THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Meaning
MOWT	Ministry of Works and Transport
UNRA	Uganda National Roads Authority
UCEPS	Uganda Communications Employees Contributory Scheme
UEGCL	Uganda Electricity Generation Company Limited
UETCL	Uganda Electricity Transmission Company Limited
MoFPED	Ministry of Finance, Planning and Economic Development
URA	Uganda Revenue Authority
PURSP	Privatization & Utility Reform Sector Project
PPDA	Public Procurement & Disposal of Assets Authority
TAT	Tax Appeals Tribunal
POPSEC	Population Secretariate
PIBID	Presidential Initiative on Banana Industrial Development
PSSO	Public Service Standing Orders
SG	Solicitor General
EU	Enterprise Uganda
NLB	National Lotteries Board
MOPS	Ministry of Public Service
RVR	Rift Valley Railways
UDC	Uganda Development Corporation
GOU	Government of Uganda
ROI	Return On Investment

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT FOR THE YEAR ENDED 30TH JUNE, 2017

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the financial statements of the Ministry of Finance Planning and Economic Development for the year ended 30th June 2017. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Ministry of Finance Planning and Economic Development 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, and the Financial Reporting Guide, 2008.

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 Statement's section of my report. I am independent of the Ministry 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, domestic arrears over the past three years revealed a drastic increase of about 43% (UGX.58.403bn) between 2014/15 and 2015/16 with a slight decrease of only 8% (UGX.10.907bn) between 2015/16 and 2016/2017. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.41.774

billion posing a risk of diversion of funds for settling the obligations. In addition, domestic arrears totaling to UGX.22.377 billion were not properly accounted for as they lacked necessary supporting documentation.

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.

The Accounting Officer explained that the Ministry's budget provisions are limited to the amounts issued in the MTEF as indicated in the Annual Budget Call Circular. It is therefore a resource gap that remains unfunded to date. The MTEF funding for these obligations have continued to fall since FY 2013/14 yet Government has existing agreements for these obligations. These obligations are captured annually as part of the disclosure requirements and will be cleared once the Ministry MTEF is enhanced.

The Accounting Officer should liaise with Treasury and ensure that sufficient budget provisions are made for domestic arrears to enable their eventual settlement.

Other Matter

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

- **Failure to Implement the Budget as approved by Parliament**

  Section 45 (3) of the Public Finance Management Act, 2015 states that "An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under section 13 (15)" of the said Act.

  I observed that out of the budgeted revenue of UGX.435.137 billion, the entity received UGX.426.387 billion resulting into a shortfall of UGX.8.750 billion (2%). However, I noted that some of the planned outputs were partially or not implemented as indicated in the **Appendix 1.** Service delivery is hampered and the appropriating authority's objectives are not met.

The Accounting Officer should engage the relevant authorities and ensure that budget deficiencies are addressed so that all the allocated funds are released and all activities are implemented according to the budget as approved by parliament.

- **Underfunding of government projects**

  The Ministry entered into financing agreements with various donors. Under the financing agreements the Ministry was to provide counterpart funding to the projects and the donors would also commit as per the agreement. It was noted that Government through MOFPED did not provide counterpart funding to a tune of UGX.17.061bn to a sample of 5 projects with a budget of UGX.22.351bn resulting into a shortfall of 77% of the budget.

  Failure to provide counterpart funding impacts on the performance of the projects.

  According to the Accounting Officer, the under funding was attributed to insufficient revenue collections.

  I advised the Accounting Officer to comply with the signed agreements by engaging the Secretary to the Treasury to provide funds.

- **Review of Public Private Partnerships (PPP) unit**

  - **Failure to competitively recruit staff**

    The PPP unit has not been fully established. The Acting Director, the consultant and the 3 temporary staff of the unit were not competitively recruited as per section 3 of the PPP Act but rather seconded from Privatization and Utility Sector Reform Project (PURSP).

    There is risk that the unit may not be adequately skilled with the required staff.

