



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL AGRICULTURAL ADVISORY SERVICES
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL AGRICULTURAL ADVISORY SERVICES
FOR THE YEAR ENDED 30TH JUNE, 2017

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the financial statements of National Agricultural Advisory Services for the year ended 30th June 2017. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of National Agricultural Advisory Services 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, and the Financial Reporting Guide, 2008.

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 Statement's section of my report. I am independent of the Agency 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. I have determined that there are no other key audit matters to communicate in my report.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters included under operating expenses in the statement of financial performance.

- **Mischarge of Expenditure**

Expenditure totaling to UGX.979,894,055 was inappropriately charged on budget lines to fund activities that were not planned for without authority. Mischarges undermine the budgetary process and the intentions of the appropriating authority as funds are not utilized for the intended purpose. The practice also leads to financial misreporting.

According to management, a directive was issued that NAADS provides funding to the National Enterprise Corporation (NEC) to the tune of UGX. 16 billion for putting in place a cattle holding ground in the government ranch at Kisozi and reallocations had to be made to cater for that. Towards the end of the financial year they had more commitments for Agricultural inputs hence management decided to shelf consumptive expenditures in preference to commitments for agricultural inputs.

The Accounting Officer should streamline the budget process to ensure that sufficient funds are allocated to each account and budget controls are fully adhered to such as seeking authority for any reallocations.

Other Matter

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

- **Budget performance**

Section 21(1) of the Public Finance Management Act, 2015 entrusts the Accounting Officer with the responsibility of planning and managing the entity activities as indicated in the policy statement of the vote based on the annual cash flow plan issued by the Secretary to Treasury during budget execution. Budget estimates are based on outputs to be achieved for the financial year and during implementation effort should be made to achieve the agreed objectives or targets of the entity within the availed resources.

Review of the budget performance for the year under review revealed that out of UGX.318.607 billion that were budgeted for, only UGX.317.891 billion was released causing a budget shortfall of UGX.0.716 billion representing 0.2% underperformance. Further, it was also noted that out of the released UGX.317.891 billion, only UGX.317.329 billion was spent leaving unspent balances of 562 million.

As a consequence of inadequate releases, some planned outputs could not be achieved as per details in **Appendix I**. Service delivery is hampered and the appropriating authority's objectives are not met.

According to the Accounting Officer NAADS does not collect any revenues and these were funds where the Ministry of Finance Planning and Economic Development did not avail a cash limit and therefore not released. For bounced payments the payments were made within the stipulated timeline by treasury but some suppliers had erred during account information entry into the IFMS and again NAADS had no control over this.

Management should ensure timely follow up of releases from MoFPED and also ensure timely payments to avoid last minute payments.

- **Multi-year commitment –UGX.51.8 billion**

Section 23 (1) of the PFMA, 2015 requires parliamentary authority for a vote to enter into a contract, transaction, or agreement that binds the Government to a financial commitment for more than one financial year or which results in a contingent liability.

However, it was noted that management had entered into a multi-year commitment of UGX.51.8 billion representing signed contracts and deliveries made during the year 2016/2017 without approval of Parliament.

Details are as below;

Item	Amount (UGX)
Sunflower	499,991,000
Cocoa	87,997,940
Mango	9,309,058,745
Citrus	11,224,391,000
Tea	9,964,073,277
Passion	308,017,320
cassava	1,814,700,000
Maize	6,165,911,681
Beans	933,991,052
cowpeas	355,122,000
heifers	4,194,471,000
poultry	1,892,982,712
fish feeds	1,417,579,951
goats	124,696,000
Tractors	28,877,500
Meat Export (NEC)	3,055,832,374
Cattle Testing kits	148,561,715
liquid nitrogen	320,316,000
Total	51,846,571,268

Multi-year commitments without Parliamentary authority are considered irregular.

Management explained that it had taken note of the guidance provided and will in future seek authority of parliament incase such a situation arises again.

