dealt with as part of CAA’s monthly reporting.

I also noted that in the past, and during the year ended 30 June 2015, CAA has not complied with the statutory reporting requirement to submit audited financial statements within six months after year-end. This is partly attributable to the exceptions highlighted in this report.

The findings in this report imply that during the year, Management might not have had access to reliable financial information. They are also indicative of significant deficiencies in the control environment and provide an avenue for fraud to be perpetrated against CAA. However, I have not identified any instances of fraud with a material impact on the financial statements. Non-compliance with the statutory reporting requirement to submit audited financial statements within six months after year-end also poses a reputation risk to CAA.
Management explained that as a standard operating procedure, financial statements are prepared on a quarterly basis. Management further explained that in light of the Auditors findings, the Finance Directorate is going to put more emphasis on the reconciliation of income statement and balance sheet accounts on a monthly basis to avoid future delays in preparation of financial statements.

I await the outcome of Management’s efforts to strengthen internal controls.

(b) **Working capital management**

Following my review of the historical trends in CAA’s trade receivables, I noted that the outstanding balances as of year-end have been significantly increasing over the last 3 years. The table below sets out a trend of revenues and receivables over the last 3 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income (UGX'000)</td>
<td>164,060,426</td>
<td>141,815,237</td>
<td>150,561,020</td>
</tr>
<tr>
<td>Trade receivables (UGX'000)</td>
<td>88,676,891</td>
<td>105,770,172</td>
<td>141,310,989</td>
</tr>
<tr>
<td>Provision for doubtful debts (UGX'000)</td>
<td>5,5512,781</td>
<td>13,991,501</td>
<td>16,979,932</td>
</tr>
</tbody>
</table>

I noted that CAA experienced some liquidity challenges, which resulted into potential late payment penalties from suppliers like Energo Uganda despite the fact that the Authority had substantial amounts invested in fixed deposits. Specifically, Energo demanded a late payment penalty of UGX 500 million. The liquidity challenges were attributed to the challenging economic environment in which CAA operates and the fact that the vast majority of trade debtors relate to Government related agencies.

Insufficient working capital means that the Authority does not have sufficient cash available to meet its obligations when they fall due and invest in prospective capital projects. Furthermore, the Authority faces the risk of financial loss arising from late payment penalties.
Management explained that Energo Uganda Ltd’s threat of a payment penalty was waived as per their letter dated 6th September, 2016. Within the CAA credit policy, there is a requirement for due diligence procedures prior to granting credit to customers and terminating business with delinquent ones. Management further explained the Authority will further strengthen working capital management by regularly circularizing significant customers to ensure that they acknowledge outstanding debts. The exercise of analysing long outstanding balances to be written off for recovery of VAT, is in progress and the report is expected by the end of December 2016.

I await the outcome of Management’s efforts to tighten controls around the credit cycle.

182.3 Information Technology General Control issues

(a) Monitoring of User access Rights

CAA uses the following Applications;

- Sun system (Oracle 11g and Windows 2008 operating system)
- Gateway system (Oracle 9i and Windows 2008 operating system)
- Car park system (Firebird database and Linux operating system)

However, I noted that there was no evidence of periodic monitoring of user access rights at the application, database and operating system levels for all the applications in scope. Furthermore, I also noted that the audit trail for Oracle 11g is set to DB meaning that auditing is enabled but there was no evidence of review while the setting for Oracle 9i was set to NONE meaning that auditing was not enabled. Furthermore, the CAA Information and Communication Technology Policies and Procedure (CAA/CORP/IT/03 does not specify the procedures for review of access rights of the different users and who should be performing this review.

There is a risk that normal user accounts (that is; business users) may be used to bypass authorization or segregation of duties controls, leading to invalid
transactions. Privileged users such as systems administrators may bypass authorization or segregation of duties controls, leading to invalid transactions.

Management stated that the CAA ICT Policies and Procedures Manual 2011, 2. System Access Control Policy highlights high-level procedures/requirements for review of access rights. Management further stated that the Manual provides that the business application owner shall identify and IT Department reviews the access rights, in conjunction with the business application owner however there was need for improvement

I advised Management to ensure that access rights to applications, databases and operating systems are periodically monitored to ensure that they remain appropriate over time. I further advised that this process should be properly documented and implemented as part of the CAA Information and Communication Technology Policies and Procedure manual and as a minimum, the review should be performed for all financially relevant applications.

(b) **Monitoring of privileged access**

It was noted that there is no evidence that privileged account activities/transactions are reviewed of the following application, database and operating system levels.

- Sun system (Oracle 11g and Windows 2008 operating system)
- Gateway system (Oracle 9i and Windows 2008 operating system)
- Car park system (Firebird database and Linux operating system)

I also noted that the CAA Information and Communication Technology Policies and Procedure (CAA/CORP/IT/03 does not specify the procedures for review of privileged account activity and who should be performing this review.

There is a risk that Database administrators (or other users with direct edit access to production data stores) may make improper (i.e. inaccurate or invalid) changes to transaction records or master files.
Management explained that the CAA ICT Policies and Procedures Manual 2011, 1 User Account Management Policy, highlights high-level procedures/requirements for review of user accounts including the privileged accounts and requires that the Systems Administrator reviews the accounts periodically. Management further explained that the audit concerns were noted and the Authority will ensure that systems monitoring reports are documented.

I await the outcome of Management’s efforts to regularly monitor the security and efficiency of the information technology operating systems.

