REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA EMBASSY, BEIJING
FOR THE YEAR ENDED 30TH JUNE 2016

OFFICE OF THE AUDITOR GENERAL
UGANDA
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## ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY</td>
<td>Financial year</td>
</tr>
<tr>
<td>MOFPED</td>
<td>Ministry of Finance, Planning, Economic Development</td>
</tr>
<tr>
<td>NTR</td>
<td>Non-tax revenue</td>
</tr>
<tr>
<td>PFMA</td>
<td>Public Finance Management Act</td>
</tr>
<tr>
<td>POS</td>
<td>Point of sale</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>US$</td>
<td>United States Dollars</td>
</tr>
</tbody>
</table>
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA EMBASSY, BEIJING
FOR THE YEAR ENDED 30TH JUNE 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Uganda Embassy, Beijing for the year ended 30th June 2016. These financial statements comprise of the statement of financial position, statement of financial performance, statement of changes in equity, cash flow statement together with other accompanying statements, notes and accounting policies.

Management Responsibility
Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015 the Accounting Officer is accountable to Parliament for the funds and resources of the Embassy. The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act, 2015, the Financial Reporting Guide, 2008 and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

PART “A”
Opinion
In my opinion, the financial statements of the Uganda Embassy, Beijing for the year ended 30th June 2016 are prepared, in all material respects in accordance with Section 51 of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2008.

Emphasis of matter
Without qualifying my opinion, I draw attention to the following matter described in paragraphs 8.1 in part ‘B’ of this report:

- **Un-utilised funds for purchase of land-US $555,440**
  US$.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. I advised Management to follow up the matter with authorities with a view to ensuring that land is availed to the Embassy for construction.

- **Un-remittd Non-tax revenue-UGX 350,615,088**
  Out of UGX.530,039,088 NTR collected, only UGX.179,424,000 was remitted leaving a balance of UGX.350,615,088 outstanding and utilized at source. This practice is irregular as it contradicts S.29 2(a) of the PMFA 2015 which requires all revenue collected or received to be paid into and form part of the consolidated fund.
I advised management to remit and account for the outstanding amounts and stop using NTR at source.

John F.S. Muwanga  

AUDITOR GENERAL  

KAMPALA  

28th December, 2016
REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION
This Section outlines the detailed audit findings, management responses and my recommendations in respect thereof.

1.0 **INTRODUCTION**

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

2.0 **BACKGROUND**

The Uganda Embassy Beinjing, is located on Plot 5, San li tun Dong Jie, Beijing 100600 China. The Embassy in Beijing is also accredited to North Korea, Vietnam, Cambodia and Laos.

3.0 **ENTITY FINANCING**

The Embassy was financed by Grants from Central Government to the tune of UGX. 4,368,253,388. Non-tax revenue (NTR) realized amounted to UGX.530,294,708 making a total operating revenue for the year of UGX.4,898,548,096 which constituted 103% of its total approved budget estimates for year of UGX.4,768,253,905.

4.0 **OBJECTIVES OF THE MISSION**

The Embassy has the following objectives:-

- Increase investments (Foreign Direct Investments) in infrastructure development i.e. Roads, Railway, Power generation and hotels;
- Increase Uganda’s volume of exports (coffee, leather, fish) to these countries;
- Increase in technology transfer and agricultural mechanization from the accredited countries to Uganda;
• Increase rate of education and training opportunities especially in the field of Defence and equipment;
• Increase inward bound tourism to Uganda;
• Increase volume of grants and soft loans.

5.0 **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 procedures as was considered necessary. In conducting my reviews, special attention was paid to establish whether:-

a. The financial statements have been prepared in accordance with consistently applied Accounting Policies and fairly present the revenues and expenditures for the period and of the financial position as at the end of the period.

b. All Mission funds were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.

c. Goods and services financed have been procured in accordance with the Government of Uganda procurement regulations.

d. To evaluate and obtain a sufficient understanding of the internal control structure of the Mission, assess control risk and identify reportable conditions, including material internal control weaknesses

e. The Mission’s Management was in compliance with the Government of Uganda financial regulations.

f. All necessary supporting documents, records and accounts have been kept in respect of all Mission activities, and are in agreement with the financial statements presented.

