THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF UGANDA NATIONAL EDUCATION SUPPORT PROJECT (IDB-FUNDED) (LOAN AGREEMENT NOS: UG-0071 & UG-0076) FOR THE YEAR ENDED 30TH JUNE, 2016

OFFICE OF THE AUDITOR GENERAL

UGANDA

LIST OF ACRONYMS

ICT	Information and Communications Technology
IDB	Islamic Development Bank
LGFC	Local Government Finance Commission
LST	Local Service Tax
NCDC	National Curriculum Development Centre
NTC	National Teachers College
UGX	Uganda Shillings
USD	United States Dollars
UTC	Uganda Technical College

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF (IDB-FUNDED) UGANDA NATIONAL EDUCATION SUPPORT PROJECT (LOAN AGREEMENT NOS: UG-0071 & UG-0076)

FOR THE YEAR ENDED 30th JUNE, 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the Financial Statements of Uganda National Education Support Project implemented by Ministry of Education for the financial year ended 30th June, 2016, which comprise of a Fund Accountability Statement, Special accounts as well as the accompanying notes and schedules the to the financial statements.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the cash basis of accounting as described under Note 3.2 to the Financial Statements and the IDB guidelines for Financial Reporting. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility 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 is to express an opinion on these statements based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISAs). Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor's judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances but not for purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of this report sets out my opinions on the financial statements, and the Internal Control Structure. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

Opinion

In my opinion, proper books of account have been kept and the financial statements present fairly in all material respects the project financial position as at 30th June, 2016 and its receipts and expenditure for the year then ended in accordance with the terms of the Financing Agreements and in conformity with accounting policies set out under Note 3.2.1

John F.S. Muwanga

AUDITOR GENERAL

28th June, 2017

REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL STRUCTURE OF (IDB-FUNDED) UGANDA NATIONAL EDUCATION SUPPORT PROJECT (LOAN AGREEMENT NOS: UG-0071 & UG-0076) FOR THE YEAR ENDED 30TH JUNE, 2016

I have audited the financial statements of Uganda National Education Support Project for the year ended 30th June 2016. In planning and performing the audit, I considered the internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements.

Management Responsibility for maintaining Internal Controls Structure

Management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgment are required to assess the expected benefits and related costs of internal control structure policies and procedures.

Auditor's Responsibility

My examination was made in accordance with International Standards on Auditing (ISAs) and accordingly included such tests of the accounting records, verification of assets and liabilities and such other auditing procedures I considered necessary in the circumstances.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:

- Control over preparation of withdrawal applications for funds from the Grant account
- Bank and cash
- Purchases and payments
- Monitoring, evaluation and reporting.

For all the internal control structure categories listed above, I obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation and I assessed control risk.

Reportable Conditions

No material reportable conditions were observed as management had put in place a satisfactory internal control system and measures to ensure proper accountability for all project funds.

John F.S. Muwanga

AUDITOR GENERAL

28th June, 2017

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA NATIONAL EDUCATION SUPPORT (UNES) PROJECT FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2016

This section outlines in detail the audit scope, audit findings, my recommendations and management responses in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I appointed Ernst & Young, Certified Public Accountants of Uganda to audit the project on my behalf and report to me to enable me report to Parliament.

2.0 BACKGROUND

The Government of Uganda (GoU), represented by the Ministry of Finance, Planning & Economic Development (MoFPED), secured a long-term loan from the Islamic Development Bank (IDB) to the tune of USD 13.57 million, plus a technical assistance grant of USD 0.23 million, to finance the four-year Phase 1 of the Uganda National Education Support (UNES) Project. The Loan Agreement that was signed on 24th June 2010 was declared effective on 14th September 2010. GoU is providing counterpart funding, worth 10% of the project budget. The Executing Agency for the Project is the Ministry of Education and Sports (MoES), which set up a Project Coordination Unit (PCU) to handle the day-to-day management of project activities. Implementation of Project Phase 1 began in January 2011.

