

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF UGANDA HEALTH SYSTEMS
STRENGTHENING PROJECT IDA CREDIT NO: 47420 PROJECT NUMBER**

115563

FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF IMPROVEMENT OF UGANDA HEALTH SYSTEMS STRENGTHENING PROJECT IDA
CREDIT NO: 47420 PROJECT NUMBER 115563 YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the financial statements of Uganda Health Systems Strengthening Project (UHSSP) which comprise the Statement of Income and Expenditure for the year ended 30 June 2017, the Statement of Fund Balance for the year ended June 30 2017 together with other accompanying statements for the year ended, and notes to the financial statements including a summary of significant accounting policies.

In my opinion, the financial statements present fairly in all material respects the financial position of the Uganda Health Systems Strengthening Project as at 30th June 2017 and the Income and Expenditure for the year then ended in accordance with the International Public Sector Accounting Standards under the cash Basis of accounting

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 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 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.

Other matter

Without qualifying my opinion, I consider it necessary to communicate the following matters other than those that are presented or disclosed in the financial statements.

- **Impairment of the Credit; USD.4,690,641.94**

Article 2.01 of the credit financing agreement dated 12th August 2010 indicated that IDA agreed to extend SDR 85,700,000 equivalent to USD.130, 000,000 to the Government to assist in financing the UHSSP.

Review of the Statement of Income and Expenditure revealed that, cumulatively, an amount of USD.125, 662,697.03 has been realized out of the total project budget of USD.130,000,000 resulting into an impairment of the credit by the difference of USD.4,690,641.94 at the close of the project on 30th June 2017. This was caused by the unfavourable exchange rate of the SDR to the USD coupled with challenges of delayed implementation of project activities. As a result the project has got unfunded outstanding commitments worth USD.2, 209,566.744.

The Accounting Officer explained that all commitments under the Project will be duly settled by the Project by date of the last Application 31st December 2017.

I await management to clear the debts. Meanwhile management should ensure there are no more delays which would escalate the outstanding commitments.

- **Inadequate additional Maintenance and Operational budgets.**

According to the Annual Health Sector Performance Report for the financial year under review, the additional budgetary allocations for operations and maintenance were inadequate to ensure optimal operations of the beneficiary health facilities under the project. This was caused by the limited resource envelope and hence the inadequate

budgetary allocation to the Health Sector and was affecting improvement of the functionality of the renovated hospitals.

The Accounting Officer promised to seek for more funding from the Ministry of Finance Planning and Economic Development for maintenance and operational budgets for health facilities.

I advised the Accounting Officer to solicit for funding from Government of Uganda to ensure that the health facilities operate optimally.

- **Delayed redistribution of medical equipment**

According to the Annual Health Sector Performance Report for the financial year under review some equipment supplied to some facilities was not in use. This equipment was supplied as far back as 2014. This was caused by the procurements not having been based on appropriate needs assessment and/or confirmation of existence of the necessary infrastructure. Although an earlier report of May 2017 had recommended reallocation of such idle equipment to other Health facilities that lacked them, this was not done.

The Accounting Officer explained that the Ministry of Health management has instituted a team of experts to carry out a verification exercise on the status of the equipment, availability of power, availability of technical personnel for specialized medical equipment and justify the need for given equipment at a particular health Centre.

I advised management to expedite the redistribution of the idle equipment using the redistribution guidelines as advised by the Mission.

- **Scale down of civil works and the number of facilities for renovation**

According to paragraphs 4, 7, and 9 of the Aide Memoire for the Mission carried out between 5th and 9th June 2017, 17 General Hospitals, 2 Regional Referral Hospitals and 27 Health Centres IV would go under renovation.

However, due to failure to secure additional credit equivalent to USD.90 million, the scope of civil works and the number of facilities for renovation were scaled down. Notably, 7 General Hospitals, 1 Regional Referral Hospitals and 1 Health Center IV were yet to be renovated, and provision of a Mortuary Building at Moroto Regional Referral Hospital and an Isolation Block at Iganga General Hospital were yet to be done by the closure of the project. This may limit the improvement of the functionality of the renovated and non-renovated hospitals and health Centre IVs.

The Accounting Officer promised to find alternative source of funds to finance the gap

I advised the Accounting Officer to expedite the process of seeking alternative funding to carry out the renovations and works that were not executed in the project as this will ensure achievement of the original objective.

Management's Responsibilities 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 project.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the International Public Sector Accounting 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 Project's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Project'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 Project'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 Project'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 Project 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 'John F.S. Muwanga', with a long horizontal flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

15th December, 2015