183.0 **Uganda Railways Corporation for the Year Ended 31st December 2015**

183.1 **Valuation of Property, Plant and Equipment**

Under IAS 16 Items of Property, Plant and Equipment should initially be recognized at Cost. However, for subsequent measurement the entity should choose either the Cost or Revaluation model. The Corporation adopted revaluation model for its subsequent measurements as its policy. In the circumstances, IAS 36 (Impairment of Assets) requires that assets should not be carried at more than their recoverable amount.

It was noted that Uganda Railways Corporation reflected a balance of UGX.100,555,627,000 in its financial statements for the year ended 31st December 2015 as being Property, Plant and Equipment. However, the Corporation last revalued its assets in 1988 despite indicative areas of impairment. The following examples are indicative of impairments;

- Passenger boats MV Barbus and MV Mvule valued at UGX.1,600,000,000 suspended operations on Lake Victoria and are anchored at Port Bell pier due to declining marine passenger services. Whereas MV Mvule was conceded to RVR and returned, MV Barbus and MV Pamba are still at Port Bell and MV Barbus is due to be disposed through sale while MV Pamba and MV Mwanga are awaiting repairs. MV Kaawa collided with MV Kabalega and the latter sunk. MV Barbus, MV Mwanga and MV Pamba are not generating any economic benefits to URC.
The Corporation owns rental properties in various towns in Uganda and Kenya which are dilapidated. However, the Corporation earns rental income from them which is far below market rates due to their state.

Management explained that the process of revaluation would soon be undertaken to address the concerns.

I await the Accounting Officer’s action on the matter.

183.2 Un-serviced Long Term Loans

The Corporation recorded a number of long term loans in its books amounting to UGX.22,067,482,000. This amount comprised of borrowed funds or funds mobilized by the government of Uganda from various multilateral and bi-lateral funding agencies for onward lending to the Corporation. However, these loans have not shown any movement from year to year yet there is no documentation for rescheduling the terms of payment. The balances have been outstanding in the Corporation’s books for over 28 years. In absence of documentation to support the reflected outstanding amounts, I am unable to establish whether the outstanding amounts are fairly stated.

Management explained that a follow up with Ministry of Finance Planning and Economic Development was done to have the loans turned into Equity.

I await the results of the Accounting Officer’s efforts.

183.3 Trade and other payables

The Corporation had a balance of UGX.8,436,412,000 outstanding as trade and other payables by the end of the year. URC registered an increase of 18% in trade and other payables from UGX.7,121,252,000 during the previous year to UGX.8,436,412,000 in the year under review which was quite significant. Furthermore, the balances of items in the payables accounts were not supported by original documents (LPOs, Contracts, Inward Invoices, claims, demand notes, schedules and others). It was also noted that the payables were understated by UGX.956,172,332 after netting off creditors with debit balances.
I was therefore unable to confirm whether the Corporation’s payables were complete, accurate and properly measured. The Corporation is at risk of litigation with related fines due to delays to settle these accounts.

Management explained that the obligations are currently being settled as they fall due.

I advised the Accounting Officer to settle obligations as and when they fall due. I also advised that adequate disclosure of note 26 should be made with schedules and necessary supporting source documents to enable confirmation of the balances. In the meantime, I await results of management consultation with Ministry of Finance.

### 183.4 Financial analysis and assessment of going concern

I carried out an analysis of the entity financial information and the following were observed for the attention of management with a view of ensuring entity survival;

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>Measures ability to meet short term liabilities when they fall due. Current assets were not adequate to cover current liabilities in all the years. The higher the ratio the better and ideal is 2:1 This is not healthy for URC.</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>Measures ability of current assets minus stock/ Inventory to meet short term obligations when they fall due. Current assets were insufficient to cover current liabilities for the past five years. The higher the ratio the better. This again is not healthy for URC. The ideal is 1:1</td>
</tr>
<tr>
<td>Average collection Period</td>
<td>912.5 Days</td>
<td>1,422 Days</td>
<td>1,029 Days</td>
<td>813 Days</td>
<td>3,943 Days</td>
<td>This ratio measures average number of days required to convert receivables into cash. It can be noted that it takes many years to collect cash and this is worsened by lack of credit policies. Ideal debtors’ policy should be not less than 60 days.</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>0.09</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.09</td>
<td>This Ratio indicates how many times, on average, accounts</td>
</tr>
<tr>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Turn-Over</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Receivables are collected during the year. It can be noted that the corporation converted accounts receivables into cash only 0.09 times in 2015 and is not favourable for all the five years.</td>
</tr>
<tr>
<td>Total Assets Turnover</td>
<td>0.094 times</td>
<td>0.033 times</td>
<td>0.044 times</td>
<td>0.045 times</td>
<td>0.027 times</td>
<td>This ratio assesses managements’ efficiency in managing all the corporation’s assets. The higher the ratio, the smaller the investment required and the more the profitability of the corporation. It can be noted that the corporation’s total assets turnover was worst in 2015 since 2011.</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>48%</td>
<td>46.3%</td>
<td>45.4%</td>
<td>48.7%</td>
<td>58.9%</td>
<td>This ratio measures the proportion of all assets financed with debt. Use of debt involves risk due to fixed interest charges and principal repayments. Failure to satisfy the fixed charges may result into bankruptcy. Another risk is that a firm with too much debt has difficulty in raising additional debt finance when needed. It can be noted that the corporation is facing high risks related to debt financing.</td>
</tr>
<tr>
<td>Debt to Equity Ratio</td>
<td>0.94</td>
<td>1.44 times</td>
<td>1.49 times</td>
<td>1.70 times</td>
<td>2.65 times</td>
<td>This ratio measures the riskiness of the corporation’s capital structure in terms of creditors and equity owners. The higher the proportion the greater the degree of risk. It can be noted that the corporation is facing a high risk related to debt financing.</td>
</tr>
</tbody>
</table>

The ratios are an indication that Uganda Railways Corporation may not be able to sustain provision of services under its mandate.