    Management explained that they have forwarded the structure to the Ministry of Public Service for consultation in accordance with Section 10 (3) of the PPP Act in March 2017. The Ministry will commence recruitment of staff as soon as consultations are finalized.

    I advised the Accounting Officer to follow up the matter with MOPS and have the structure approved and staff recruited in line with the regulations.

- **Failure to prepare monitoring framework reports**

  Section 11 of the Act requires the unit to serve as the Secretariat and Technical arm of the contracting committee and provide technical, financial and legal expertise to the committee and project team.

  It was however noted that three years down the road the Unit has not come up with monitoring framework reports to facilitate assessment of progress of the PPPs in government. I could therefore not assess implementation and progress of PPPs in place. PPPs are likely to fail in the event that monitoring is not undertaken.

  Management explained that PPP Unit is in the process of developing a PPP Tool Kit that will have a suite of all the PPP standard documentation including the Monitoring and Evaluation Framework. The Unit does not have monitoring framework reports for PPP project which were completed before the enactment of PPP Act. However, all existing PPP Projects are being monitored by their respective Contracting Authorities. In addition, PS/ST has requested the relevant Contracting Authorities to submit performance reports of the running PPPs to the PPP Unit.

  I advised the Accounting Officer to have the necessary mechanisms for effective operation of the unit instituted including an effective monitoring system over the existing PPPs.

- **Performance of Concessions and Private Public Partnerships**

  Section 11 (o) of the Act stipulates that a Unit should put in place measures to eliminate the constraints that limit the realization of benefits expected from the Public Private Partnerships.

  It was however noted that limited measures were put in place to eliminate realization constraints leading to underperformance of PPPs. I reviewed 2 PPPs that have not performed and observed that this was a result of majorly failure to monitor PPPs by government, poor management, lack of technical expertise, inadequate funding, default on payment of Concession fees and investment targets and lack of comprehensive feasibility review of projects among others.

(i) Kilembe Mines Limited concession with Tibet-Hima Mining Company Ltd

On 6th September 2013, government entered into a 25 year concession agreement with Tibet-Hima Mining Company Ltd for the refurbishment, operation and maintenance of Kilembe Mines Assets for the enhancement of Copper ore production in Uganda. As indicated in my previous reports, the concessionaire only paid concession fees for one year (2014) and a purported unverifiable investment of USD.51 million but defaulted on all the agreed deliverables. Despite government issuing default notices and holding several meetings with the concessionaire, the shortfalls were not addressed.

In line with Clause 24.5 of the CA, government issued a termination notice dated 18th April 2017 to the Concessionaire. The expected value of export promotion, value addition, employment, innovation and technological transfer has not been realized.

(ii) Uganda Railways Corporation Concession with Rift Valley Railways Uganda Ltd

The governments of the Republic of Uganda and Republic of Kenya agreed in 2004 to concession their respective railways together. Rift Valley Railways (RVR) signed 25 year Concession Agreements in 2006 and Amending Deeds in relation to these Agreements in 2010. The Agreements and Deeds were signed through the respective legal entities, RVR Kenya Ltd (RVRK) and RVR Uganda Ltd (RVRU).

By 2010 there were signs that the concessionaire was not meeting the expected deliverables due to poor management, lack of technical expertise and inadequate funding.

The performance has been characterized by low freight volumes (49% period ending September 2016), default on payment of Concession fees of UGX.33bn, investment targets not met, infrastructure and equipment not maintained and safety standards not met. There were noted cases of excessive cannibalism of locomotives beyond economic repair, stolen permanent way and increased encroachment of railway reserves by almost 64%.

Consequently, on 2nd June 2017, the Minister of Finance issued a Notice of Termination to RVRU citing the various events of default by the concessionaire. The envisaged value has not been obtained. Although government is entitled to recovery of Performance Bonds, the amounts are not proportionate with the lost values

The above failures are an indication of lack of comprehensive feasibility review of projects, limited competitive tendering and poor monitoring.

