OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

REPORT AND OPINION OF THE AUDITOR GENERAL ON THE CONSOLIDATED GOVERNMENT OF UGANDA FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

DECEMBER, 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA

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LIST OF ACRONYMS

ACRONYM	DESCRIPTION
AO	Accounting Officer
Bn	Billion
BoU	Bank of Uganda
DC	Development Committee
EATV	East African Tourism Visa
FY	Financial Year
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants' Code
ISSAIs	International Standards of Supreme Audit Institutions
MOFPED	Ministry of Finance, Planning, and Economic Development
MoUs	Memoranda of Understanding
NDP	National Development Plan
NIN	National Identification Number
OAG	Office of the Auditor General
PFMA	Public Finance Management Act, 2015
PIP	Public Investment Plan
PS/ST	Permanent Secretary/Secretary to the Treasury
TAI	Treasury Accounting Instructions, 2016
TIN	Tax Identification Number
UCF	Uganda Consolidated Fund
UGX	Uganda Shillings
USD	United States of America Dollars

Statement of Responsibilities of the Accounting Officer

The financial statements set out on pages 13 to 44 have been prepared in accordance with the provisions of Section 26(15) the Public Finance Management Act, 2015. The financial statements have been prepared on the modified cash basis of accounting and comply with the generally accepted accounting practice for the public sector.

In accordance with the provisions of Section 45 of the Public Finance Management Act, 2015, I am responsible for the control and personally accountable to Parliament for the regularity and propriety of the expenditure of money applied by an expenditure vote, or any provision funded wholly through the Uganda Consolidated Fund (UCF), and for all resources received, held or disposed of.

Under the provisions of Section 51 of the same Act, I am required to prepare, sign and submit financial statements to the Auditor General and the Accountant General within a period of two months from the end of the Financial Year. Accordingly, I am pleased to submit the required financial statements in compliance with the Act. I have provided, and will continue to provide all the information and explanations as may be required in connection with these financial statements.

To the best of my knowledge and belief, these financial statements agree with the books of account, which have been properly kept.

I accept responsibility for the integrity of these financial statements, the financial information they contain and their compliance with the Public Finance Management Act, 2015.

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Keith Muhakanizi

Secretary to the Treasury

Date:

Information about the Entity

Ministry of Finance (Treasury)

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Kampala - Uganda

Plot 6 Treasury Building, Plot 2-12 Apollo Kaggwa Rd,

General Telephone: 0414235051

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The Uganda Consolidated Fund is managed by Treasury under the Ministry of Finance Planning and Economic Development (MoFPED) and as such, follows the Vision, Mission, and Mandate of the MoFPED which are highlighted below;

Mandate

The mandate of the Ministry is to:

- To Formulate policies that enhance stability and development
- To mobilize local and external financial resources for public expenditure
- To regulate financial management and ensure efficiency in public expenditure
- To oversee national planning and strategic development initiatives for economic growth

Vision Statement

A most effective and efficient Ministry of Finance, Planning and Economic Development that is capable of achieving the fastest rate of economic transformation among the emerging economies.

Mission Statement

To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development

REPORT OF THE AUDITOR GENERAL ON THE CONSOLIDATED GOVERNMENT OF UGANDA FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the accompanying consolidated financial statements of Government of Uganda for the year ended 30th June 2017. These financial statements comprise of the Consolidated Statement of Financial Position as at 30th June 2017, the Consolidated Statement of Financial Performance, and Consolidated cash flow statement together with other accompanying statements, notes, and accounting policies.

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 2017 are prepared, in all material respects, in accordance with Section 52 of the Public Finance Management Act 2015, and the Financial Reporting Guide 2008.

Basis for Qualified Opinion

- **Mischarge of Expenditure – UGX.83,861,075,961**

  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. A review of the expenditures revealed that various entities charged wrong expenditure codes amounting to UGX.83,861,075,961. This leads to financial misreporting and undermines the budgeting process and the intentions of the appropriating authority as funds are not fully utilised for the intended purposes. It further impacts on the appropriateness of the future budgets since the reported actual figures are misleading.

  This practice has continued despite my recommendation in the previous audit reports and was attributed to laxity by the Accounting Officers to enforce strict budget discipline. The PS/ST in his response highlighted the various steps Treasury has taken to address the issue of mischarges arising in Government including making all mischarges a personal responsibility of the Accounting Officers, as well as having internal audit to follow up the matter. I have advised that Accounting Officers should observe high budgetary discipline and enforce strict adherence to the provisions regarding reallocation of funds, in order to have this practice contained.