Management explained that efforts were being made to clean up the corporations accounts which would improve the ratios. Management further explained that they had made a request to Government to turn the loans into Equity in order to improve on its status.

I await the outcome of the management’s efforts.

183.5 Proceeds from Disposal of non-core assets (Land)
Section 26 of the Public Enterprise Reform and Divestiture act 1993 empowers the Privatization Unit of the Ministry of Finance, Planning and Economic Development to dispose of public enterprises and stipulates how the proceeds from privatized enterprises are to be used.

Pursuant to the directives from the Ministry of Finance Planning and Economic Development, Ministry of Local Government and State House, Uganda Railways Corporation caused transfer of 57.93 acres of land titles for the following land located at Nsambya: FVR 440 Folio 16, Plot 12A Nsambya road, FVR 440 Folio 17, Plot 16A-28A Nsambya road, and FVR 440 Folio 18, Plot 2-28A Kibuli road to Uganda Land Commission. URC was to be compensated with UGX.1.2bn per acre based on the report by the Chief Government Valuer of November 2010.

The land titles were duly acknowledged received by the Chairman Uganda Land Commission on 8th April 2011. However, five years since the transaction was effected no payment has been effected. Failure to compensate URC for its land has caused a lot of financial distress to the Corporation as it has failed to clear pension and gratuity arrears and pre-concession liabilities that stand at UGX.14,026,706,088 at the close of the financial year.

Management explained that it was following up the matter with Ministry of Finance Planning and Economic Development.

I await the outcome of the Accounting officer’s effort.

183.6 Employment contracts to Graduate engineers

Management of URC appointed 4 (four) graduate trainees on contract for 12 months as per appointment letters dated 11/3/2014 and later contracts were extended up to end of February 2016. However I noted the following;

- Much as the Management Committee meeting held on 4/8/2015 under Minute 4/4/08/15 regularized their positions as graduate engineers, the positions are not provided for in the Organization Structure of the Corporation.
- Among the terms indicated in the appointment letters, was payment of top up allowance of UGX.1,587,131 per month for each of the four graduate
Engineers. However, top up allowances are not provided among the allowances in the URC Human Resource Manual 2007.

In view of the above observations, the appointment of Graduate Engineers was irregular.

Management explained that interviews were conducted at the beginning of the internship so that these staff could be appointed after the evaluation of their performance after 18 months of their internship however I was not satisfied with management’s explanation.

I advised management to carry out recruitment in line with the existing regulations. Should there be need for any adjustment, then management should consider reviewing the Human Resource Manual.

183.7 Payment of salary to a non-existent Estates Assistant

Section 11.1.21 of URC Financial Accounting Manual 2007 requires that when an employee leaves the service of the Corporation, the salary record is terminated. However I noted that UGX.4,650,000 was paid to one employee, formerly an Estates Assistant at Kaliro station. Records revealed that much as the Officer had abandoned work in November 2014, he continued receiving salary up to the month of August 2015 making it 10 months payment at a rate of 465,000 per month. Failure to supervise employees in the field led to loss of Corporation funds by paying a non-existent staff.

Management explained that the funds would be recovered from the former employee.

I await the outcome of management effort in the matter.

183.8 Travel Abroad - Irregular procurement of Air ticket services

It was noted that during the year the Corporation despite availability of several prequalified providers for air ticket services directly procured air ticket services to the tune of USD.23,451.76 on several occasions from one tour and travel company contrary to sections 46, 48 and 80(1) and (2) of the PPDA Act 2003.
The Corporation may not have achieved value for money on the services without any competition and therefore the supplier could have overcharged prices. Management explained that as way forward rotation will be done.

I advised the Accounting Officer that in future a request for quotation procurement method should be used and also rotate the service providers so as to have competitive prices.

183.9 Unrecovered advances to SGR Project activities - UGX.404,833,652

Section 38 of the URC act 1992 states that the Corporation shall not be required by the Government to provide to the Government or any other authority or person transport services or any other facilities either free or at a rate of charge which is insufficient to meet the cost involved in the provision of those services or facilities by the Corporation unless the Government undertakes in writing to make good the amount of the loss incurred by reason of the amount of the provision of those services or facilities.

During the period the Corporation spent UGX.404,833,652 on Standard Gauge Railway activities under the Project Management Unit (PMU) which was set up at URC on the understanding that when the PMU receives funds from Ministry of Works and Transport, a re-imbursement would be made. However these funds have not be refunded up to date.

Management explained that the refund was being followed up.
I await the outcome of the management’s effort in recovering the funds advanced to the project.

183.10 Litigation

Section 2 (2) of the Uganda Railways Corporation act 1992 states that the corporation shall be a body corporate, shall have perpetual succession and a common seal and may sue and be sued in its corporate name.