- **Unrecognized PPPs**

Section 11 (j) of the Act, requires the Unit to maintain a record of all project documentations under PPPs. Section 11 (d) of the same Act require that the unit should rate, compile and maintain an inventory of prospective PPP projects that are highly rated and which are likely to attract private sector investment.

My interaction with the Accounting Officers indicated that a number of PPPs are operational in various MDAs but were not maintained in the Unit inventory as prospective PPP projects and neither are they recognized as PPPs.

Sector	Project	Status to-date
JLOS	Construction of staff accommodation	PPP has failed to secure a partner because Police is a non-revenue institution that solely depends on the Government budget. The PPP has also failed because of a fixed cost of maintaining the transaction adviser and that the output of the transaction adviser is not a target to the success of the project. Police has therefore halted the progress of the PPP.
Works	Face Technology	The government of Uganda (represented by MOWT) signed a contract on 9th September 2003 with M/s Face Technologies (PTY) where the latter was to design, print and supply computerized driving permits (CPD) on a self-financing build, operate and transfer (BOT) basis. The contractor undertook to develop, install and provide the envisaged computerized driving permit system for purposes of

		designing, printing and supplying the CPDs. The contract price as per Contractors quotation was US$.6,809,956 which was to be recouped from revenues earned after netting off expenditures incurred. The contract duration was initially anticipated to be two years from effective date or earlier depending on when the contractor would have recovered his price which was based on the estimate of 500,000 driving permits. Review of the above contract agreements, revealed that the PPP is not performing as expected because of contract extensions occasioned by high operational costs such as rent, internet, software costs, staff and LIBOR costs incurred by Face technology.
Works	Societe Generale de Surveillance (SGS)	The Government of Uganda and Societe Generale de Surveillance (SGS) signed a contract for mandatory motor vehicle inspection. The contract for the procurement of the mandatory motor vehicle inspection Procurement was signed on the 17th March 2015. Whereas the contract provided for a commencement period of not later than 18 months from the date of contract signature, a review of documentation revealed that the project has delayed and was not executing as expected. The delays in contract implementation could lead to delay in achieving the project objectives of minimizing road accidents through having sound vehicles on the road.

Management explained that the process of PPP Project Screening aimed at development of the PPP Project pipeline is still on-going and the PPP Project pipeline will be in place by 2018.

I advised the Accounting Officer to expedite the process of PPP Project Screening with a view of having all PPPs captured in the data base.

- **Review of investment incentives**

  Government has been settling taxes on behalf of several companies over the past years. During the year under review I noted that tax arrears had accumulated to UGX.83.888bn for 12 companies. UGX.68.254bn (for 7 companies) was paid during the year as compared to UGX.0.154bn in 2015/16 an indicator of increased settlement of tax incentives. This trend is unsustainable. As noted in my prior year audits, there were no established policy and guidelines for the selection of the companies to benefit from the tax incentives. Because of lack of planning for incentives, budgeted for activities are affected.

  I reviewed a sample of the payments and noted the following;

(i) Un-budgeted for incentive and unpaid penalties on statutory obligation of a textile company

- During the year the Ministry remitted UGX.1,901,861,274 to the Privatization and Utility Sector Reform (PURSP) to clear the liabilities of a textile company before transfer of assets. I observed that the Ministry did not make any budgetary provisions for this expenditure during the year contrary to the PFMA Act of 2015 and the shares in the textile company have not been disclosed as assets in the Ministry financial statements. Use of unbudgeted for funds could result into diversion of funds from other planned Ministry activities to finance these arrears.

- It was also observed that the outstanding statutory obligation of UGX.10,278,135,237 comprising of penalties on delayed remittances of NSSF of UGX.5,717,012,653 and penalty on late filling of PAYE and VAT tax returns worth UGX.4,561,122,584 for the textile company had not been paid. Failure to settle outstanding obligations poses the risk of further accumulation of interest and possible enforcement measures to collect by the statutory institutions.