- **Unaccounted for Advances – UGX.8,539,367,250**

  Expenditure by various entities amounting to UGX.8,539,367,250, was not accounted for by the time of the audit contrary to Section 10.21.11 of the Treasury Instructions 2017 which require all such advances to be accounted within 60 days of the completion of the exercise but in any case before the close of the financial year. In absence of proper accountability, I could not provide assurance as to whether the funds involved were utilised for the intended purposes. Such delays in accounting for funds encourage misuse. This was mainly attributed to laxity on the part of accounting officers to institute strict follow up procedures for funds advanced to staff.

  The PS/ST explained that he has placed a condition of proper accountability as criteria to be used in the reappointment of Accounting Officers and that the Internal Auditor General was responsible for advising him in this regard. I have advised the PS/ST to follow up on his guidance and ensure that errant Accounting Officers are brought to book, accordingly.

- **Unsupported Government Outstanding Commitments/Domestic Arrears**

  Although the Consolidated Financial Statements disclose an amount of UGX.2,908,436,405,967 as government outstanding commitments (comprising of payables UGX.2,284,964,328,329 and pension liabilities of UGX.623,472,077,638) as at 30th June 2017, I observed that a total of UGX.27,755,340,095 was not properly suported with adequate documentation to confirm delivery of the goods and/or services.

  Under the circumstances, I was not able to provide assurance that the amounts in question are genuine liabilities to government. I have advised that these questionable domestic arrears should not be recognised for future settlement by the accounting officers concerned, in the absence of any reliable evidence that the goods/services were delivered.

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI), and the National Audit Act 2008. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of my report. I am independent of the Treasury 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 (IESBA Code) together with the ethical requirements that are relevant to my audit of the consolidated financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of my audit of the consolidated financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. In addition to the matter described in the Basis of Qualified Opinion section, I have determined the matters described below as key audit matters to be communicated in my report;

- **Inadequate Controls Surrounding Management of Domestic Arrears**

  Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been a persistent accumulation of domestic arrears to unmanageable levels which has led to the settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears. The variances between the reported figures in the financial statements and the amounts verified by Internal Auditor General formed a basis of my qualification of consolidated GOU financial statements for the year ended 30th June 2016.

  Consequently, domestic arrears were considered a key audit matter which needed to be examined to assess: the appropriateness of recording, recognition, and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears. During audit planning, I focused on the examination of domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness; ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me to arrive at the audit conclusions.

Based on the procedures performed, I noted an increase in domestic arrears over the period of three years from UGX.1,325,229,140,264 in 2014/15, to UGX.2,254,390,826,628 in 2015/16, and UGX.2,908,436,405,967 in 2016/17. This makes the trend unsustainable. I observed that an amount of UGX.1,117,692,936,922 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. Further noted was that there was no budget provision for settlement of domestic arrears totaling to UGX.87,537,492,907, which poses a risk of diversion of funds for settling the underlying obligations. Besides, multi-year commitments worth UGX.81,258,326,983 were not backed by Parliamentary approvals, contrary to Section 23 of the PFMA 2015.

The Accounting Officers have attributed the increasing trend of domestic arrears to among others, the existence of a weak and ineffective commitment control system, budget cuts during the financial year, insufficient budgeting for certain items, early closure of the IFMS, as well as enhancement of salaries without matching resources by Universities.

Emphasis of Matter

Without qualifying my opinion further, attention is drawn to the following additional matters which have also been disclosed in the financial statements;

- **Contingent Liabilities – UGX.7,456,199,576,133**

  A contingent liability is a possible future cash outflow whose occurrence is dependent on an event which is not under the control of an organization. Including an amount as a contingent liability in the financial statements implies that management's assessment shows a possibility of a cash outflow in future. As disclosed in the statement of contingent liabilities, Government contingent liabilities have increased to UGX.7,456,199,576,133, up from UGX.6,532,497,083,522 reported in the previous year. My further analysis of these liabilities indicated that over 90% is as a result of the legal proceedings lodged against the government. The trend appears unsustainable in the event that a significant percentage crystallizes into liabilities.