GOU secured another loan from IDB to the tune of USD 14.11 million, to finance a four-year Phase 2 of the UNES Project. The pertinent Loan Agreement that was signed on 30th June 2011 was declared effective on 9th September 2012. GoU is again providing counterpart funding, worth 10% of the project budget. The same Project Coordination Unit (PCU) has been mandated to handle the day-to-day management of project activities for Project Phase 2. Implementation of this phase began in 4th September 2012.

3.0 FUNDING

During the period 1 July 2015 to 30 June 2016, UNES obtained total funding of US$ 4,338,293 from IDB, of which US$ 1,893,854 related to Phase I activities, and US$ 2,444,439 related to phase II activities. A total of US$ 1,162,589 was received from GOU as counterpart funding towards the project's Phase I activities in line with the provisions of Section 7.11 of Loan Agreements UG-0071 (Phase I).

4.0 PROJECT OBJECTIVES

The overall aim of the UNES Project is to support key priorities of the Education Sector Strategic Plan (ESSP II) captured under the National Development Plan (NDP), targeting expanded access to quality Business, Technical and Vocational Education and Training (BTVET), as well as science-focused Teacher Instructor Education and Training (TIET). In so doing, the Project's objective is to promote national skills training for development and poverty eradication, while contributing to the Government's overall efforts in mitigating the increasing demand for alternative further education opportunities from outputs of the Universal Primary Education (UPE), Universal Secondary Education (USE) and Universal Post O-Level Education and Training (UPOLET) programmes.

The scope of Phase 1 of the Project includes:

A. Improving access and quality of UTCs through

a. Rehabilitation and expansion of two UTCs (Elgon – Mbale & Lira),
b. Supply of furniture, equipment, tools and textbooks,
c. Curriculum development,
d. Skills development, and
e. Provision of ICT equipment.

B. Improving access and quality to teacher education sub sector through

a. Expansion and rehabilitation of one NTC (Unyama in Gulu)
b. Supply of furniture, equipment, tools and textbooks,
c. Training of teachers and
d. Provision of ICT equipment and transport and;

The scope of Phase 2 of the Project includes:

A. Improving access to the UTCs through

a. Expansion of three UTCs (Bushenyi, Kichwamba & Kyema),

b. Supply of furniture.

B. Improving the quality of UTCs

a. Equipment,

b. Curriculum Development,

c. Skills development.

C. Project Management comprising

a. Support to the PCU,

b. Studies and supervision services (infrastructure-related),

c. Audit,

d. Start-up workshop/mid-term review

5.0 AUDIT SCOPE

The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary. In conducting my reviews, special attention was paid to establish whether:

a. The financial statements have been prepared in accordance with consistently applied Generally Accepted Accounting Principles and fairly present the receipts and expenditures for the year and of the cash balances as at the end of the year.

b. All external funds have been used in accordance with conditions of the relevant legal agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided.

c. Counterpart funds have been provided and used only for the purposes for which they were provided and in accordance with the relevant financing agreements, with due attention to economy and efficiency;

d. Goods and services financed have been procured in accordance with the relevant financing agreement;

e. The Special Account has been maintained in accordance with the provisions of the Loan Agreement

f. Sufficient internal controls have been applied consistently throughout the year to safeguard the project assets and mitigate the risk of misstatement of the financial statements;

g. The project managers are managing the project in compliance with the covenants contained in the financing agreement as well as Government of Uganda financial regulations.

h. All necessary supporting documents, records and accounts have been kept in respect of all project activities, and are in agreement with the financial statements presented.

6.0 PROCEDURES PERFORMED

a. Revenue/Receipts

Obtained all schedules of funds provided by IDB and Government of Uganda and reconciled the amounts to the project cashbooks and bank statements.

b. Expenditure

Vouched transactions including Statements of Expenditure and withdrawal applications during the period to establish whether documentation in support of expenditure agreed with the amount and description on the vouchers and/or applications and bank statements, and was properly controlled and accounted for.

c. Internal Control System

Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period.

d. Procurement

Reviewed the procurement of goods and services under the project during the period under review and reconciled with the approved procurement plan.

e. Fixed Assets Management

Reviewed the use and management of the project assets during the period under review.

f. Periodic Reports about the programme Activities

Reviewed the Agreement provisions, operational manual and reports and reconciled it with the Project activities during the period under review.

g. Programme Financial Statements

Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

7.0 FINDINGS

7.1 Categorization of Findings

The following system of profiling of the audit findings has been adopted to better prioritize the implementation of audit recommendations

	Category	Description
1	High significance	Has a significant / material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.
2	Moderate significance	Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.
3	Low significance	Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.