The Accounting Officer should streamline the budget process and ensure that these multi-year commitments are brought to the attention of Parliament and that moving forward this done in a timely manner.

- **Failure to execute Performance Security – UGX.25,089,592,589**

Review of the contracts register and sample call off orders revealed that procurements amounting to UGX.250,895,925,892 had no performance securities worth UGX.25,089,592,589 executed contrary to section 12(4) of the PPDA (contracts) regulations, 2014 that requires execution of a performance security equivalent to 10% of the value of a call off order in the case of framework contracts. This requirement was also provided in the special Conditions to the Contract (GCC 18.1) for all framework contracts executed by NAADS in the forms of Bank Guarantee/Insurance Guarantees.

Non-execution of performance security exposes the entity to a risk of under or non-performance by the contractor without any fallback position thus delaying service delivery and incurring unnecessary costs.

Management explained that it recognizes the anomaly however due to the challenges faced by the agricultural sector a lasting solution hadn't yet been got. Suppliers pointed out that it was difficult to receive credit facilities due to lack of agricultural financing in Uganda as most banks are reluctant to extend agricultural facilities and loans to farmers hence in mitigation against this risk, it was agreed that the MAAIF and NAADS technical team should verify the agricultural inputs availability with suppliers before call off orders are issued.

Management should ensure adherence to the terms of contract to minimize associated risks and draw the issue to the attention of PPDA for necessary review in regard to agricultural supplies.

- **Delivery of inputs out of planting season- UGX.5,272,061,145**

Annex II of the Standing orders of Procedure for Operation wealth creation prescribes to management the chronology of activities leading to the timely distribution of inputs.

Accordingly, inputs for season 1 (November to December) should be delivered in August whereas inputs for season 2 (May) be delivered between February and March.

I noted that supplies amounting to UGX.5,272,061,145 had been delivered way beyond their timelines even though call-off orders were raised on time. Subsequent delivery of inputs was significantly delayed by two to three months. In some cases, I noted that management raised call off orders late after the expected delivery times and sometimes approved the extension in delivery times despite the sensitivity of these strategic interventions (especially crops) to weather conditions. In all these instances, no justification was given as to why call off orders was raised late nor the extensions granted. Delays in delivery significantly affect the performance of inputs as they are weather sensitive and objectives may not be achieved if delivered past the rain season for planting.

According to management the rain patterns have become unreliable due to the environmental changes. Call-off orders were issued at the right time but extensions to contract time had to be granted since the rains started mid September till mid November with the second tranche starting in April 2017 till almost July in some areas.

Management should ensure timely issuance of call off orders to provide ample time for supplies especially crops that are weather sensitive. Further, liquidated damages should be enforced from suppliers for failure to provide inputs on time.

- **Irregular acceptance of bids after bid closure –UGX.574,000,000**

Section 69 of the PPDA Act, 2003 requires all bidding processes to include a formal bid receipt and a bid opening. Section 47 (1) of the PPDA (rules & methods), regulations 2014 requires a procuring and disposing entity to issue or sell bidding documents to a bidder who requests the documents, in the case of open bidding and subsection 3 of the same requires a PDE to record the issue or sale of all bidding documents using Form 8 in the Schedule. Further, Regulation 59 (3) of the same regulations requires a PDE to maintain a record of all the bids received, using Form 11 in the Schedule.

A review of the above procurement revealed that there was a bidder whose bid was receipted on form 11 and yet it was not recorded on form 8 thus casting doubt as to how he accessed the bid document. Two (2) supplies worth UGX.574,000,000 were doubtful in the circumstance. Details are as below;

Procurement reference	Number of un issued bids	Receipted bidders on form 11 without records on form 8	Amount of supplies (UGX)	Invoice number	EFT
NAADS/BSK/SUP LS/14-17/FRM2- GINGER: Supply of ginger seedlings	1	<ul style="list-style-type: none"> Bidimbo Mustafa 	504,000,000	D141NOV16	11301477
			70,000,000	D128DEC16	11609567
Total	8		574,000,000		

Introduction of new bids at receipting may lead to administrative reviews which are costly to the Organisation and hamper service delivery due to the delays encountered.