I reviewed the pending and concluded litigations by and against the Corporation and noted that by the end of the period under review the Corporation was involved in a total of 43 litigations. Ten (10) suits were filed by URC while thirty
three (33) were brought against URC. Out of the total suits only five have been partially concluded awaiting computation of bills of taxes and the remaining thirty eight (38) are yet to be concluded.

I noted with concern that many of the cases pending have high probability that the Corporation will lose them thereby resulting into probable liabilities. This has been as a result of lack of a strong legal team to defend the corporation. The litigations could result into exorbitant legal claims and compensations that could potentially wipe out the assets of the corporation.

Management explained that action on the matter would be taken.

I advised management to assemble a strong and experienced legal team to defend the suits in courts of law and also in future to always consult the Attorney General’s Office on handling all legal cases.

183.11 Budget performance

Section 3.1.7 (2) and (3) of the URC financial accounts manual 2007, entrusts the Chief Executive Officer with the responsibility to ensure achievement of targeted growth and profitability, coordination and monitoring of the departmental targets and Head of Department’s targets in line with the strategic plan and annual budgets.

It was observed that the entity did not perform as expected. Some targets were partially achieved or not achieved at all during the year and thus a number of entity objectives were not met. Details are below;

<table>
<thead>
<tr>
<th>Specific objectives</th>
<th>Specific plans</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concession monitoring</td>
<td>(i) Pursue RVR on the payment of VAT arrears on concession fees.</td>
<td>Amount continues to rise due to non-compliance by RVR. Legal suit against URA ruled against URC with costs.</td>
</tr>
<tr>
<td></td>
<td>(ii) Perform an independent revenue audit of RVR to establish the correctness of concession fee remittances to date.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(iii) Procure a motor inspection</td>
<td>Unimplemented</td>
</tr>
<tr>
<td>Specific objectives</td>
<td>Specific plans</td>
<td>Status</td>
</tr>
<tr>
<td>--------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>2. Management of assets</td>
<td>Complete the disposal process of the remaining tonnes of railway steel scrap UGX.200,000,000.</td>
<td>Disposal not completed. Sales contributed only UGX.14,000,000 out of budgeted Shs.200,000,000.</td>
</tr>
<tr>
<td>(ii) Transaction advisor for redevelopment of URC land at UGX.400,000,000.</td>
<td></td>
<td>Not done</td>
</tr>
<tr>
<td>(iii) Update the Corporation’s fixed asset register to accurately reflect the existence, condition and value of the assets.</td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>(iv) Rehabilitate and upgrade the wagon ferry MV Pamba and the motor service launch MV Mwanga.</td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>(v) Complete Phase II of the KfW-funded wagon general overhaul project.</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>(vi) Embark on the physical marking of the railway reserve boundaries using reinforced concrete pillars and mitigate the increasing encroachment and illegal allocation of railway land at UGX.1,000,000,000.</td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>(vi) Procure modern survey equipment to enable the Corporation’s land surveyors carry out their duties more efficiently and more cost-effectively at UGX.90,000,000.</td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>(vii) Complete additional works on renovation of the headquarters premises at UGX. 350,000,000</td>
<td></td>
<td>Procurement of additional works deferred to 2016.</td>
</tr>
<tr>
<td>(viii) Renovate the customs-bonded warehouses at Port Bell at UGX.1,100,000,000.</td>
<td></td>
<td>Procurement of contractor deferred to 2016. Works will be split into phases.</td>
</tr>
<tr>
<td>(ix) Rehabilitate the existing mobile crane at Port Bell at UGX.186,000,000.</td>
<td></td>
<td>Unimplemented, contract award awaits funds.</td>
</tr>
<tr>
<td>(x) Sanitation &amp; Improvement of the URC Tororo Estate at UGX.200,000,000.</td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>(xi) Digitization of important URC</td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>Specific objectives</td>
<td>Specific plans</td>
<td>Status</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------</td>
<td>--------</td>
</tr>
<tr>
<td>documents at UGX.150,000,000.</td>
<td>(xii) Construction of toilet facilities at selected stations at UGX.80,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xiii) Headquarters fencing completion UGX.60,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xiv) Urgent essential repairs to Nairobi House at UGX. 60,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xv) Headquarters Sewerage improvement works at UGX.50,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xvi) Urgent improvement of drawing office at UGX.50,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xvii) Furniture for Police at UGX.15,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xviii) External painting of CCE &amp; CME buildings at UGX.10,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xix) Fire Extinguishers at UGX.4,000,000.</td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>(xx) Execute various port rehabilitation and improvement civil works at Port Bell and Jinja Pier.</td>
<td>Unimplemented, Procurement deferred to 2016. Works to be done in phases.</td>
</tr>
<tr>
<td>3. Management of residual activities</td>
<td>(i) Embark upon the digitization (scanning) of important documents and records.</td>
<td>Unimplemented, Procurement deferred to 2016.</td>
</tr>
<tr>
<td></td>
<td>(ii) Settle the remaining pre-concession liabilities and post-concession arrears.</td>
<td>Unimplemented, Settlement of the balance of UGX 1 billion to NSSF awaits funds.</td>
</tr>
<tr>
<td>4. Rail development</td>
<td>(i) Assist the MOWT to implement the resettlement action plan (RAP) for the Kenya-Uganda railway (Uganda section).</td>
<td>On-going.</td>
</tr>
<tr>
<td></td>
<td>(ii) Provide the necessary technical support to MOWT on the various ongoing and new railway projects.</td>
<td>On-going.</td>
</tr>
<tr>
<td>5. Administration</td>
<td>(i) Procure two new motor vehicles Station Wagons to replace the existing ageing fleet at UGX.351,000,000.</td>
<td>Unimplemented, Contract award for 2 new vehicles awaits funds.</td>
</tr>
<tr>
<td>Specific objectives</td>
<td>Specific plans</td>
<td>Status</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------</td>
<td>--------</td>
</tr>
<tr>
<td>(ii) Motor Cycles 2 No- SO at UGX.10,000,000.</td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td></td>
<td>Train staff both locally and internationally.</td>
<td>On-going.</td>
</tr>
<tr>
<td>(iv) Restructure the establishment to enable the Corporation better meet its current mandate.</td>
<td>Study commenced but not completed. Internal process is underway.</td>
<td></td>
</tr>
<tr>
<td><strong>Electricals</strong></td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>(v) Alternative power supply line including 7 electric poles at UGX.34,000,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(vi) Back-up power supply for server room at UGX.34,000,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(vii) Air conditioners at UGX.2,000,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td></td>
<td>Unimplemented</td>
</tr>
<tr>
<td>(viii) Printer Stations at UGX.36,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ix) Networking CCE Building at UGX.24,235,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(x) New server at UGX.19,387,000.</td>
<td>Completed</td>
<td></td>
</tr>
<tr>
<td>(xi) Security Access Control at UGX.14,676,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xii) Security – CCTV at UGX.13,273,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xiii) Firewall at UGX.13,250,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xiv) UPS at UGX. 9,550,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xv) ERP Modules at UGX.9,275,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xvi) Photocopiers at UGX.13,000,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xvii) Desktop computers at UGX.5,000,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xviii) Laptop computers at UGX.16,000,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(xix) LaserJet printers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

