

**OFFICE OF THE AUDITOR GENERAL**



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF CHINA UGANDA FRIENDSHIP**

**HOSPITAL-NAGURU**

**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**

**UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS  
OF CHINA UGANDA FRIENDSHIP REFERRAL HOSPITAL-NAGURU FOR THE  
YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**Opinion**

I have audited the accompanying Financial Statements of China Uganda Friendship Referral Hospital-Naguru, which comprise the Statement of Financial Position as at 30<sup>th</sup> June 2017, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9-36

In my opinion, the financial statements of the China Uganda Friendship Referral Hospital-Naguru for the year ended 30<sup>th</sup> June 2017 are prepared, in all material respects in accordance with section 51 of the Public Finance Management Act, 2015.

**Basis of Opinion**

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Hospital in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Key Audit Matter**

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements taken as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters; I have determined the matters described below as key audit matters to be communicated in my report:

- **Utilization of Medicines and Health Supplies**

The Management of Medicines and Health Supplies Manual indicated that Medicines and health supplies form the second biggest expenditure in the health sector after human resources. It further shows that financial resources to procure needed medicines and health supplies are limited; therefore, appropriate stock management to ensure optimal use of resources cannot be overemphasized. The security of medicines must be ensured at all levels to prevent theft, abuse, misuse and wastage

China-Uganda Friendship Hospital Naguru (CUFH-N) was established to primarily serve the residents of Nakawa Division, Kampala Metropolitan Area and other Ugandans. The Hospital is also meant to decongest Mulago National Referral Hospital. The hospital has a capacity of 100 beds and its mandate is stipulated in the National Hospital policy of 2006.

Consequently in the course of auditing China-Uganda Friendship Hospital Naguru (CUFH-N) Financial Statements, I considered this matter as an area of focus.

The audit focused on the procedures, processes, tools and documentation used to manage medicines and health supplies. It also focused on the essential medicines and health supplies (EMHS) concept and how the hospital was planning and ordering for supplies from NMS against its fixed budgetary allocation to meet the needs of its patients or clients. Selected medicines and health supplies were used to trace their utilization in the hospital. Finally, I focused on establishing the availability of key human resource personnel to ensure that medicines and health

supplies are not wasted as explained in the Management of Medicines and Health Supplies Manual.

I involved external expertise in identifying the sample of tracer medicines and medical supplies and coming up with data collection tools. I observed the following matters;

- **Stock outs and Non-delivery of Medicines and medical Supplies**

Part 3 of the MMHS manual requires that management establishes policies, procedures and techniques to maintain an optimum amount of stock of each item at all Health Facilities to minimize stock outs and expiry.

The 10 (ten) items selected as tracer EMHS experienced stock outs ranging from 6 to 111 days.

Stock outs erode patients' confidence in the health sector which leads them to inappropriate and expensive alternative health care systems.

Management did not provide a response regarding the observation on stock out.

I advised management to liaise with the MoH and NMS to ensure continuous optimum stock of medicines and supplies.

- **Failure to record dispensed medical supplies**

Part 3 of the MMHS manual requires that correct stock records of an item be kept using the stock cards and the stock books to enable to track an item's consumption history and to quantify future needs.

I observed that, 1,950 units of Oxytocin delivered to the Main Store of Naguru hospital, 1250 dozens of Sutures delivered to the Dispensary/Outpatients Department, 132 dozens of Sutures delivered to the Accident/Emergency Unit and 26,850 dozen of gloves delivered to the Accident/Emergency were not accounted for as stores cards and ledgers were not up dated contrary to the Management of Medicines and Health Supplies Manual (MMHSM).

Whereas management explained that the items were properly recorded, the records were not availed for verification.

I advised management to maintain proper records so that it can track the medical supplies issued out to patients as a way of enhancing delivery of health.

- **Expiry of Tracer drugs**

Part 9 – of the MMHS manual requires that expired items should be properly recorded, placed in designated area and destroyed in accordance with the local regulations

I obtained and checked the records relating to the expired medicines and also inspected how they are stored.