6.0 **AUDIT PROCEDURES PERFORMED**
The following audit procedures were undertaken:-

a. **Revenue**
   Obtained schedules of all revenues collected and reconciled the amounts to the Mission’s cashbooks and bank statements.
b. **Expenditure**
The Mission 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. **Procurement**
Reviewed the procurement of goods and services under the Mission during the period under review and reconciled with the approved procurement plan.

e. **Fixed Assets Management**
Reviewed the use and management of the Mission assets during the period audited.

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

### 7.0 CATEGORIZATION AND SUMMARY OF FINDINGS

#### 7.1 Categorization of findings

The following system of profiling of the audit findings is used to better prioritize 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><strong>High significance</strong></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><strong>Moderate significance</strong></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><strong>Low significance</strong></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>
7.2 Summary of findings

<table>
<thead>
<tr>
<th>No</th>
<th>Finding</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1</td>
<td>Un-utilized funds for purchase of land</td>
<td>High</td>
</tr>
<tr>
<td>8.2</td>
<td>Un-remitted Non-tax revenue</td>
<td>High</td>
</tr>
<tr>
<td>8.3</td>
<td>Unauthorized excess expenditure-UGX 803,476,992</td>
<td>High</td>
</tr>
<tr>
<td>8.4</td>
<td>Outstanding Payables-UGX 503,141,032</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.5</td>
<td>Loss of stickers</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.6</td>
<td>Unbudgeted for item on recall of staff</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.7</td>
<td>Review of Implementation of the Mission Charter</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

8.0 DETAILED FINDINGS

8.1 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.

8.2 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.

8.3 **Unauthorized excess expenditure-UGX 803,476,992**

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 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>2155006.4</td>
<td>2155006.4</td>
<td>2320216.73</td>
<td>-165210.33</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>-1,597,987.08</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.

8.4 **Outstanding Payables-UGX 503,141,032**

Section 21(2) of the PFMA 2015 provides 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 the previous financial year; and it has capacity to pay for the expenditure from the approved estimates as appropriated by Parliament for that financial year.

However, contrary to the above it was observed that the Embassy had outstanding obligations amounting to UGX.503,141,032 in respect of rent of the chancery and official residence. Some of these funds have been outstanding for over a period of 3 years.

There is a risk that operations of the Embassy may be disrupted should the landlord choose to cause an eviction.

Management explained that the amount budgeted for were inadequate to meet the expenditures on rent for the Chancery and Residence. Further, they stated that some of the rent arrears had been cleared in financial year 2016/17.

I advised management to pursue the matter with the Ministry of Finance, Planning and Economic Development to have the arrears settled. Further, the regulations should be adhered to.

8.5 **Loss of stickers**

Accordingly to Section 34 (3) of the Public Finance Management regulations, an Accounting Officer shall maintain a register of losses incurred and the register shall
indicate the nature of the loss and action taken against the person responsible for incurring the loss.

During the year under review, 250 ordinary entry visa stickers in serial numbers EV0078251-EV0078500 valued at US $25,000 went missing from the Embassy and have not yet been recovered. I noted that there was no register maintained for the issue of stickers and the stickers had been stored in drawers instead of a more secure place such as a safe. There was a risk that the entry visas may be issued out irregularly to un-authorised persons.

At the time of writing this report in December 2016, a case of irregular issue of stolen visa stickers had been reported at the Mission. According to the investigation report instituted by the Head of Mission, the sticker was issued by un-authorised members of the Mission.

I advised the Head of Mission and the Accounting Officer to bring the matter to the attention of the Permanent Secretary, Ministry of Foreign Affairs for further action on the officers.

8.6 Unbudgeted for item on recall of staff
I observed that the staffs at the mission are usually recalled after the end of four years of duty in foreign missions. As a result, costs such as haulage and tickets associated with recall are incurred by the missions. During the year under review, UGX 119,925,000 was incurred in that respect, however the items are not usually budgeted for and as such the mission has to source for funds within the available budget.
Settlement of the unbudgeted commitments constrains the planned activities of the mission as funds are diverted to these outputs.

Management explained that they had noted my concern but had incorporated the amounts in the 2017/18 budget.