In response, management stated that the contingent liabilities may not necessarily lead to an outflow of funds considering that they may not crystalize into actual liabilities. Government is advised to keenly explore the causes of the accumulation of contingent liabilities with a view of curtailing further increment.

- **Classified Expenditure**

  As disclosed under note 7, a total of UGX.477,258,188,366 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 Matter

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements;

1.0 BUDGET PERFORMANCE ANALYSIS

a) Revenue Performance Analysis

Government set to collect a total of UGX.13.46 trillion in the year under review in terms of URA taxes and Non Tax Revenue from MDAs. By the close of the year, a total of UGX.13.55 trillion had been collected as indicated in the table below;

Particulars	Target - UGX	Actual - UGX	Variance - UGX	Percentage
URA Tax Collections	13,116,777,269,494	12,641,415,416,846	475,361,852,648	96%
NTR Revenues	330,000,000,000	909,960,483,910	(579,960,483,910)	276%
Total	**13,446,777,269,494**	**13,551,375,900,756**	**(104,598,631,262)**	**101%**

I noted that the performance in terms of Tax collections was satisfactory, given that 96% of the planned tax revenue was actually collected. However, I also noted that the collection from Non Tax Revenue more than doubled the set target; this could be as a result setting low targets.

b) Expenditure Performance

During the year under review, Government set out to spend a total of UGX.19.58 trillion on Ministries, Agencies, Referral Hospitals, Embassies and Missions. An analysis of releases revealed that a total of UGX.17.6 trillion was released against the budgeted amounts, thus representing 89.7% performance. A sum of UGX.2.02 trillion was not released. See table below;

Particulars	Approved Budget (UGX)	Actual Releases (UGX)	Shortfall (UGX)	%age released
Ministries	4,252,084,649,387	3,743,714,750,703	508,369,898,684	88.0%
Agencies	15,001,566,570,558	13,526,195,681,035	1,475,370,889,523	90.2%
Referral Hospitals	180,261,870,490	153,993,905,406	26,267,965,084	85.4%
Embassies and Missions	154,231,463,495	149,010,578,960	5,220,884,535	96.6%
Total	**19,588,144,553,930**	**17,572,914,916,104**	**2,015,229,637,826**	**89.7%**

Further analysis of expenditure performance at an individual vote level, revealed that eighty four (84) votes, without Appropriation in Aid (AIA), had an average percentage release of 93% with only twenty six (26) votes below the average. Mostly affected entities included; Ministry of Gender, Labour and Social Development, Moroto Regional Hospital, and Ministry of Local Government.

Similarly, fifty five (55) votes with Appropriation in Aid (AIA), had an average percentage release of 78% with twenty (20) votes below the average.

Failure to release the budgeted funds to the votes affected implementation of their planned activities which eventually affects fulfilment of their mandates in the long run. The Accounting Officers attributed this shortfall to general budget cuts by the Ministry of Finance, Planning and Economic Development.

2.0 LACK OF A DOCUMENTED POLICY ON MANAGEMENT OF TAX EXEMPTIONS

The roles and objectives of the Tax Policy department under Treasury among others are to initiate, evolve and formulate tax policies to achieve economic policy goals and objectives and raise domestic revenues to finance the government budget. The department is also mandated to evaluate and advise on the impact of tax policy on taxpayers and the economy.

Treasury receives applications from investors for consideration for tax exemption. However, it was noted that there was no properly documented policy indicating the procedures for applying and guidance on selection of successful applicant investors for tax exemption. Similarly, there is no evidence of any selection criteria guiding the decision to offer some investors and denying others within the same investment sector. Besides, there were no follow-up reports to assess and establish the promised value of the investments, envisaged employment creation, and economic benefits arising out of the tax holiday.

In the circumstance, unfair business competition is likely to be created among investors within the same sector as was seen in the cement, steel and palm oil industries. This may lead to industrial distortions or even encourage unscrupulous business practices where benefiting companies could close shop at the expiry of the tax holiday and register new investments for consideration for fresh tax exemption.

In response, management stated that the cases in which Government has intervened to pay taxes are few and based on strategic considerations like the level of investment, job creation, industrialization, foreign exchange earnings and import substitution, although this criteria has not been documented. I advised the Treasury to put in place a properly documented tax exemption policy to guide the process of awarding tax exemptions including evaluations of the effects on revenue performance and actual benefits envisaged.

