

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF UGANDA HEART INSTITUTE

FOR THE YEAR ENDED 30TH JUNE 2017

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UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF UGANDA HEART INSTITUTE
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THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Uganda Heart Institute 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 38.

In my opinion, the financial statements of Uganda Heart Institute for the year ended 30th June 2017 are prepared, in all material respects in accordance with section 51 of the Public Finance Management Act, 2015.

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 Institute 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, 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 matters to be communicated in my report:

Utilization of Medicines and Health Supplies

The Management of Medicines and Health Supplies Manual indicated that Medicines and health supplies form the second biggest expenditure in the health sector after human resources. It further shows that financial resources to procure needed medicines and health supplies are limited; therefore, appropriate stock management to ensure optimal use of resources cannot be overemphasized. The security of medicines must be ensured at all levels to prevent theft, abuse, misuse and wastage. Uganda Heart Institute's mandate involves establishing a modern Heart Institute with international standards to undertake and coordinate the management of cardiovascular disease in Uganda; reducing referrals abroad which are dominated by cases of cardiovascular disease; and increasing local capacity to handle super specialized cardiovascular services and to oversee other public health centres which are not super specialized but which are handling cardiovascular related services.

Consequently in the course of auditing Uganda Heart Institute Financial Statements, I considered this matter as an area of focus.

The audit focused on the procedures, processes, tools and documentation used to manage medicines and health supplies. It also focused on the essential medicines and health supplies (EMHS) concept and how the Institute was planning and ordering for supplies from NMS against its fixed budgetary allocation to meet the needs of its patients or clients. Selected medicines and health supplies were used to trace their utilization in the hospital. Finally, it focused on establishing the availability of key human resource personnel to ensure that medicines and health supplies are not wasted as explained in the Management of Medicines and Health Supplies Manual.

I involved external expertise in identifying the sample of tracer medicines and medical supplies and coming up with data collection tools. I observed the following shortcomings;

- **Condition of the stores for medicines**

Part 3 of the Management of Medicines and Health Supplies Manual (MMHSM), 2012 requires prevention of deterioration of medicines and health supplies by avoiding excessive heat, light, or humidity that may cause medicines to spoil.

Physical inspection of the Institute's store revealed lack of ventilation, air conditioning, and thermometers to monitor temperatures. In addition, there was no distance between medicines and walls as required by the MMHSM.

This exposed medicines to the risk of deterioration or development of poisonous degradation products that can be hazardous to patients.

Management indicated that the Institute was having a challenge of limited storage space due to the ongoing renovations of Lower Mulago hospital but had acquired a container as a stop gap measure.

I advised Management to ensure that medicines are stored within the prescribed conditions to ensure that they are not wasted.

- **Expired medicines**

Part 9 – of the MMMSM requires that expired items should be properly recorded, placed in a designated area and destroyed in accordance with the local regulations.

Inspection of the stores revealed that although there were piles of expired drugs, there were no records about them. Expired medicines result into stock-outs, loss of money invoiced by NMS and further loss is incurred on their destruction.

Management indicated that they had contacted National Medical Stores to have the expired medicines collected from their store for destruction.

Management is advised to always maintain records for expired medicines and to follow up with NMS to ensure that expired medicines are urgently removed from the store.

- **Staffing levels**

Out of 391 approved positions in the establishment, only 231 posts were filled, leaving 160 (41%) vacancies. Some of the key vacant positions were; Principal Medical Officer, Senior Principal Laboratory Technologist and 8 Senior Nursing Officers. Understaffing overstretches the available staff, creates job-related stress to the few staff and negatively affects the level of public service delivery.

Management attributed the vacant positions to the delayed recruitment of staff by the Health Service Commission and underfunding of the wage component.

Management was advised to follow up with the Health service Commission to ensure that positions for which funding was availed are urgently filled and liaise with the Ministry of Finance to obtain additional funding of the wage component to fill the entire approved structure.

- **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 procedure performed, I observed that an amount of UGX.1,089,029,039 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.570,427,789 in 2015/2016 and UGX.1,089,029,039 in 2016/2017. This makes the trend unsustainable and I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.570,427,789 implying that funds for other planned activities were diverted for settling the obligations. This may be as a result of existence of a weak and ineffective internal control system over the control and management of domestic arrears. For example, the government commitment control system was not adhered to.

The Accounting Officer attributed the accumulation of domestic arrears to under collection of Non Tax Revenue appropriated in aid.

The Accounting Officer was advised to ensure that they adhere to the commitment control system and devise means of collecting all Non Tax Revenue appropriated in aid.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the following matters in the financial statements:

- **Underperformance of Non Tax Revenue (NTR)**

The Statement of Revenue collected during the year ended 30th June 2017 indicated that only UGX.3,763,573,162 was collected as Non-tax Revenue (NTR) out of the budgeted amount of UGX.6,000,000,000 resulting into a shortfall of UGX.2,241,592,958 (38%).

The under-collection of NTR which was supposed to be utilized as Appropriation In Aid resulted into shortfall in carrying out key activities such as; open heart surgeries, Closed heart surgeries and thoracic surgeries together with Cath-lab procedures.

Management attributed the failure to realize the entire NTR to limited space occasioned by renovation of Lower Mulago hospital.

Management was advised to always ensure realistic budgeting. Meanwhile the institute should liaise with Mulago hospital to ensure timely completion of the renovations to enable patient's access the institute services. In the longer term, the institute should aim at establishing an independent Centre.

- **Failure to utilize funds**

The commentary on the financial statements by the Head of Accounts indicated that although UGX.15,854,030,000 was released to the Institute, only UGX.15,342,531,000 was spent resulting into an unspent balance of UGX.511,499,000.

Failure to utilize released funds negatively impacts on service delivery by the Institute.

In response, management indicated that the bulk of the unspent balance comprising UGX.477,653,000 was for wages for vacant positions that were not filled by the Health Service Commission (HSC).

Management is advised to follow up with the HSC to ensure that funded vacant positions are urgently filled.

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:

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 Hospital.

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 Institute's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Institute'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 Institute'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 Hospital'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 Institute 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.



John F.S. Muwanga

AUDITOR GENERAL

15th December, 2017