640
Specific objectives | Specific plans | Status
---|---|---
| | UGX.5,000,000. | |
| Furniture | Furniture UGX.30,000,000. | Unimplemented |
| (xx) | | |
| (xxi) | Wooden file cabinets UGX.6,900,000. | Unimplemented |
| (xxii) | Chairs UGX.2,350,000. | Unimplemented |


(i) Pension for deceased ex-employees UGX.257,590,000. | Unimplemented |

(ii) Arrears of Gratuity UGX.160,703,000. | Unimplemented |

(iii) Due to RVR for Goods in Transit at handover UGX.1,243,242,000. | Unimplemented |

I advised management to ensure that realistic estimates are made and adequate supervision of the projects is undertaken.

183.12 Performance of RVRU Concession

(a) Concession Income and Expenditure

A 25 years’ concession agreement signed between GoU/URC and Rift Valley Railways (RVR) in 2006 require RVR to declare the Gross revenue /income earned every month to URC upon which income accruing to the later/URC of 11.1% is to be paid to URC every quarter of the financial year.

For the last five years up to 2015, URC received UGX.18,423,906,000 as concession fees from RVR in addition to its locally mobilized Income of UGX.13,098,385,000 and spent UGX.28,280,324,000 as detailed below:

### Income

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Concession fees (UGX.)</th>
<th>Other Income (UGX)</th>
<th>TOTAL</th>
<th>% Of Concession fees to total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2011</td>
<td>4,953,241,000</td>
<td>1,414,999,000</td>
<td>6,368,240,000</td>
</tr>
<tr>
<td>2</td>
<td>2012</td>
<td>4,451,406,000</td>
<td>3,330,768,000</td>
<td>7,782,174,000</td>
</tr>
<tr>
<td>3</td>
<td>2013</td>
<td>3,157,564,000</td>
<td>4,233,991,000</td>
<td>7,391,555,000</td>
</tr>
<tr>
<td>4</td>
<td>2014</td>
<td>2,799,456,000</td>
<td>1,421,836,000</td>
<td>4,221,292,000</td>
</tr>
<tr>
<td>Year</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>---------</td>
<td>----------</td>
<td>---------</td>
</tr>
<tr>
<td>1</td>
<td>Staff Costs</td>
<td>1,805,163,000</td>
<td>1,891,336,000</td>
<td>1,939,765,000</td>
</tr>
<tr>
<td>2</td>
<td>Operating Expenses</td>
<td>7,108,469,000</td>
<td>410,754,000</td>
<td>352,204,000</td>
</tr>
<tr>
<td>3</td>
<td>Administrative Exp</td>
<td>3,392,978,000</td>
<td>1,567,714,000</td>
<td>1,336,180,000</td>
</tr>
<tr>
<td>4</td>
<td>Finance Costs</td>
<td>72,549,000</td>
<td>256,825,000</td>
<td>66,119,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12,379,159,000</td>
<td>4,126,629,000</td>
<td>3,694,268,000</td>
<td>3,786,412,000</td>
</tr>
</tbody>
</table>

