



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF NATIONAL MEDICAL STORES**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS**  
**OF NATIONAL MEDICAL STORES FOR THE**  
**YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**Opinion**

I have audited the accompanying financial statements of National Medical Stores for the period ending 30<sup>th</sup> June 2017. These financial statements comprise the Statement of Financial Performance, the Statement of Financial Position as at 30<sup>th</sup> June 2017, Statement of Cash Flows and Statement of Changes in Equity for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 25.

In my opinion, the financial statements present fairly, in all material respects, the financial position of National Medical Stores as at 30<sup>th</sup> June 2017 and its financial performance and cash flows for the period then ended, in accordance with the International Public Sector Accounting Standards.

**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 Company 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, I draw your attention to Note 27 in the financial statements:

- **Pending Court Cases**

National Medical Stores is involved in eight pending cases before courts of law mainly with her former staff.

The cases arose from termination of employment contracts. There is a risk that these cases may result into financial obligations for NMS if unfavourable rulings are made.

Management explained that owing to improved diligence in the management of staff, no new court cases have arisen during the year.

Management should always ensure adequate due diligence before termination of employment contracts.

### **Other Matter**

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

- **Essential Medicines and Health Supplies (EMHS) Stock Balances**

Section 4 of the National Medical Stores Act, 1993 requires the corporation to procure, store and distribute medicines and medical supplies for the national and public benefit.

However review of the account statements for health facilities maintained at NMS revealed that items worth UGX.3,590,576,764 remained un-distributed to six hundred forty nine (649) health facilities at the end of the year. Items worth

UGX.3,278,163,534 were for ninety eight (98) health facilities that had balances of atleast UGX.2,000,000 each at NMS.

The anomaly was attributed to delayed submission of procurement plans by the Health facilities and non-alignment of facility orders to the procurement plans. Lack of medical supplies at the facilities results into stock-outs and treatment disruptions.

Management explained that in addition to the delayed submission of procurement plans by the Health facilities there was also delay in release of funds by the Ministry of Finance Planning and Economic Development (MOFPED) which affected the Corporation's procurement processes.

Management is advised to liaise with the beneficiary Health facilities and MoFPED to ensure that medicines and medical supplies are delivered in a timely manner and funds are released promptly.

- **Delayed delivery of items by suppliers**

The call off orders issued by NMS clearly stipulate the latest dates on which the delivery of supplies should be made. This is intended to ensure that NMS also meets its delivery schedule timely.

Review of a sample of call-off orders and documentation relating to deliveries from suppliers revealed delays ranging from 3-12 months.

Delayed delivery of medical supplies to NMS hinders timely distribution to the Health facilities.

Management explained that although late delivery penalties are provided for in the contracts, NMS has challenges in enforcing these penalties either because of the limited supplier base or defaulting on its part to pay in a timely manner.

Management should enter into contracts with the suppliers on terms and conditions that are practicable and implement the penalty clauses in cases of default. In

addition, Management should liaise with the relevant stakeholders and prioritize funding for the suppliers.

- **Delayed payments to suppliers**

Section 11 of the notification of award document issued to suppliers of Essential Medicines and Health Supplies (EMHS) requires National Medical Stores (NMS) to make payment by telegraphic transfer within 30 days and 90 days as applicable, from the date of acceptance of goods.

Review of sample payments to suppliers indicated instances of delayed payments to suppliers ranging from 54 to 450 days. The anomaly was attributed to inadequate funding of NMS.

Delayed payments expose the corporation to risks of litigation and late payment penalties. It also leads to delay in deliveries to NMS and subsequently to the Health facilities.

Management explained that it had challenges of funding to enable payment for the supplies in the past but had since largely settled the outstanding amount.

I await results of the improved funding for the NMS.

### **Directors' Responsibilities for the Financial Statements**

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), 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, Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Company's management either intend to liquidate the Company or to cease operations, or have 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 Company'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 Directors' 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 Company's ability to continue as a going concern. 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 Company to cease to continue as a going concern.

- 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 Directors 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 Directors 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 the Directors, 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, sweeping flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

11<sup>th</sup> December, 2017