I advised Accounting Officer to ensure that Parliament approves all payments related to the textile company as required by PFMA and regulation.

(ii) <u>Un-authorized tax incentives an industrial park development company</u>

The Ministry paid import taxes of UGX.920,560,821 on behalf of an industrial park development company however it was noted that 76.39% amounting to UGX.703,240,099 were in relation to steel products which were not exempted as per letter (ref TPD 137/167/02 dated 24th August 2015) of offer of tax incentives and holiday to the beneficiary. This is contrary to the purpose of exemption of promoting the use of locally available steel products such as; to boost Local production, to support Local manufactures and tap into the much needed foreign currency used in importing steel products.

Management explained that the exemption was varied by the Minister to facilitate the investor to clear material that was not available in the country.

I advised the Accounting Officer to ensure that all payments for tax exemptions are properly verified to weed out unauthorized items for tax exemption prior to making payments.

(iii) <u>Ineligible tax payments</u>

In the FY 2015/16 the tax incentives offered to the textile sector was restricted to only locally produced raw materials. The position was changed in the FY 2016/17 to include taxes on imported cotton, yarn, textile dyes and chemicals.

During the year, the Ministry paid accumulated tax arrears of UGX.6,747,372,976 on behalf of a textile company yet the arrears position at the end for FY 2015/16 stood at only UGX.1,906,440,696. All import bills accumulated did not qualify to be paid by government. This resulted into loss of public funds.

Management explained that the payments were based on a directive.

I advised the Accounting Officer to come up with law on tax incentives to allow fair treatment of all investors in Uganda.

(iv) Payment for taxes not budgeted for

It was noted that 6 companies benefited from tax incentives awarded by the Minister totaling to UGX.60.065bn in respect of VAT and Corporation tax refunds yet there was no budget provision for the tax incentives during the year. As a result, the Ministry did not settle the budgeted obligations on capitalization of Post Bank and Islamic Development Bank. During the exit meeting, management explained that these were directives that required urgent attention. The supplementary process was approved and funds released the basis upon which the obligations were settled.

I advised the Accounting Officer to come up with law on tax incentives to allow fair treatment of all investors in Uganda.

(v) Nugatory expenditure UGX.469,543,801

Government has continued to pay tax incentives on behalf of a manufacturing company. Over the past three years, the company had accumulated VAT arrears to the tune of UGX.14,316,785,176. It was noted that the entity paid VAT of UGX.12,223,003,684 which included interest penalty of UGX.469,543,801. The payment of the interest charge is considered nugatory. The interest that arose should have been avoided had the tax obligations been met in a timely manner.

Management explained that funding is never sufficient to cover up for the arrears.

I advised the Accounting Officer to put in place a strong commitment control system to enable proper tracking of domestic arrears accumulation. The Accounting Officer should continue engaging the PSST on funding to clear the outstanding obligations and avoid further accumulation of interest.

(vi) Irregular payment of Stamp Duty

During the year the Ministry paid Stamp Duty of UGX.29, 551,909,324 on behalf of UEGCL and UETCL for the registration of debentures issued in November 2015 in favor of the Export-Import Bank of China (EXIM Bank). This was computed on a loan of US$.1,435,158,682.48 to UEGCL and US$.246,412,437.33 to UETCL for the development of the hydropower dams. There is no obligation for the Ministry to have paid the duties according to the Stamp Duty Act 2014. There is a risk that government lost the funds.

I advised the Accounting Officer to avoid settlement of taxes that are ineligible.

- **Budgeting for Privatization Unit funds**

  PU costed work plans for the privatization activities during the year under review was UGX.15,577,237,000. However, it was noted that the process of approval of the Units budgets is unclear as I was unable to establish how much was approved for what activities.

  In absence of a clear guidance on how the unit funds should be budgeted for and approved, there is a risk that the funds are irregularly utilized. I advised the Accounting Officer to streamline the Unit's budgeting and use of divestiture resources.