Grand TOTAL: 28,280,324,000

(b) Review of the performance of RVRU in relation to the concession agreement

A review of the RVRU concession agreement 2006 by the URC Chief Concession Officer revealed some shortcomings in regard to compliance with set timelines, targets and deliverables as outlined below;
<table>
<thead>
<tr>
<th>Ref UCA1</th>
<th>Concessionaire Obligation</th>
<th>Concessionaire Compliance Status</th>
<th>Recommended Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.4</td>
<td>Operate freight services</td>
<td>RVRU is providing rail freight services of very low quality and quantity though there is a recent slight improvement in the freight volume. By 2nd March 2015, they achieved their targeted freight volume of 250 Million Net tone Kilometre that had been set for 30th March 2015. The freight volume is slightly above the base line of 217.3 Million Net tone Kilometre (by 15%) but far below the target of year 5 (June 30, 2012) of 380.3 Million Net tone Kilometre that should have been achieved about three years ago. The 18 months target July 2014 to Dec 2015 was set at 272 NTK and the current performance July 2014 to June 2015 is at 190.8 NTK. This represents a 66.2% performance. At the current running rate of 15, by Dec 2015, RVR will have achieved and surpassed the set target and they will be at 280 NTK.</td>
<td>RVRU improves the quality and quantity of rail freight services by provision of planned monthly freight volumes for the next three years. RVRU needs to provide to URC the monthly freight volume targets well in advance.</td>
</tr>
<tr>
<td>E.1</td>
<td>Pay concession fees to URC on a quarterly basis at a rate of 11.1% of gross concession revenue within thirty (30) days of the end of each quarter.</td>
<td>There are no concession fees arrears RVRU owes URC and the concession fees is always paid within thirty days after the end of each quarter. A total of 13,076,365.24 has been paid up to the last quarter (Feb 2015 - April 2015) However, it is key to note the following: • Change in revenue share ratio for payment of concession fees from a ratio of 3:2 to 4:1 for Kenya &amp; Uganda respectively, this has had a significant drop in concession fees by 50% for URC • Concession payments are exclusive of VAT and VAT payable has accumulated to $2.515 m as at end of the last quarter (Feb 2015 – April 2015), Withholding tax certificates for US$288k are yet to be presented.</td>
<td>For VAT issue, pursue RVRU via legal means and RVRU to present Withholding tax certificates for US$,272,000.</td>
</tr>
<tr>
<td>F.1.1</td>
<td>Rehabilitate and maintain the railway track in accordance with Good Industry Practice.</td>
<td>The active railway track is NOT being maintained in accordance with Good Industry Practice. After a URC/RVRU meeting on 31st Jul 2014, RVRU agreed to provide a schedule of its track maintenance program and advise the actual performance on the curves but during their presentation, they shared a three year track maintenance program of 122km per year for both Kenya and Uganda. Of the 366km, 4.5km had been completed by December 2014. Since Dec 2014 480M3 of ballast has been offloaded and heaped at Kawolo station and not used, 2,784 sleepers were replaced, 14,078 joints were packed and 155KM extension geometry was corrected. RVR’s promise of a comprehensive report by April 2015 and the report hasn’t yet been issued and it’s overdue.</td>
<td>Serve RVRU with a Notice of Default.</td>
</tr>
<tr>
<td>F.1.2</td>
<td>The Tororo – Pakwach line be re-opened by August 2013</td>
<td>Of the Tororo – Pakwach line, only Tororo – Gulu section was re-opened in October 2013. The Gulu – Pakwach section is not yet re-opened awaiting UNRA to re-fix the five level crossings along the section. The Tororo- Gulu section that was re-opened is still dormant as there are no train operations along that line. However, RVRU said plans to commence freight services along the line are in advanced stages. The promised commencement of operations on May 2015 has not yet been met, and the track is still dormant with no cargo movement along the line. This track is without ballast however, attainment of the stipulated track standard will be assessed when the line becomes operational. Grave concern: According to the Concession Agreement amending deeds signed on August 25, 2010, the Toro - Pakwach Line was required to be operational by no later than August 25, 2013. Therefore it is now 2 years before this condition is met by RVR. Fail: RVRU has NOT maintained the Port bell Line and the Kasese Line (up to Nalukolongo) to the concession class 2 Track Standard and the Busoga Loop (Jinja-Kakira section) to Concession Class 1 Track Standard as described in schedule 5. RVRU has not shared its specific maintenance program for Uganda with URC, it is therefore not certain when these lines will be maintained.</td>
<td>RVRU to commence train services on the Tororo – Gulu line as soon as possible. Serve RVRU with a Notice of Default for not maintaining the Port Bell Line, the Kasese Line (up to Nalukolongo) to the concession class 2 Track Standard and the Busoga Loop (Jinja-Kakira section) to Concession Class 1 Track Standard.</td>
</tr>
<tr>
<td>Amend Deeds</td>
<td>UCA 2.1.5</td>
<td>Ensure that the Main Line shall, not later than the end of the Seventh Year (June 30, 2014) achieve at most 7% in aggregate, be subject to Temporary Speed Restrictions. Achieve class 3 Track standards with not more than 7% of the main line being subject to temporary speed restrictions. This was broken down in the following percentage targets: 25%, 21%, 11%, 6% and 4% for the month of June for the years 2014, 2015, 2016, 2017 and 2018.</td>
<td>RVRU did NOT meet its obligation of reducing the aggregate of the main line subjected to temporary speed restrictions to no more than 7% by no later than the end of the seventh year (June 30th 2014). And the last JRC, new targets were set for monitoring TSRs. RVR, by June 2015, achieved 23% of the total track under speed restriction against a target of 21%. The daily electronic speed restrictions imposed are being circulated to URC. Though the track length under Temporary Speed Restrictions is progressively reducing it is still far above and long overdue the stipulated of no more than 7% in aggregate of the main line by the end of seventh year (June 30, 2014). URC is critically monitoring the TSRs and the next target is 11% by June 2016.</td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
<td>---</td>
</tr>
<tr>
<td>F.3.1</td>
<td>Maintain and/or rehabilitate the conceded locomotives and rolling stock (wagons) in accordance with Good Industry Practice and/or OEM specifications.</td>
<td>The locomotives and rolling stock (wagons) are NOT being maintained in accordance with Good Industry Practice and/or OEM specifications. These conceded assets are deteriorating fast and many could suffer irreparable damage. As at 31st Oct 2013, all the 17 active locos were running but overdue on intermediate and/or general overhaul. Since November 2014, only 8 (Eight) locomotives (73 classes) have been earmarked for overhaul. By 31st March 2015 only one locomotive was almost complete while the second one was 40% progressing. The 26 inactive locomotives have been heavily cannibalized. Sick stopped tank wagons stabled in Kampala, Port bell and Nalukolongo have also been heavily cannibalized of various parts. In February 2015 URC demanded an explanation from RVRU on the extensive cannibalization of the rolling stock. However, up to date no explanation has been given.</td>
<td>Serve RVRU with a Notice of Default. RVRU to provide an explanation for excessive cannibalism of locomotives beyond economic repair</td>
</tr>
<tr>
<td>F.4.1</td>
<td>Rehabilitate and/or maintain the conceded shore and water-based installations in accordance with Good Industry Practice and the Laws of Uganda</td>
