



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF THE MINISTRY OF HEALTH

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 HEALTH
YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the accompanying Financial Statements of Ministry of Health, 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, except for the possible effects of the matters described in the Basis for Qualified Opinion Paragraph, the financial statements of the Ministry of Health as at 30th June 2016 are prepared in all material respects in accordance with the Section 51 (1) of the Public Finance Management Act, 2015.

Basis of Qualified Opinion

• **Mischarge of Expenditure**

Regulation 16(1) of the Public Finance and Management Regulations, 2016, requires an Accounting Officer to request the Minister of Finance, Planning and Economic Development for approval to vary, within a vote, the amount of money allocated to the vote. Review of the payments file indicated that the expenditure of UGX.1,776,275,390 was charged on improper budget items without the necessary authority. Mischarge of expenditure distorts the intention of the appropriating authority.

Management attributed the mischarge to the need to settle urgent outstanding obligations.

Management is advised to always comply with the appropriation in the budget and where inevitable seek necessary approvals in a timely manner.

- **Unsupported payables**

Review of the payables balance in the statement of financial position revealed that a sum of UGX.416,990,683 was not supported with relevant documents, rendering the balance overstated.

In response management stated that the relevant documents were available, however verification confirmed the outstanding sum.

Management is advised to adjust the payables balance in the financial statements accordingly.

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 Entity 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 Matter

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 taken 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 matter 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 procedures performed, I observed that an amount of UGX.23,124,289,302 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament and consequently, there has been an increase in domestic arrears over the period of three years from UGX.10,760,892,661 in 2014/2015 to UGX.38,057,820,416 in 2016/2017. This increment makes the trend unsustainable.

I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.3,111,811,533 implying that funds for other planned activities were diverted for settling the obligations. This may be as a result of a weak and ineffective internal control system over the control and management of domestic arrears. In effect, the government commitment control system was not adhered to.

The Accounting Officer attributed the accumulation of domestic arrears to under release of the budgeted funds.

I advised the Accounting Officer to liaise with the MoFPED to ensure that the Ministry's budget is fully released.

Emphasis of Matter

Without qualifying my opinion further, I draw your attention to the statement of Appropriation Account;

- **Revenue shortfall**

A review of the Statement of Appropriations, revealed that out of the approved budget of UGX.135,024,107,428, a sum of UGX.96,788,135,978 was realized resulting into a shortfall of UGX.38,235,971,450 (28%).

Further analysis revealed that of the UGX.58,767,431,310 included as counterpart funding for eight donor funded projects, UGX.31,715,969,056 was realised resulting into a shortfall of UGX.27,051,462 (46%). As a result, planned activities such as investments in Transport Equipment, Non-residential Buildings, and Machinery and Equipment were not implemented.

Management attributed the shortfall to budget cuts made by the Ministry of Finance, Planning and Economic Development (MoFPED).

Management is advised to liaise with MoFPED to always ensure that appropriated funds, especially counterpart financing are realized to enable the Ministry achieve its mandate and also avoid breaching financing agreements.

Other Matter

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

- **Irregular transfer of funds**

The Government of Uganda represented by the Ministry of Health (MoH) and the Ministry of Defence (MoD) entered into a Memorandum of Understanding (MoU) on 25th September 2013 with M/s Emergency Life Support for Civilian War Victims (Emergency),

an NGO established in Italy for the construction, operation and management of a Regional Hospital for Paediatric Surgery. The MoD was required to provide land measuring 30 acres as a Project site, the title of which would be in the names of the entity that M/s Emergency (NGO) would register and establish under the laws of Uganda while the MoH was to make a financial contribution of up to 20% of the total estimated budget for construction of premises and procurement of equipment among others. The NGO was to contribute 300% of the Project cost and to source 50% from major donors. Subsequently, UGX.789,596,814 was transferred to the non-government organization as the 20% contribution. However the entity has not yet been registered and established under the laws of Uganda for the hospital construction. There is a risk of misappropriation of funds if the recipient is not registered in Uganda as required by the Mou. In addition, the amount was transferred to the NGO without a budget from which the 20% contribution would be calculated. In the absence of a budget, it is difficult to ascertain the basis upon which the funds were disbursed.

Management explained that the MoU between Government and the Partner for the construction of the pediatrics hospital provides for the provision of land, utilities, access roads, and 20% of the construction cost and the transfers were to cater for preliminary costs of facilitation of Local Government approvals; and provision of access, water and electricity to the site. They further explained that a contract for construction was signed with M/s Cementers Limited and the Ministry would be paying 20% of every approved certificate in the subsequent years.

Management is advised to obtain and submit documents of registration of the entity in Uganda and to properly seek parliamentary approval through the budget process of amounts to be expended.

- **Incomplete payment vouchers**

Regulation 33(4) of the Public Finance Management Regulations 2016 requires payment vouchers to be accompanied with necessary supporting documents. Review of records revealed that the Ministry incurred UGX.172,692,200 on sensitization and preparing plans for management of the outbreak of Hepatitis B, Cholera and Ebola. However, the expenditure lacked relevant supporting documents rendering the genuineness of the

expenditure doubtful. The anomaly is attributed to lack of effective systems of internal control. Delayed accountability may result into falsification of the documents.

In response, management stated that a request had been issued to the concerned recipients to submit the supporting documents.

I await results of management action in this regard.

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 Entity.

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

John F.S. Muwanga

AUDITOR GENERAL

15th December 2017