

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF MINISTRY OF FOREIGN AFFAIRS

FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF MINISTRY OF FOREIGN AFFAIRS FOR THE
YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Ministry of Foreign Affairs, 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 8 to 36.

In my opinion, the financial statements of the Ministry of Foreign Affairs 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 Statements 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 budget provision for domestic arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages, pension and contributions to international organizations that remain outstanding at the closure of a financial year. MOFA has been accumulating domestic arrears in respect of contributions to Fourteen (14) international organizations including African Union, UN Secretariat, UN peace keeping operations, Inter Governmental Authority on Development (IGAD) and Organization of Islamic countries. The Ministry requires an Annual Budget of 20bn. However, only UGX.10bn was provided in the financial year 2016/2017 hence a short fall of 10bn. The domestic arrears position was UGX.63,523,431,918 as at 30th June 2017 as verified by Internal Audit. Out of which UGX.60,514,837,651 is in respect of contributions to International Organizations and UGX.3,008,594,267 are domestic arrears for OIC and CHOGM and Carriage, Haulage and transport hire. In addition, while the commitments had continued to accumulate, the budget for contributions to International Organizations has gone down to UGX.9bn implying further accumulation of arrears and this has made settlement of arrears unmanageable.

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; the implications of failure to clear outstanding bills and the adequacy of accountability for the funds paid.

During audit planning, I focused on examination of domestic arrears in regard to contributions to International Organizations, domestic arrears regarding OIC and CHOGM and trade creditors. 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 was settlement of domestic arrears amounting to UGX.293, 273,704 which had not been disclosed in the statement of outstanding commitments. The undisclosed payables comprised of outstanding bills on motor vehicles to Motor care, UGX.107,398,648 and Personal to Holder Emoluments of UGX 185,875,056. Accordingly, these commitments formed the first call on the ministry budget for the financial under review (2016/2017). This therefore meant that some of the planned activities remained unimplemented.

The accounting officer explained that management was engaging Ministry of Finance Planning and Economic Development (MoFPED) with the view of increasing the MTEF to cater for the annual budgetary requirement and also map out a strategy to clear the outstanding bills.

Management should continue engaging MoFPED and other stakeholders including Parliament for increased funding.

Other Matter

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

- **Irregular procurement of air tickets**

Regulation 18((6) of PPDA, 2014 (Contracts) requires a framework contract to include fixed prices or price adjustment. However, it was revealed that the ministry procured air tickets worth UGX.1,110,900,429 using framework contract method. However, procurement of air ticket does not satisfy the requirements of the framework arrangement as the price offered by different providers significantly varies.

Management explained that in many cases the travels for Ministry Officials were confirmed or cancelled at short Notice due to factors beyond the Ministry's control and this made undertaking procurement of tickets through competitive methods untenable because their prices expire after a very short time. They however indicated that the Ministry had engaged PPDA for guidance and was waiting for the response.

I await results of management's efforts in this regard.

- **Mischarge of expenditure**

Paragraph 4 (d) of the Accounting Officer's appointment letter by the PS/ST requires him/her to use financial and other resources for the purposes for which they were voted. However, a sum of UGX.32,741,668 was charged on codes other than those for which funds were appropriated/voted leading to mischarge of expenditure. The anomaly was attributed to ineffective budgeting by management and budget indiscipline.

The practice undermines the the importance of budgeting as well as the intentions of the appropriating authority. It also leads to preparation of misleading financial statements.

Management is advised to always comply with the approved budget and where inevitable seek reallocation of funds in accordance with prescribed procedures.

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

13th December, 2017