Management explained that access of the bid document was after payment per category. However management noted the anomaly in that the supplier should have registered for all the categories they envisaged to bid and were eligible.

The Accounting Officer should ensure strict supervision of the PDU to avoid bypassing of the set procurement regulations. Further, investigations should be instituted to ascertain officers' responsible and disciplinary measures undertaken.

- **Irregular award for Supply of Pineapple Suckers-UGX.549,500,000**

Section 19 (2) of the PPDA (evaluation) regulations, 2014 requires a detailed evaluation to compare the details of the bid with the criteria in the bidding document. The evaluation methodology for the above supply specified that technical compliance evaluation would be used in the evaluation which involves among others post qualification evaluation. The post qualification evaluation as per the set criteria in the bid document included the physical inspection of the supplier's nurseries and all suppliers without nurseries would automatically be disqualified with the minimum qualification score (60%) as per the tool used.

Audit review of the evaluation report for the procurement of pineapple suckers revealed that M/s Intellectual Aid Network was recommended as the first and M/s Tropical Agro and Advisory services as 3rd in Luwero District for the supply of pineapple suckers, yet they did not have pineapple gardens and scored 23% and 35% respectively which was far below the required 60% for the post evaluation qualification. It was further noted that for the year under review payments to the tune of UGX.549,500,000 were made to Intellectual Aid Network and Tropical Agro and Advisory Services in spite of their post qualification evaluation failure. Details in the table below:

Invoice Number	Description	EFT Number	Payment Date	Amount	Supplier
D54MAR17	Supply Of 900,000 Pineapple Suckers	12857377	03-Apr-17	263,400,000	Intellectual AID Network Uganda
D51MAY17	Supply Of 100000 Pineapple Suckers To State House	13433708	08-May-17	23,600,000	Intellectual AID Network Uganda
D15DEC16	Supply Of 750000 Pineapple Suckers To Various Districts	11607654	08-Dec-16	262,500,000	Tropical Agro and Advisory Services Ltd
Total				549,500,000	

Award of contracts to non-compliant bidders exposes the entity to a risk of requests for procurement reviews by disqualified bidders which is time consuming and hampers service delivery. Further, non-compliant bidders may not be able to supply the requirements thus affecting program implementation.

Management acknowledged the anomaly which was carried forward from the evaluation team recommendations.

Management is advised to ensure proper processes are followed as per the PPDA Act, regulations and guidelines and investigations should be instituted to ascertain the lapses in the irregular award and disciplinary measures be enforced against evaluation committee officers.

- **Commitments through Local Letters of Credit at year end**

During the previous years and current year, management undertook several procurements for supply of strategic interventions by transferring funds to Bank of Uganda as commitments to open Letters of Credit (LCs). Review of the payments revealed two issues as noted below;

- **Outstanding Un-performed LC's from previous years**

Audit observed that LC's opened in the previous years to the tune of UGX.1.188 billion had remained outstanding during the year under review despite expiry of initial delivery timelines set in the contracts.

➤ **Un-performed LC's returned to the consolidated fund**

Audit observed that UGX.970.428 million was returned to the consolidated fund after failure to perform by the contractor (M/s China Huangpai food machinery Ltd) for supply of maize mills contracted in the year 2014/15. Non-performance of the LC's led to incurring of nugatory expenditure of UGX.9,773,402 in extension/renewal charges during the year. Failure to deliver required inputs more than a year after expected time hampers service delivery to the farmers.

Management acknowledged the delays in the performance of this contract but also indicated that they had very limited choice of reliable suppliers in the area.

Management should undertake rigorous due diligence on contractors before award of contracts and should invoke contractual provisions against non-performing contractors as remedy for late deliveries or non-performance.