3.0 UN-EXPLORED OPPORTUNITY TO WIDEN THE TAX BASE

The roles and objectives of the Tax Policy Department under the Ministry of Finance among others is to identify new avenues of widening the tax base and draw up appropriate legal requirements for revenue collection and related legislation. Tax collections by URA are tracked through the Tax Identification Number (TIN) which is personal to holder with the objective of linking personal transactions to possible sources of income not declared for tax purposes. Similarly, Government introduced the National Identification Number (NIN) aimed at proper identification of all citizens to aid in the planning and provision of social services.

It was noted that opportunities to widen the tax base exist if the two unique identifiers are linked through a system interface and properly managed. Linking the NIN to the TIN would provide opportunities to enable tracking of holder’s transaction for possible income tax and related transactions. For instance, motor vehicle registration and transfer, land transactions, mortgages etc.; could lead to sources of un-declared income for tax purposes thereby widening the tax base and increasing the revenue collections. There is, therefore, a need to explore possibilities to tap into such tax areas.

Unless the tax base is widened, there is a risk of placing the burden of tax on a few compliant taxpayers which may lead to high taxation rates, low tax compliancy due to discontent among taxpayers, and unscrupulous taxation practices, such as under declarations and tax evasion. These, in turn, may generally lead to a low tax to GDP ratio.

Management in its response indicated that government through its agencies was in the process of developing strategies to improve revenue collection. I advised Treasury to explore possibilities of widening the tax base, including linking the TIN to the NIN for all financial services to provide broader information for tax purposes through a policy to integrate URA IT systems with other major Government and other institutional IT databases.

4.0 APPROVAL OF FUNDING FOR UN-APPRAISED PROJECTS

Section 3 of the Development Committee (DC) guidelines requires a new project to undergo four levels of approvals before it can be admitted into the Public Investment Plan (PIP). The four levels include (i) Prepare a project concept in line with NDP (ii) prepare a Project Profile demonstrating Key results (iii) undertake a pre-feasibility study, and (iv) conduct a feasibility study.

A review of the minutes of the DC dated 15th and 16th March 2017 revealed that some projects obtained project codes and admission into the PIP without proper project vetting as stated in the DC guidelines.

Further reviews of the same minutes revealed that the Committee agreed to work and undertake some of the projects retrospectively through the four levels of project approvals. The table below refers to some of the projects that did not go through the proper project vetting levels;

No	Project	Minute date	Signed date
1	Developing A market- Oriented and environmentally sustainable beef meet Industry In Uganda	16th March 2017	30th March 2017
2	Kampala Metropolitan Transmission system	15th March 2017	17th March 2017

	Improvement Project		
3	Masaka-Mbarara Power Transmission line Project	15th March 2017	17th March 2017

The same anomaly had been noted earlier in the minutes dated 11th December 2015 where some projects were halted along the way, after funding was obtained from the donor as a result of failing to carry out pre-investment studies. The fact that a project can obtain funding without going through the set procedures reveals a major weakness within the Ministry of Finance and presents a risk of funding projects which are not feasible and are not aligned to the National Development Plan (NDP).

In response, management informed me that the new Development Committee guidelines had been finalized and rolled out and did not expect the omission to re-occur going forward. I advised management to strengthen the controls surrounding appraisal and funding of new projects in accordance with new Development Committee Guidelines.

5.0 REVIEW OF PFMA IMPLEMENTATION

The Public Finance Management Act, 2015 came into force on 6th March 2015. However, a review of the extent of implementation of the Act revealed instances in which certain provisions have not been fully implemented. These include; Section 13(9) which stipulates inclusion of borrowing and contingent liabilities in the annual budget; Section 21 which prohibits votes from taking credit; Section 23(4) which requires the minister to submit a report of multiyear commitments made to parliament; and Section 25(6) which only allows supplementary expenditure in instances where the expenditure was unavoidable, was unforeseen and cannot be postponed.

Failure to fully implement the provisions of the Act may weaken financial controls enshrined in the Act and also deny information to decision makers. In his response, the PS/ST undertook to fully implement all outstanding provisions of the law going forward. I have advised that there is need to have a holistic review of all the outstanding provisions of the Act and develop a mechanism and timelines towards ensuring that they are comprehensively implemented.