<td>Fail: The wagon ferry terminals have NOT been maintained in accordance with Good Industry Practice. However, RVRU is relaying on the timber sleepers at the link span in Port bell which are also broken down and in a much sorry state. Until of recent, the UMOJA ferry could not be offloaded because of the broken timber link span. Grave Concern: It is unsafe to use the current wooded link span and RVR needs to provide an explanation as to why this has reached such a state and after repeated advise from URC to rectify this sorry state.</td>
<td>RVRU shares with URC its plan for rehabilitating all water-based installations</td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
<td>---</td>
</tr>
<tr>
<td>F.5.1</td>
<td>Rehabilitate and/or maintain the conceded buildings and structures to meet safety standards and to have no maintenance arrears or in accordance with Good Industry Practice.</td>
<td>The buildings and structures have NOT been maintained in accordance with Good Industry Practice. The maintenance arrears of these buildings and structures have increased considerably. Further renovations of the workshop building are to be done before the end of 2015</td>
<td>Serve RVRU with a Notice of Default for failing to maintain houses and structures according to safety standards Demand that RVRU shares with URC its plan for periodical maintenance of the workshop building.</td>
</tr>
<tr>
<td>Amend Deeds UCA 2.1.8</td>
<td>Achieve freight volume increases of 15% by the end of Year 6 (June 30, 2013), 25% by the end of Year 7 (June 30, 2014) and 75% by the end of Year 8 (June 30, 2015), all above the agreed concession baseline of 217.3 million net tonne-km per annum.</td>
<td>RVRU has NOT achieved the phased freight volume increments by the stipulated timelines.</td>
<td></td>
</tr>
<tr>
<td>Amended JRC</td>
<td>Achieve freight volume target of 250 NTKM by March 2015</td>
<td>RVRU has achieved the phased freight volume increments.</td>
<td>RVRU submits its monthly NTKM targets for the next two years and action plan achieving these targets.</td>
</tr>
<tr>
<td>Amend Deeds UCA 2.1.9</td>
<td>Submit the initial safety management plan to URC by June 30, 2011.</td>
<td>RVRU did submit a safety manual which URC considered unsatisfactory and accordingly communicated. Pursuant to section H1.2 of the Concession Agreement URC has systematically followed up the matter but RVR has not fulfilled its concession obligation</td>
<td>Serve RVRU with a Notice of Default.</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>H.3.1</td>
<td>Comply with the classification and safety standards in respect of level crossings as contained in the URC-adopted Rule Book.</td>
<td>Most level crossings do not comply with the safety standards stipulated in the URC Engineering manual and are, therefore, NOT in a safe operating condition. They pose a substantial risk to the conceded rolling stock assets (locomotives and wagons) and to the motoring public and environment.</td>
<td>Serve RVRU with a Notice of Default.</td>
</tr>
<tr>
<td>H.5.1 (c)</td>
<td>Afford URC access to conduct inspections in the event of an accident involving a conceded asset(s).</td>
<td>RVRU does advise URC of all significant incidents involving conceded assets on time and allows URC to conduct an inspection of the assets involved in the incidents. RVR needs to advise URC on all accidents on time to enable incident inspection and investigations. Grave concern: RVR has not shared with URC details of conceded assets involved in accidents and their respective insurance claim status.</td>
<td>RVR shares with URC the progress on the insurance claims for all the accidents that required insurance claims since commencement of the concession.</td>
</tr>
<tr>
<td>H.6.1</td>
<td>Comply with the Laws of Uganda pertaining to environmental protection, and at the concessionaire's expense, take the necessary measures to repair or restore sites and soils whenever capital works or equipment operated by the concessionaire cause damage to the environment or are carried out in violation of environmental legislation.</td>
<td>There are no substantial environmental incidents reported to URC since Dec. 2014 implying that the railway operations have not resulted into significant environmental degradation. However, it is key to note the following:  - RVRU only notified NEMA of the oil spill to the environment in Budumba-Mukono District and the clean-up exercise that was done to restore the site. RVR has not provided written evidence from NEMA expressing satisfaction with the environmental restoration that was done  - It is not certain whether NEMA did inspect the site and was satisfied with the restoration.</td>
<td>RVRU submits written proof from NEMA that the environmental restorations for all oil spillages were satisfactorily done.</td>
</tr>
</tbody>
</table>
| H.7.3 | Take the measures available to it pursuant to the Laws of Uganda to avoid any encroachment on any part of the conceded assets (railway reserves) that have hitherto been free of encroachment (“further encroachment”). | RVRU has NOT prevented further encroachment onto the conceded railway reserves. Substantial encroachment has occurred during the concession as it has not instituted a mechanism for preventing further encroachment. Of the existing encroachment, an estimated (at least) 64% has occurred during the concession. Although in April 2014 and with the combined efforts of URC, KCCA & RVR, evictions were conducted in KCCA area as follows:  
+ Central station to Banda : 90%  
+ Central station to Port Bell : 5%  
+ Central station to Ndeeba : 70% | Serve RVRU with a Notice of Default. |
| J.1.8 (a) | Inform GOU and URC of events likely to give rise to claims under the Required Insurances immediately upon the occurrence of loss or damage to the insured (conceded) assets. | After the last JRC, RVRU has improved the reporting structure for incidents and all are advised via email and for constant reporting. However, it is key to note the following:  
+ RVR has not shared with URC details of accidents that caused significant damage on conceded assets that required insurance claims and the progress on the claims since commencement of the concession.  
+ RVR has not shared with URC the action plan for preventing the incidents from further re-occurrence. | RVRU submits the accident information with their respective insurance claims progress since the commencement of the concession. RVRU also shares with URC its action plan for preventing the incidents. |
<table>
<thead>
<tr>
<th>K.2</th>
<th>Engage a chartered accounting firm of international repute to carry out an annual external audit of the concessionaire's finance, capital, revenue transactions and traffic levels. The audit shall include an audit of the annual Gross Revenue of the concessionaire to ensure the accuracy of the calculation of the concession fees.</th>
<th>Deloitte &amp; Touche, Certified Public Accountant Uganda is the international company which conducted the annual external audit in June 2013. One of the areas of contention was the financials of June 2013 which indicated that the Conceded Asset Account was in favour of RVRU whereas that position was contrary to the Conceded Asset Account status as advised to RVRU by URC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amend Deeds UCA 2.1.11</td>
<td>Submit Quarterly Reports to GOU and URC within twenty one (21) days after the end of each quarter of each financial year.</td>
<td>RVRU does NOT submit its quarterly reports as in the stipulated time. The last quarter (Nov 2014 – Jan 2015) report is not yet submitted. Only fragmented business performance reports up to February 2015 with inadequate information have been submitted.</td>
</tr>
<tr>
<td>Ref UCA</td>
<td>Concessionaire Obligation</td>
<td>Concessionaire Compliance Status</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RVRU should consistently submit comprehensive quarterly reports in a timely manner.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recommended Action</td>
</tr>
</tbody>
</table>
JUSTICE, LAW AND ORDER SECTOR (JLOS)