- **Review of activities of National Lotteries Board (NLB)**

  - **Failure to implement the approved structure of National Lotteries Board (NLB)**

    The Organization has an approved staff structure of 50 positions of which 30 were filled as at 30th June 2017 implying that the Board is operating at 60% of the required staff numbers. A number of vacant posts are key to the fulfilment of the entity's Mandate , these included; enforcement officers and Public Relations Officer. Failure to have critical posts filled impacts negatively on the Board's capacity to deliver its mandate.

    The Accounting Officer is advised to seek for the necessary budget to support recruitment of key staff.

  - **Unreconciled revenue collection and reporting**

    Collections from URA do not reveal the details of the taxes paid by the betting companies to enable the Board reconcile the respective taxes received. I could therefore not confirm the accuracy and composition of the balances against the various operating industry players presented by the board. There is a risk that the Board may not record the correct revenue resulting into loss of funds. Besides, supervision of the operations of the Lotteries, gaming, betting and casinos will become a challenge.

Management explained that they are procuring a centralized monitoring system which will interface with URA e-tax to enhance the monitoring and collection of revenues.

I advised the Accounting Officer to expedite the procurement of the monitoring system and carry out regular reconciliation with URA.

- **Failure to enforce terms in the revenue collection agreement**

  GOU through the Board signed a 5 year agency agreement with a consultant, on 20th April, 2015 for the operation of the lottery scheme in Uganda. According to the agreement, the agent was to invest at least US$.2,500,000 within twelve months of signing this agreement and that Government shall receive 15% of gross sales of the tickets sold

  According to Article 5.3 of the same agreement, if the agent fails to remit Government revenue it shall be liable to interest at a rate equal to 2% per month on the amount unpaid calculated from the date on which the payment was due until the date on which the payment is made.

  For the period April 2015 to September 2017, the consultant was supposed to have remitted to Government UGX.4,478,747,904 as 15% collection but only remitted UGX.2,027,264,722 resulting into a shortfall of UGX.2,451,483,182.

  I have advised the Accounting Officer to enforce the terms of the agreement.

- **POPSEC**
  - **Inability to monitor and mentor Municipalities**

POPSEC is faced with a number of challenges that is affecting its ability to fullfill its mandate. These include among others; the inability of the National Population Council Secretariat to continuously monitor and mentor municipalities regularly, low appreciation of the work of technical staff involved in data management and inadequate skill in POPDEV integrated planning approach at municipal level. There is a risk that the Council may not achieve its desired objectives as expected.

Management explained that this is a result of emerging Administrative Units i.e. districts, municipalities and town councils. The Council has engaged the Ministry of Local Government for a proper forecast of the expected administrative units.

I advised the Accounting Officer to continuously engage Ministry of Local Government for a proper forecast and sensitization of Municipalities.

- **Monthly Retainer Allowance for fulltime Board Members**

It was noted that the board is composed of 6 full time government employees who earned UGX.187,200,000 in form of monthly retainer during the year instead of sitting allowances on daily rates as stipulated in paragraph 4.1 (5) of the PSSO. Payment of monthly retainer to full time Government employees who offer salaried service to Government amounts to double payment.

Management explained that the payment was made against an appointment letter by the Minister. The Council has since written seeking for guidance on management of allowances to Board members.

I advised the Accounting Officer to draw the matter to the attention of the Minister and ensure that full time Government employee board members are only paid in line with PSSO.

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 Ministry.

The Accounting Officer is also responsible for the preparation of 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 Organisation's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Organisation, and using the Financial Reporting Guide 2008 unless the Accounting Officer has a realistic alternative to the contrary. The Accounting Officer is responsible for overseeing the Organization's financial reporting process.

