OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF EQUAL OPPORTUNITIES COMMISSION FOR THE YEAR ENDED 30TH JUNE 2017

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UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF EQUAL OPPORTUNITIES COMMISSION FOR THE YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the accompanying Financial Statements of Equal Opportunities Commission, which comprise the Statement of Financial Position, as at 30th 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 to 29.

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements of Equal Opportunities Commission for the year ended 30th June 2017 are prepared, in all material respects in accordance with section 51 of the Public Finance Management Act, 2015.

Basis of Qualified Opinion

- **Mischarge of expenditure**

  A sum of UGX 134,402,487 was charged on codes other than those for which funds were appropriated leading to mischarge of expenditure contrary to the GoU Chart of accounts and paragraph 4 (d) of the Accounting Officer's appointment letter which requires Accounting Officers to use financial and other resources for the purposes for which they were voted.

  I explained to the Accounting Officer that this practice undermines the intentions of the appropriating authority and leads to preparation of misleading financial statements. Management attributed the mischarge to inadequate funding.

  I advised the Accounting Officer to liaise with MoFPED to ensure that adequate funds are allocated to the budget items and always seek proper authority for re-allocations.

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 Commission 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 Matters

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 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;

- **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 persistent accumulation of domestic arrears to unmanageable levels which has led to 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 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 arrive at the audit conclusions.

Based on the procedure performed, I observed that there has been an increase in domestic arrears over the period of three years and the trend may not be sustainable: from UGX 3,410,629 in 2014/15 to UGX 600,179,792 in 2016/17. This poses a risk of litigation and payment of penalties and fines for delayed settlement.

I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX 320,680,100 posing a risk of diversion of funds for settling the obligations.

This may be as a result of existence of a weak and ineffective internal control system over the control and management of domestic arrears. For example, the government commitment control system was not adhered to.

According to the Accounting Officer, accumulation of arrears especially gratuity arrears was beyond the control of the Accounting Officer. The Ministry of Finance had been constantly reminded of the same and management was still waiting for release of funds to clear off the outstanding gratuity arrears.

I advised the Accounting Officer to fully comply with the provisions of the PFMA, 2015 with regard to commitment control.

Emphasis of Matter

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

- **Long outstanding salary advances**

  Included in Note 19 to the Financial Statements are receivables comprising of salary advances to staff amounting to UGX 120,066,996. These remained outstanding for more than one financial year contrary to Section (B-a) paragraph 23 of the Public Service Standing Orders 2010, which requires the amounts advanced to be recovered through deduction from the officer's salary in not more than nine (9) equal instalments beginning with the proceeding month the advance was made.

  Also noted was that of out of the outstanding amounts, UGX 49,000,000 was advanced to staff that were dismissed. This was attributed to failure by management to comply with the Public Service Standing Orders. There is a risk of loss of funds through failure to recover the advances.

  Management explained that the outstanding advances relate to dismissed staff who still have outstanding gratuity arrears. When the gratuity arrears funds are received funds will be deducted to clear the outstanding staff advances

  I advised the Accounting Officer to ensure that the outstanding salary advances are recovered as soon as it is practically possible.

Other Matter

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

- **Nugatory expenditure**

  A review of staff personnel files and payment files revealed that five staff were dismissed from office without proper justification contrary to Section (F-t) paragraphs (6 & 8) of the Public Service Standing Orders 2010 which requires a public officer to be dismissed only in the most serious cases of misconduct and acting in a way incompatible with his or her status as a Public officer.

Consequently, the Commission expended UGX **69,876,980** on the affected Officers in respect of payments in lieu of notice which expenditure could have been avoided.

The practice creates job insecurity among the existing staff as well as low morale for work which in turn leads to staff turnover. It also attracts litigation together with its attendant costs. Management explained that the affected staff had disciplinary issues and appropriate procedures were followed.

I advised Management to fully comply with the provisions of the Public Service Standing Orders regarding dismissal/termination of staff.

- **<u>Payment in lieu of leave</u>**

  Section (C – a) paragraph 15 of the Public Service Standing Orders, 2010 states that "leave shall not be commuted into cash except when a public officer passes away with approved earned leave and a death certificate from a Government Medical Officer or a police report has been availed or when an officer's services are terminated, other than by dismissal, with approved earned leave to his/her credit." Contrary to the above, it was noted that the Commission expended UGX 119,682,394 in respect of payments in lieu of leave to its officers. However, the Officers did not meet the above stated criteria and the expenditure was not budgeted for thereby rendering the payments irregular. This implies that the funds paid could have been re-allocated without necessary authority thereby affecting implementation of planned activities.

The Accounting Officer explained that the decision to pay was guided by the Commission's Human Resource Policies and Procedures Manual. However, the manual was in conflict with the Public Service Standing Orders and the Circular Standing Instructions 2008.

I advised Management to align the HR manual with the Public Service Standing Orders and Circular Standing Instructions 2008 as well as recover the funds from the responsible officers.

- **<u>Appointments of staff on Contract terms</u>**

  Section (A-h) paragraph 2 of the Public Service Standing Orders 2010 requires appointments on contract terms with gratuity to be made for the employment of non-citizens. Regarding citizens, contract appointments are to be made when certified by a Government Medical Officer to be a medical risk for pensionable employment; where one cannot complete the qualifying period for pension before retiring on the due date; when a candidate is a retired officer and is receiving a pension from the Uganda Government; when a candidate is appointed for a specific period of time; or when the terms of employment for a particular post dictate so.

  It was noted that the Commission appointed all its staff on contract terms contrary to the Public Service Standing Orders. As a result the Commission expended UGX 962,317,891 during the year on staff gratuity which could have been avoided thereby rendering the expenditure wasteful.

  Also noted was that the contract appointments being temporal appointments are subject to abuse by management and this creates job insecurity, low morale for work and leads to probable staff turnover.

  Management acknowledged the anomaly and stated that the Commission in consultation with the Ministry of Public Service was in the process of making the staff permanent.

  I await results of the Commission's consultation with the Ministry of Public Service.

- **<u>Use of inappropriate procurement method</u>**

  Section 85 (1) of the PPDA Act, 2003 provides for the use of direct procurement method where exceptional circumstances prevent the use of competition or use of any open bidding methods.

  It was however noted that the Commission procured two motor vehicles from M/S Toyota Uganda Ltd worth UGX 309,354,569 using the direct procurement method without justification. The practice was attributed to failure by management to comply with the PPDA regulations.

Under the circumstances, I could not confirm whether there was effective competition and whether the Commission obtained value for money in the procurements undertaken.

Management acknowledged the anomaly and stated that a qualified procurement officer had been recruited to address procurement challenges.

I await results of the action taken by management to address the matter.

- **Budget Performance**

  A review of the budget performance reports for the year revealed that the Commission did not implement all the planned activities despite receiving UGX 6,920,824,908 representing 95% of its approved budget of UGX 7,278,081,876. This was attributed to re-allocation of funds without the necessary authority. Management acknowledged the anomaly and attributed it to underfunding.

  I advised Management to ensure that funds are utilized for the purpose for which they were budgeted. This will enable implementation of all planned activities

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 Commission.

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 Commission's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Commission'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 Commission'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 Commission'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 Commission 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.

John F.S. Muwanga
AUDITOR GENERAL

20th December 2017