I advised management to liaise with the Ministry of Finance, Planning and Economic Development to ensure such costs are budgeted for to avoid disruptions in the mission activities.
8.7 **Review of Implementation of the Mission Charter**

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 just like in the previous year, the mission charter and activities are not aligned with the budget allocation and release of funds. Review of the implementation of the Beijing mission charter for the year ended 30th June, 2016 revealed the following status indicated in the table below;

<table>
<thead>
<tr>
<th>Activities</th>
<th>Achievements</th>
<th>Challenges</th>
<th>Mitigation measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lobby Chinese concessional financing for Uganda of at least US$.1bn per year.</td>
<td>Followed up on Karuma financing which yielded to $660m Concessional loan of $200m for airport expansion A total of $880 million was successfully lobbied.</td>
<td>- lack of economically viable projects limits successfully engagement for concessional financing - Need for high level engagements from MDAs -Bureaucracy in the procedures of acquiring financing. - Allocated funds for concessional financing are limited by host government.</td>
<td>-Organize high level visits for MDAs further engagements with Chinese financing agencies. - Preparation of timely viable</td>
</tr>
<tr>
<td>2. Lobby inward Chinese investment of at least US$.2bn per year</td>
<td>Only $100m of Chinese investment approved</td>
<td>-Low response from MDAs in assisting potential investors -Inadequate funding for carrying out key activities that attract investments</td>
<td>- Need for timely responses and communication. - Increase funding for commercial diplomacy activities</td>
</tr>
<tr>
<td>3. Facilitate at least 100 Chinese/Ugandan joint ventures annually especially in the areas of agro-processing, oil and gas, hydro-electric power generation, infrastructure development, etc.</td>
<td>10 MOUS achieved between Chinese/Uganda in areas of cooperation.</td>
<td>- Low response from MDAS on initiated MOUs.</td>
<td>- Need for timely responses and communication</td>
</tr>
<tr>
<td>4. Engage China to continue to be</td>
<td>China played a major role in the stabilization</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>---</td>
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<td>---</td>
</tr>
<tr>
<td>supportive of various peace-building initiatives/processes of interest to Uganda and the Great Lakes Region.</td>
<td>of the conflict in South Sudan</td>
<td>- Inadequate levels of products that meet the required quality and quantity.</td>
<td>- Need to build production capacity quantity and quality of products - Increase funding for commercial diplomacy activities</td>
</tr>
<tr>
<td>5.</td>
<td>Promote at least 100m worth of Uganda exports into the Chinese market per year.</td>
<td>$54.643m worth of Uganda exports into Chinese market achieved.</td>
<td>- Low responses from MDAs on areas for transfer of technology</td>
</tr>
<tr>
<td></td>
<td>Identify and facilitate transfer of appropriate Chinese technology to Uganda especially in areas of agro-processing, oil and gas, infrastructure, etc.</td>
<td>Achieved through twining initiatives which encourages cooperation of technology transfer in key economic areas</td>
<td>- Inadequate funding to raise awareness on tourism potential in Uganda.</td>
</tr>
<tr>
<td>7.</td>
<td>Facilitate attraction of at least 100,000 Chinese Tourists to Uganda annually.</td>
<td>Achieved 943 tourists facilitated to Uganda</td>
<td>- Low response from MDAs on opportunities in the areas of education.</td>
</tr>
<tr>
<td>8.</td>
<td>Lobby for at least 100 Chinese scholarships for Ugandan students per year.</td>
<td>52 scholarships lobbied for Ugandan students</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Handle at least 200,000 requests for consular services annually.</td>
<td>1500 requests consular/diplomatic handled</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Identify and facilitate acquisition, development and maintenance of at least one government property in Beijing per year.</td>
<td>Process of acquisition of land ongoing</td>
<td>- Land designated by Chinese government for Embassies still in preliminary planning stage and awaiting an offer. - Outstanding rent arrears on Chancery and Residence from previous years still an obstacle in acquisition of land.</td>
</tr>
</tbody>
</table>
The practice hinders evaluation of achievement of targets against the resources availed.

Management explained that it noted the misalignment but had taken steps which enabled the mission to be selected among the pilot mission for roll-out of Commercial Diplomacy in the financial year 2016/17 with resources which will enable measurement of performance.

I advised management to ensure alignment of the budget in terms of resources to enable measurement of performance to the related resources appropriated.
FINANCIAL STATEMENTS