



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF NATIONAL DRUG AUTHORITY FOR THE
YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

ACRONYMS

| | |
|--------|--|
| CNF | Committee on National Formulary |
| DADI's | District Assistant Drug Inspectors |
| DAR | Drug Assessment and Registration |
| GMP | Good Manufacturing Practices |
| MoU | Memorandum of Understanding |
| NDA | National Drug Authority |
| NDPA | National Drug Policy and Authority |
| PAYE | Pay As You Earn |
| PPDA | Public Procurement and Disposal of Public Assets |
| QMS | Quality Management Systems |
| UGX | Uganda Shillings |
| WHO | World Health Organisation |

REPORT OF THE AUDITOR GENERAL ON
THE FINANCIAL STATEMENTS OF NATIONAL DRUG AUTHORITY FOR YEAR
ENDED 30TH JUNE, 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of National Drug Authority, which comprise the Statement of Financial Position as at 30th June 2017, the Statement of Comprehensive Income, 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 22.

In my opinion, the financial statements of the National Drug Authority, for the year ended 30th June 2017 are prepared, in all material respects in accordance with International Financial Reporting Standards (IFRS).

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 Authority 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, are of most significance in my audit of the financial statements of the current period.

I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion further, I draw your attention to Note 11 to the financial Statement.

- **Pending Law suits**

As reported in my previous year's report, the National Drug Authority is still involved in several pending law suits with claims amounting to UGX 113,599,025,876.

Although the cases are still pending before courts of law, their determination against National Drug Authority and subsequent payment of the estimated significant claims and damages could have a material impact on the ability of the Authority to continue as a going concern.

Other Matter

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

- **Non-compliance with the National Drug Policy and Authority Act Cap 206**

National Drug Authority (NDA) is mandated by the National Drug Policy and Authority Act (NDPA) specifically section 5 to regulate pharmacies and other drug outlets to ensure that they comply with: trading license requirements, keeping records of expired drugs, having qualified staff, maintaining updated prescription books, and maintaining clean premises of operations among others. However, field visits revealed cases of pharmacies that did not comply with these requirements. Aspects like mixing expired drugs with other drugs, storing medicinal products in dirty premises and failure to monitor temperature in the premises all have a negative bearing on the quality of medicinal products offered to the public.

The above cases of non-compliance, mainly attributed to inadequate supervision and enforcement efforts by NDA, could result in pharmacies offering inappropriate medicinal products thereby exposing the public to health hazards.

Management stated that the observations regarding particular drug outlets had been taken up by the respective regional offices with corrective and preventive action implemented.

They added that on-going appointment of more regional inspectors shall enable more frequent inspection and sensitization of drug outlet operators.

NDA is advised to enhance inspection and supervision and take appropriate action on cases of non compliant pharmacies and other operators. The specific cases highlighted above should be tackled promptly to ensure that corrective measures are taken.

- **Irregular Revenue Budgeting**

Section 6.3.2 of the Finance Manual states that the budget shall be guided by NDA Strategic Plan as agreed and documented in the Departmental work plan. The departmental work plans shall give an outline of the planned activities of the department for the planning period.

During the audit I observed that although management had budgeted for UGX.654,969,658 as revenue from grants this was not realised and the budget work plans for each of the revenue streams did not outline the basis for the revenue projections that formed the budgets.

There is risk of NDA failing to implement the planned activities and achieve the set objectives because of such unrealistic budgets.

Management promised to ensure that future grant budget revenues are premised on concluded and signed funding agreements

More realistic basis for the budget projections should be instituted while coming up with revenue projections to enable the NDA carry out its activities effectively and efficiently.

- **Non Existing Assets**

Section 14.1 (a) of the Finance manual requires management to ensure completeness, existence, accuracy and reliability in the management of all NDA fixed assets and that all transactions are properly captured in the General Ledger system and appropriately reported in the Balance Sheet.

During the audit however, I noted that 21 Ipads were maintained in the asset register whereas they did not physically exist. On further inquiry, it was revealed that the Ipads given to former board members for the main purpose of carrying out NDA work had not been returned yet their term of office expired in November, 2016.

Non existing assets appearing in the asset register are an indication of poor record keeping by management which could result into theft and mismanagement of NDA assets.

Management stated that it shall communicate to the board Members that left NDA in respect of the Ipads.

Management is advised to ensure that all assets appearing in the register are in existence and all staff and board members hand over the assets in their possession upon the expiry of their term of office.

- **Unplanned procurements**

Section 58 (7) of PPDA Act states that procurement shall not be carried out outside the procurement plan except in cases of emergency.

During the audit, I noted that the authority procured office space at UGX.617,041,250 and Partitioning office space in Rume building at UGX.77,880,118 which were outside the procurement plan. The procurements could not be categorized as an emergency as per section 3 and 58 (7) of the PPDA Act.

There is a risk that this unplanned procurement hindered implementation of other planned activities.

Management noted the observation and promised to update the procurement plan whenever critical services, goods or works are procured.

The Accounting Officer should ensure that PPDA laws and Regulations are complied with at all times.

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 Authority.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the International Financial Reporting Standards 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 Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Authority'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 Authority'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 Authority'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 Authority to fail to deliver its mandate.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish extending from the end of the signature.

John F.S. Muwanga

AUDITOR GENERAL