6.0 EXCESSIVE CASH WITHDRAWALS – UGX.103,160,730,631

Cash is inherently risky and to minimise losses through handling cash, the PS/ST placed a monthly cap on cash withdrawals at UGX.40m per vote. However, an analysis of cash withdrawn in the year under review revealed that 14 entities irregularly withdrew cash totalling to UGX.103,160,730,631 over and above the set limit despite the fact that Treasury has the means to enforce this control through the IFMS. This exposes such funds to a risk of misuse given that cash is prone to abuse.

In response, management indicated that the nature of the Local Governments made it difficult in the past to operate within the cash limits and that the rollout of the E-Cash platform was expected to resolve this issue. I have advised the Accountant General to ensure that the PS/ST's directive is followed by stopping such transactions at the time of validation.

7.0 INCREASING EXPENDITURE OFF THE IFMS - UGX.274,531,965,784

The government of Uganda invested heavily in the IFMS with a view to promote financial transparency and have accurate financial information. I have, however, noted that over the years, the amounts of funds being transferred in bulk and spent outside the system is increasing. From a sample of 20 Ministries and Agencies, it was observed that 6 entities sent a total of UGX.274,531,965,784 to commercial banks outside the IFMS arrangement. Under the circumstances, the effectiveness derived from the use of the IFMS as a government wide system with embedded internal controls is not met. Instead, individual units then duplicate by having their own financial internal control systems.

Management explained that they were in advanced stages to stop this practice for a number of votes and that for several votes this was attributed to the transfer of subventions. The Secretary to the Treasury is advised to increase the coverage of votes using the IFMS.

8.0 DIRECTIVES ON SETTLEMENT OF PRIOR YEAR BILLS AS THE FIRST CALL ON SUBSEQUENT BUDGETS

Section 21(2) of the Public Finance Management Act, 2015 provides that a vote shall not take any credit from any local company or body unless it has the capacity to pay the expenditure from the approved estimates as appropriated by Parliament for that financial year.

It was noted that at the beginning of the financial year, the PS/ST in several communications has been directing Accounting Officers seeking for additional resources to settle prior year commitments to prioritize them as the first call on subsequent budgets. The IFMS guidelines have also not helped as they encourage cancellation of all unpaid invoices at the close of the year. However, the practice is inconsistent with the Government commitment control system which requires budget provisions to be made specifically for such domestic arrears. The directive distorts the budgeting process since prior year bills are paid from resources originally earmarked for other activities. As a result, Accounting Officers end up mischarging the arrears to un-related budget items which culminates into misleading financial statements as expenditure for prior years is captured as current year expenditure.

In response, management noted that Government operates a cash budget and largely applies cash accounting. It was indicated that accrual of the expenditures was allowed in cases relating to utilities, rent, contributions to international organizations and court awards, and any expenditure in the non-discretionary category becomes a first call on the next year's budget allocation. It was further explained that Government was finalizing a domestic arrears strategy with the intention to decisively address this matter.

I advised the PS/ST to encourage Accounting Officers to make budget provisions for all authorized outstanding commitments at the year end in line with provisions of the law. In addition, the IFMS should provide for retention of all unpaid invoices, which should form the basis for reallocation of funds to the domestic arrears budgeting code for payment in the subsequent year.

9.0 FAILURE TO ALIGN BUDGET FRAMEWORK PAPER AND ANNUAL BUDGET TO NDP II

Section 4(1) of the Public Finance Management Act (PFMA) 2015, provides that the objective of Government, when setting fiscal objectives within the macroeconomic framework, shall be to ensure macroeconomic stability and economic growth having regard to the National Development Plan. Section 13(6) of the PFMA guides that; the annual budget shall be consistent with the National Development Plan, the Charter for Fiscal Responsibility and the Budget Framework Paper. Section 9(3) further requires the

Minister for each financial year, to prepare a Budget Framework Paper which is consistent with the National Development Plan and the Charter for Fiscal Responsibility.