7.2 Summary of Findings

No	Title of finding	Significance
1	Non-compliance with the Income Tax Act	Moderate
2	Long outstanding advances to implementing partners	Moderate
3	Weaknesses in the budgetary process	Moderate

Management should review Income Tax Act requirements and ensure full compliance.

8.0 DETAILED FINDINGS

8.1 Non Compliance with the Income Tax Act

I noted that, although payments to Arch Forum, Sonic Furniture and Prisma Limited under withdrawal application (WA) No 53, WA 52 and WA 59 respectively were paid inclusive of Withholding Tax, all other payments to the three service providers were made without deducting Withholding tax.

Such non-compliance with the Income Tax Act exposes the project to the risk of fines and penalties by the Uganda Revenue Authority.

Management is advised to review Income Tax Act requirements and ensure full compliance.

Management promised to engage Government of Uganda through Ministry of Education and sports regarding this audit recommendation to agree on how best this can be implemented. I await the outcome of management's review.

8.2 Long outstanding advances to implementing partners (IPs)

I noted that as at 30 June 2016, advances totalling to USD 17,958 advanced to implementing partners remained unaccounted for. Of this amount, National Curriculum Development Centre (NCDC) had not accounted for USD 13,833, Management Training and Advisory Centre, Shimoni Core PTC and Uganda Technical Colleges had not accounted for a total of USD 2,827. The Project Coordinating Unit had not accounted for USD 1,298. Of the accounted for amounts, USD 16,068 (89%) has been outstanding for over two years.

Although NCDC has not refunded unutilized amounts relating to the prior periods, additional advances amounting to UGX 263 million were again made to the IP in the financial year 2015/16.

Non-accountability for funds advanced creates a risk of Implementing Partners incurring expenditure on non-project related activities.

Management explained that the project preferred to do a final reconciliation at the end of the engagement, to avoid possible back and forth of funds and associated costs for

NCDC advances, which will have to be cleared as at the completion stage of the engagement.

I advised management to put in place a mechanism where the different Implementing Partners seek approval for roll forward of unspent funds to the subsequent financial years. Any unutilised funds should be tracked to ensure subsequent accountabilities are provided by the different Implementing Partners for ongoing projects or recovered for projects winding up.

8.3 Weaknesses in the Budgetary Process

Best practice is that periodic financial analysis, including comparison of the project budget and actual financial results, is done, to enable monitoring and managing of project costs and to keep track of project progress.

The Project does not have a formal annualised financial budget against which expectations for the financial year can be set, against which actual results can be evaluated.

There is a risk that budget/cost overruns will not be timely identified, analysed and followed up. In addition, re-allocation of funds to other activities/ operations will not be identified and followed up timely.

Management stated that the project has an annualized disbursement plan, against scheduled planned activities, which is updated in time to reflect implementation of budgets.

Management should improve on periodic analysis of the project's financial results. Any material variances between the budget and actual financial results should then be adequately explained. An annualized budgeting system should be implemented, and a variance analysis model should be put in place.

8.4 Prior year audit issues

Most of the recommendations made by the external auditors in the prior years' have not yet been implemented as detailed in table below:

Ref	Summary of prior year issues	Status as of 30 June 2016
1	Lack of Accounting System	In progress
2	Delays in Project Implementation	Not resolved
3	Lack of a Petty Cash Management System	Not resolved
4	Project Cash Withdrawals Made to Staff Accounts	Not resolved

5	Inadequate Segregation of Duties	Not resolved
6	Non Remittance of Statutory Deductions	Not resolved
7	Delayed Payment for Cost Overruns by Government	Not resolved