

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
SUPPORT TO THE DEVELOPMENT OF A SPECIALIZED MATERNAL AND NEONATAL
HEALTHCARE UNIT IN MULAGO NATIONAL REFERRAL HOSPITAL (MULAGO III)
PROJECT (SMNHUP) LOAN AGREEMENT NO. UG0077 – 80
IMPLEMENTED BY THE MINISTRY OF HEALTH
FOR THE YEAR ENDED 30TH JUNE 2017**

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UGANDA

LIST OF ACRONYMS

| | |
|--------|--|
| FY | Financial Year |
| GoU | Government of Uganda |
| ISDB | Islamic Development Bank |
| MCC | Ministry of Health Contract Committee |
| MKCCAP | Mulago Kampala City Council Authority Project |
| SMNHUP | Support to Development of a Specialized Maternal and Neonatal Health Care Unit Project |
| UGX | Uganda Shillings |
| USD | United States Dollar |
| RF | Replenishment fund |

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NEONATAL HEALTHCARE UNIT IN MULAGO NATIONAL REFERRAL HOSPITAL
(MULAGO III) PROJECT (SMNHUP) LOAN AGREEMENT NO. UG0077 – 80
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THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the on the financial statements of the support to the development of a Specialized Maternal and Neonatal Healthcare Unit in Mulago National Referral Hospital (Mulago III) Project (SMNHUP) loan agreement no. UG 0077 – 80 implemented by the Ministry Of Health for the period ended 30th June 2017 set out on pages 12 to 22, which comprise the statement of receipts and expenditure, statement of financial position and notes to the project financial statements, including significant accounting policies.

In my opinion;

- (i) The project financial statements give a true and fair view of the state of the financial position of Support to the Development of a Specialized Maternal and Neonatal Healthcare Unit in Mulago National Referral Hospital (Mulago III) project –SMNHUP as at 30th June 2017 and of its receipts and expenditure for the year then ended.
- (ii) Project expenditures reimbursed on the basis of Statements of Expenditures (SoEs) are eligible for Bank financing and are reflected in the financial statements.
- (iii) SMNHUP properly applied the procurement guidelines of the Islamic Development Bank in accordance with the project financing agreement.

Basis for Opinion

I conducted the audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. I am independent of SMNHUP in accordance with the International Federation of Accountants'

Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing audits of SMNHUP. I have fulfilled our other ethical responsibilities in accordance with the IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of SMNHUP. I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

- **Non Compliance with the Terms of Reference by the Consultant.**

Clause 4.1.3 of the Consultant's Terms of reference (ToR) provides for the consultant's quarterly report summarizing the consultant's staff activities, problems if any, with solutions adopted, financial statements for the Consultancy Agreement and any other relevant information considered necessary in respect of the services delivery. The report is supposed to be submitted not later than the tenth day of the first month in the following quarter.

In addition to the above, Clause 4.1.2 of the Consultant's ToR requires the consultant to submit monthly progress reports by the 10th day of the succeeding month.

I however noted;

- Only one quarterly progress report out of four reports was submitted by the Consultant for the FY 2016/17, in addition, 9 out of the required 12 monthly progress reports were submitted to management.
- Some minutes for the monthly site meetings i.e. August and December 2016, January and June 2017 were not availed for my review.
- Late submission of progress reports i.e. the first quarterly report due by the 10th October 2016 was submitted in March 2017.

This may negatively impact on service delivery as some project anomalies may go undetected or not reported in real time thereby affecting project implementation.

Although the pending progress reports were subsequently availed and verified, timely submission of Consultant's reports is very important to ensure that issues are followed up on time.

Management admitted delays in submission of some of the quarterly reports by the consultant, but in such cases, the consultant would be reminded to comply with relevant clauses of ToR in the contract agreement and submit the required reports.

I advised management to ensure that all monthly and quarterly progress reports are submitted by the Consultant in time as stipulated in the contract agreement and not lumped together to ensure smooth project monitoring and implementation.

- **Delay in the procurement process for medical equipment and furniture supplies**

I noted that lots for procurement of medical equipment and furniture were repackaged from 8 to 4 lots. By the time of audit, three out of four contracts had subsequently been signed for three lots.

The fourth Lot 2 for the supply, installation and commissioning of general medical and surgical equipment, medical furniture, surgical instruments and physiotherapy equipment contract was yet to be signed by the time of reporting. This may result into further delays in the completion of works by the contractor which are currently at 95%.

Management explained that Lot 2 was delayed because samples had to undergo testing at Uganda National Bureau of Standards (UNBS) for compliance with quality specifications. Additionally, management stated that the supplier for Lot 3 had already received advance payment, and advance payments for the rest of the suppliers were also being processed.

I advised that management should adhere to the project implementation timelines to ensure that project objectives are achieved.

- **Failure by Government of Uganda (GoU) to make its counterpart contributions as per the loan agreement.**

According to the loan agreement, GoU counterpart funding obligation includes civil works (including all taxes) at USD.2,530,000.00 and specialized training at USD.660,000.00. In addition, all tax obligations arising from the loan, including Value Added Tax (VAT), would be borne by GoU. I however noted that by the end of the financial year 2016/2017, GoU had outstanding VAT of USD.2,404,747.69, out of which

USD.1,610,000 was for civil works. In addition GoU did not make any contribution for training as required by the loan agreement, as all the training expenses were borne by ISDB. This negatively impacts on the timeliness of implementing project activities, increases GoU debt levels and negatively affects GoU loan risk rating which may increase future borrowing costs.

In response, management stated that whereas they had budgeted for funds to cater for counterpart funding and VAT obligation, they realized a funding gap on the actual releases on the relevant budget line during the FY 2016/17.

I advised Ministry of Health (MOH) to follow up with the Ministry of Finance, Planning and Economic Development (MoFPED) on GoU's commitment to finance the project to ensure that the outstanding funds are provided as soon as possible before the project closing date (30th June 2018).

Other Information

The project management is responsible for the other information. The other information comprises the project progress reports, but does not include the financial statements and my auditor's report thereon.

My opinion on the project financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or in my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Management Responsibility for the Financial Statements

The project management of Ministry of Health is responsible for the preparation and fair presentation of the financial statements in accordance with the Public Finance Management Act, 2015 and the Islamic Development Bank terms and conditions of

funding and for maintenance of such internal controls that are necessary for the fair presentation of financial statements that are free from material misstatements, whether due to fraud or error. The management is also responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My objectives as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008, 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 ISAs 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 ISAs, 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 project's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by SMNHUP.

- 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 project's ability to continue as a going concern. If I conclude that a material uncertainty exists, then I am required to draw attention in my auditors' 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 auditors' report. However, future events or conditions may cause the project 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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

13th December 2017