Review of the certificate of compliance report issued by National Planning Authority revealed the existence of several gaps in the alignment of the sector budgets to the NDP II. It was noted that some key NDP II priority objectives and interventions were not included in the Budget Framework Paper and the Annual Budget for 2016/2017 in a number of sectors as required. See details in the table below;

SN	Sector	NDP II Objectives and Interventions
1.	Trade, Industry & Tourism Sector	• Improve the stock and quality of trade infrastructures through the establishment of satellite border markets, supporting tourism sites with utilities & ICT related services. • Re-vitalization of the Uganda Dev't Corporations • Enhancing the capacity of cooperatives to compete in domestic, regional & International Markets.
2.	Energy Sector	• Establishment of Mineral potential of Karamoja region • Improving the geochemical and geophysical surveys
3.	Education Sector	• Early childhood education and development • School feeding • Skill development and employability • The intervention of having a government-aided primary school per parishes.
4.	Works and Transport	• Developing the Transport sector MIS • Establishment of a National Road Safety Authority & Multi-sectoral transport regulatory Authority • Establishment of the second generation road fund
5.	Water and Environment Sector	• Improving water quality • Improving access to rural water supply • Market for wetland product developed • Rainwater harvesting intervention promoted

In addition, two projects namely; Multi-sectoral food safety and nutrition projects and NAADS –KCCA are being funded and yet were not among the prioritized projects in NDP II PIP 2015/16-2019/20.

Sector	Un-prioritized Project	Approved Budget 2016/17
Agricultural Sector	Multi-sectoral food safety and nutrition	UGX.22,029,049,000
	NAADS –KCCA	UGX.7,271,879,000

Failure to align the above key NDP II objectives and intervention to the Budget Framework paper and the annual budget for 2016/17 poses a risk that nonpriority areas will be funded at the expense of priority areas, thus hindering the attainment of vision 2040.

In response, management explained that at the macro level, the budget is aligned to the NDP and acknowledged that the mal-alignment is found at the sector level. Management further explained that the responsibility to prioritize the interventions in line with NDP and sector investment plans belongs to the sectors.

Management should ensure that the affected entities consider fully aligning NDP II objectives and interventions to the subsequent Budget Framework paper and the annual budget.

10.0 PROVISION OF COUNTERPART FUNDING FOR GOVERNMENT PROJECTS

I observed that Government entered into financing agreements with various development partners, in which it committed to provide counterpart funding through various implementing ministries.

However, I noted that government through MOFPED did not provide counterpart funding to the tune of UGX.43,708,375,637 to a number of projects as shown in the table below;

Table: Failure to provide counter funding

Projects	Budget - UGX	Actual - UGX	Shortfall - UGX	% re-leased
CAIIP - Phase 1	10,284,246,000	1,029,965,270	9,254,280,730	10.01
CAIIP – Phase 2	16,729,950,000	5,970,554,978	10,759,395,022	35.69
CAIIP – Phase 3	8,262,060,000	7,425,979,077	836,080,923	89.88
Urban Markets and Marketing development of Agricultural products Project	2,777,974,000	1,031,515,442	1,746,458,558	37%
ATAAS MAAIF component-Ministry of Agriculture, Animal Industry and Fisheries	950,000,000	677,700,001	272,299,999	29 %
Market and Agricultural Trade Improvement Project-Phase 2	11,867,111,200	21,710,202,659	(9,843,091,459)	182.94
Market and Agricultural Trade Improvement Project-Phase 2	32,427,826,300	4,460,867,794	27,966,958,506	13.76
Urban Markets and Marketing development of Agricultural products Project	3,747,508,800	1,031,515,442	2,715,993,358	27.53
TOTALS	**87,046,676,300**	**43,338,300,663**	**43,708,375,637**	

The failure by government to honour its counterpart funding is attributed to lack of prioritization during its budget financing. This practice affects implementation of project activities and is a violation of the terms and conditions of the donor agreements which in turn affects the country's credibility. Government should ensure that it prioritizes payment of project counterpart funding as agreed upon in the funding agreements.

Responsibilities of Management for the Consolidated 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 appointed as the Accounting Officer and Receiver of Revenue for the Consolidated Fund. The Accountant General is therefore 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 consolidated financial statements that are free from material misstatements, whether due to fraud or error.

The Accountant General is responsible for overseeing the Government's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

My objectives 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 are to obtain reasonable assurance about whether the consolidated 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 ISSAI's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISSAI, I exercise professional judgment and maintain professional skepticism throughout the audit. I also;

- Identify and assess the risks of material misstatement of the consolidated 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 entity'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 entity 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 a fair presentation.

I communicate with the Accounting Officer 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 Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her 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 the Accounting Officer, 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.

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA

22nd December, 2017.

FINANCIAL STATEMENTS