• **Special audit of NAADS Project Component 3: supply of tea seedlings to farmers in Kigezi sub region, Buhweiju and Kabarole for the financial year 2013/2014**

The Special audit of the supply of tea seedlings to farmers in Kigezi sub region, Buhweiju and Kabarole for the financial year 2013/14 was conducted. My office contracted an Agricultural Specialist and a Surveyor to undertake this exercise.

The major objective of the assignment was to:-

- i. To establish whether the Lead Agencies and Seedling Suppliers were procured in accordance with the PPDA guidelines.
- ii. To verify whether the Service Providers delivered the services as per the contracts signed.
- iii. To verify whether the seedlings supplied to the farmers corresponded to the acreage of the farmers.
- iv. To establish whether monitoring and evaluation activities were undertaken to justify the payments.

The audit focused on the preparation, distribution of tea seedlings and farm management practices of farmers in the 5 Districts of Kisoro, Kanungu, Kabale, Buhweiju and Kabarole district.

During the farm visits, I interviewed individuals found at the farms and a number of issues were noted as highlighted below.

➤ **Inappropriate land Topography**

The slope of the land for tea growing is critical. According to best agronomical practices, the recommended slope should range between 10 to 20%. Any slope that is below 10% risks heavy water logging while any slope above 20% risks severe loss of soil by erosion which is detrimental to the proper growth of tea seedlings.

According to the 94 farms visited in the 5 districts, the gradient was too steep in some areas whereas some farms were located in deep swamps that were prone to waterlogging. I noted that the gradient slope of the sampled farms ranged from 2.53% to 78.38% which indicated that some farms had a gradient exceeding 20% which in this case was not suitable for tea growing. Out of a sample of 94 farms, 53 farms (representing 56%) exceed 20% acceptable gradient while 19 farms (representing 20%) were located in low lying areas that were prone to waterlogging (below 10% gradient). 22 farms (representing 24%) were in the acceptable range. The topography was not considered at all in selecting sites for tea growing.

In Kisoro District I noted that Ruyegye Garden was located in a deep swamp where the complete first planting of (158 acres) tea seedlings were lost due to water logging.

In Kanungu District, I noted that farm siting to assess the gradient of the land was not considered at all as many farms were located on very steep hills. A number of farms had no access roads to facilitate the transportation of farm inputs and transportation of plucked tea to the processing factory. Summary in table below.

S/n	District	Sampled farms	Above 20% slope	Below 10% slope	Acceptable	Slope range (%)
1	Kisoro	16	8	6	2	3.42 - 47.5
2	Kanungu	35	20	4	11	4.47 - 69.49
3	Buhweju	10	7	2	1	2.53 - 78.38
4	Kabarole	8	3	2	3	5.23 - 8.55
5	Kabale	25	15	5	5	6.05 - 65.89
	Total	94	53	19	22	

Such factors were unsuitable for good tea growing.

Management explained that the sampled District Local Governments Management agreed with the observation and noted that land on steep slopes can only be harnessed through appropriate modern farming practices like terracing to convert steep sloping lands to suit tea growing. They further explained that the technology of terracing was supposed to be part of the extension package for tea growing however the adoption of these practices and technologies was very slow because the extension workers were thin on ground from both the Lead Agency and the District Local Governments. It is worth noting that in Kabarole District, there were no Lead Agency services contracted. Going forward the extension services for tea are now being provided by the Local Government extension workers who have now been recruited in all District Local Governments who have been trained to guide farmers on appropriate tea agronomic practices.

Management should train and supervise the new extension workers in ensuring that in future, the tea seedlings are grown on suitable slopes and terrain for proper growth of tea.

➤ **Unaccounted for Acreage and Seedlings**

The surface acreage of the farms was computed by using a three dimensional surface model (Digital Terrain Model-DTM) entered in Arcgis-3D analyst.

I noted that the total estimated acreage of the sampled 64 farms was 937.517 acres in the 5 Districts. However, the measured acreage of these farms was 473.581 acres resulting into additional acreage of 463.936 acres that could not be traced. It was noted that 4,440,507 seedlings were supplied instead of the recommended 2,369,333 seedlings resulting into excess supply of 2,071,174 seedlings valued at UGX.932 million at an average market rate of UGX.450 per seedling. Summary is in table below.