Auditor's 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 the 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 judgment and maintain professional skepticism 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 our 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 Ministry'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 Ministry'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 Organisation 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 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
<u>AUDITOR GENERAL</u>
KAMPALA
12th December, 2017

Appendices

Appendix 1
Budget Performance

Vote Function output	Item Description	Budgeted out put	Budgeted Amount (UGX bn)	Amount receive (UGX bn)	Audit remarks	Management Response
0054-0000-144902-221016:-Support to MFPED	Ministry Support Services	• HIV/AIDS infected staff provided with appropriate medication • HIV/AIDS, Gender and environment work place policies produced • PABX upgraded • Equipping the Ministry resource Centre. • Assets management system updated	2.2	2.2	• PABX upgrade was not performed	Management notes that this was an error in populating budget activities for this item. The activity was done in 15/16 under the budget line of machinery and equipment.
0054-0000-144972-Support to MFPED	Government Buildings and Administrative Infrastructure	• Construction of New Office Block and staff Parking. • Ministry structures maintained through Minor works	5.5	3.9	• Construction of the new office block and staff parking was not done. • UGX.1.5bn was spent on installation of CCTV and biometric system. This activity was budgeted under project function 144977 Purchase of Specialised Machinery & Equipment hence funds diverted.	Management explained that there were insufficient funds in the MTEF
0054-0000-144976-Support	Purchase of Office and	• Electronic content management	2. 9	2. 9	• Electronic content management System	This was due to inadequate MTEF and

to MFPED	ICT Equipment, including Software	system procured • Computers, printers, scanners and related equipment provided to staff • Information systems hardware, software and consumables provided and managed • Software and licenses managed • Hardware upgraded and Maintained • Local Area Network upgraded • Computerization and installation of tele conferencing facilities in the 7 floor board room and conference hall • Hardware inventory managed			and Hardware upgrade was not done.	high costs of procuring the system. It has been planned for 2017/2018 for partial funding.
0945-0000-140158-Capitalisation of Institutions	Capitalization of institutions and financing schemes	• Agriculture Credit Guarantee funds disbursed. • Uganda Development Bank (UDB) capitalized to meet long term development financing needs	66.4	54.8	• Share subscription with Islamic Development Bank (IDB) of UGX.2bn was not done. • UGX.0.6bn is for the marketing strategy for Agricultural Credit Facility was not done. • Agriculture Credit	Post bank, IDB and PTA were not fully funded because funds were diverted to pay incentives as a result from a directive Agricultural insurance Scheme was not fully funded because management had not

		• Uganda share subscription with PTA Banks met. • Share subscription with Islamic Development Bank (IDB) met. • Capitalize Post Bank to meet it development financing needs. • Subscription to ICPAU towards hosting the African Congress Of Accountants (ACOA, 2017) met. • Agricultural insurance Scheme funds provided			Guarantee – UGX.30bn was budgeted and UGX.22bn was spent. • Post Bank – UGX.11bn was budgeted and UGX.9.6bn was spent. • PTA Banks – UGX.10bn was budget and UGX.8.2bn was spent. • Uganda Agricultural Insurance Scheme (UAIS)– UGX.5bn was budgeted and UGX.4.37bn was spent.	developed a marketing strategy. Besides 3.5billion had not been spent and was still on the UAIS Account.
Output:144954 Tax Support to exempted service providers	VAT obligations settled	• VAT counterpart funding and tax obligations to Tax Exempted Service Providers paid (17.7bn) • Uganda Vinci Coffee Ltd Tax obligation met (10bn)	27.7	106	• UGX.27.7bn was budget for this activity, however 106bn was spent causing an over expenditure of UGX.78.3bn. • 6 companies benefited from tax incentives totaling to UGX.60.065bn in respect of VAT and Corporation tax refunds yet there was no budget provision for the tax incentives during the year. • There was no payment	Management explained that these were directives that required urgent attention. The supplementary process was approved and funds released the basis upon which the obligation was settled.

					made for Uganda Vinci Coffee Ltd Tax obligation and yet 10bn was budgeted.	