184.0 Amnesty Commission – Year ended 30th June 2016

184.1 Unfilled positions

According to the Section 8(b) of the Amnesty Act 2002, the Commission should have six commissioners chaired by a Judge while running the Commission business. A review of the Commission structure and staffing establishment revealed that there are two commissioners who left the Commission sometime back but their positions have never been filled. The structure of the Commission has remained inadequate to accomplish its mandate. Absence of the commissioners is contrary to the provisions of the Amnesty Act. Further, the inadequate composition of the Commission may affect the smooth operations of Commission activities.

In their response, Management explained that the Commission had reminded the relevant authorities on the matter including the Permanent Secretary, Ministry of Internal Affairs.

I advised the management to keep liaising with the relevant authorities and have the vacant posts filled as per the act.

184.2 Expired strategic plan of Amnesty Commission

The strategic plan of the Amnesty Commission expired in 2015 and efforts to develop another one have not been forthcoming. Without a strategic plan, the Commission does not have any strategic direction.

Management responded that a new strategic plan is being developed and is in a draft form.

I advised management to expedite the preparation of a new strategic plan and have it approved.
### APPENDIX : Summary of opinions.

#### Appendix I: Summary of Audit Opinions issued on Ministries Departments and Agencies

<table>
<thead>
<tr>
<th>No.</th>
<th>Entity</th>
<th>Category</th>
<th>Sector</th>
<th>Opinion 2015/16</th>
<th>Opinion 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Busitema University</td>
<td>MDA</td>
<td>Education</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>2</td>
<td>Uganda Management Institute</td>
<td>MDA</td>
<td>Education</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>3</td>
<td>Muni University</td>
<td>MDA</td>
<td>Education</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>4</td>
<td>Uganda Prisons</td>
<td>MDA</td>
<td>JLOS</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>5</td>
<td>Uganda Police Force</td>
<td>MDA</td>
<td>JLOS</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>6</td>
<td>Directorate of Public Prosecutions</td>
<td>MDA</td>
<td>JLOS</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>7</td>
<td>Directorate of Ethics and Integrity</td>
<td>MDA</td>
<td>Accountability</td>
<td>Unqualified</td>
<td>Unqualified</td>
</tr>
<tr>
<td>8</td>
<td>Gulu University</td>
<td>MDA</td>
<td>Education</td>
<td>Unqualified</td>
<td>Unqualified</td>
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