Based on the procedures performed I noted no significant issues to report

**Emphasis of Matter**

Without qualifying my opinion, I draw your attention to the following matter in the financial statements:

- **Non-Tax Revenue (NTR) shortfall**

The PFMA 2015 section 15(3) requires an Accounting officer to commit the budget of a vote based on the annual cash flow plan issued under this section. Section 21(1) further states that an Accounting officer shall, based on the annual cash flow plan issued by the Secretary to the Treasury under section 15, plan and manage the activities as indicated in the policy statement of the vote.

Whereas the approved NTR budget was UGX.250,000,000, UGX.159,931,569 was realized resulting into a shortfall of UGX. 90,068,431 (36%)

Under-collection of NTR was attributed to the frequent breakdown of medical equipment especially the CT scan.

This resulted into non-implementation of planned activities such as staff training, general outpatient services Ultra sound services and various specialized clinics which negatively impacted on the functionality of the Hospital.

In response management explained that the CT scan was repaired and the strategy to digitalize the record system for the private wing and other sources of NTR is to be implemented to enhance the collection. A preventative maintenance for all diagnostic equipment is also being implemented.

I advised management to expeditiously implement the above proposals as this will enhance the NTR collections

- **Failure to utilize funds**

Section 15 of the Public Finance Management Act, 2015 (PFMA) requires the Secretary to Treasury to issue the annual cash flow plan of Government based on the procurement plans, work plans and recruitment plans approved by Parliament. It further provides that the cash flow plan shall be the basis for release of funds by the Accountant General to the Accounting Officers and for commitment of funds by the Accounting Officers.

Review of Quarter 4 Highlights of the Vote Performance revealed that a total of UGX.6.543 billion out of the approved budget of UGX.6.626 billion was released, representing 98.75% budget performance.

However, review of the Statement of Appropriation Account (based on nature of expenditure) indicated that only UGX.5,378,429,536 was utilised, with UGX.1,164,561,926 remaining unspent.

In response, management attributed the unspent balances to failure to recruit staff by the Health Service Commission in a timely manner.

Management is advised to liaise with Health Service Commission and ensure timely recruitment of staff.

**Other Matter**

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Lack of a Hospital Management Board**

Guideline 3 of the Guidelines on Hospital Management Boards for Referral Hospitals, 2003 requires the Minister of Health to appoint a Board to provide strategic vision and direction of the Hospital. The Guideline further requires that the Medical Superintendent and one representative of the hospital staff are some

of the 9 members of the Board while the Hospital Administrator is one of the Ex-officials and the Secretary to the Board.

However I observed that the Hospital Board has not been in existence for several years.

In the circumstances, the Board's roles of strategic leadership and oversight functions spelt out in the Guidelines were not undertaken.

Management explained that the process of constituting the Board was halted due to the intended takeover of the Hospital by KCCA.

I advised management to follow up with the Minister to have the Board appointed as provided in the guidelines.

- **Physical inspection of the Maternity ward**

The mission of the hospital is to provide general and specialized patient care services, train health professionals and conduct research.

Inspection of the Maternity Ward revealed the following;

- The hospital had only two delivery mattresses for mothers who give birth normally.
- Mothers, after giving birth, sleep on mats with their babies around the corridors, verandas and nurses work station.
- Expectant mothers admitted but not yet ready for the labor suite wait from the corridors due to lack of beds and space.

The above situation affects the hospital's capacity to effectively deliver the intended quality of healthcare services.

In response management explained that the Hospital was still grappling with space problems and that the Hospital had acquired donations of essentials including beds and mattresses to rescue the situation.

I urged management to continuously liaise with the relevant stakeholders to address the deficiencies as a way of enhancing health service delivery.

### **Responsibilities of the Accounting Officer 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 Officer is accountable to Parliament for the funds and resources of the Hospital.

The Accounting Officer is responsible for the preparation of the 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 misstatements, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Hospital's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Agency's operations, or has no realistic alternative but to do so.

### **Auditors' Responsibilities for the audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:-

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to deliver its mandate. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Hospital to fail to deliver its mandate.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga  
**AUDITOR GENERAL**

18<sup>th</sup> December 2017