I noted that 27,000 seedling supplied by Zatwoshaho Joy to Bukinda seminary and Bukinda Parish, could not be traced to particular tea farmers in Kabale District. Interviews with the Bursar of Bukinda Catholic seminary indicated that, they were not aware of any tea farms and my team could not trace any tea farm around the seminary. Similarly, interviews with the Parish Priest indicated that during the

handover of the office, there were no tea farms either within the seminary or any located area on the parish land. As a result the tea seedlings could not be verified.

s/n	District	No. of Nursery operator/ Supplier	No. of farmers	Seedlings supplied to farmers	Approx. Acreage NAADS	Measured Acreage by the consultant	Seedlings in measured acreage according to plant spacing
1	Kisoro	4	9	3,840,000	759	355.41	1,935,208
2	Kanungu	6	18	93,600	18.72	17.698	56,270
3	Buhweju	3	10	26,383	5.277	7.259	20,908
4	Kabarole	1	10	38,948	7.79	3.664	12,980
5	Kabale	5	17	441,576	146.73	89.55	343,967
	Total	19	64	4,440,507	937.517	473.581	2,369,333

In Kabarole District, 2 farms that were said to have planted 5,600 tea seedlings dried up after a few months as below. Interviews with the farmers indicated that the nursery operators delivered the tea seedlings during the dry season.

Nursery operator/ Supplier	Seedlings Supplied to Farmers	Approx. Acreage NAADS	Measured Acreage	Seedlings in measured acreage according to plant spacing
Busingye Mustafa*1	3,600	0.72		
Tinkasiimire Stella*2	2,000	0.4		

There is a risk that seedlings were supplied to non-existent farms.

Management explained that they had done preliminary investigations and findings indicate that the issues noted relating to acreage were as a result of the following:

- Some farmers would receive the seedlings and end up not planting all the plantlets received due to labor intensiveness of the crop.
- Some farmers are reported to be changing land use and converting part of or all the land to some other crops and replacing the tea seedlings planted.
- Tea plantlets require constant gap filling during the initial stages of the planting and as such acreage is bound to be lower than expected, where gap filling is not provided as was the case in the audit.
- There are noted cases of irregular spacing and planting two seedlings in one hole (using higher density than the recommended).
- Some farmers have multiple gardens where tea seedlings are planted and at time of showing the auditor's not all gardens may be presented.

Management will provide a full report on field in respect of each farmer noted with acreage variance in the audit observation. In regard to supply to Bukinda seminary and Bukinda Parish, Kabale District Local Government, management agreed to the observation and indicated that the Church leaders who had picked interest in tea growing were transferred while the new leaders were not interested in tea and they reverted to the previous traditional crops without the knowledge of the Kabale District Local Government.

Further, management explained that as part of the remedy for the future management will require all beneficiaries District Local Governments to undertake extensive farmer sensitization and preparation to ensure that only committed farmers with land are allowed to participate in tea growing.

I advised Management to establish a mechanism of verifying actual acreage of land prior to distribution of the tea seedlings which should be a basis for determination of number of seedlings supplied to the farmers and paid to the suppliers. Further, I also advised Management to investigate seedlings supplied by Zatwoshaho Joy to Bukinda seminary and Bukinda Parish that could not be traced to particular tea farmers in Kabale District.

➤ **Failure to provide extension services**

According to the project design, The Lead Agencies were required to provide advisory services to the farmers, including among others farm siting, land preparation, planting of tea seedlings, weeding and pruning and water control, harvesting and transporting the tea leaves.

It was noted that NAADS paid UGX.1,402,483,859 to two (2) Lead Agencies in the Districts of Kisoro and Kanungu to provide extension services to farmers. However, all the farmers interviewed indicated that no extension services were provided during the planning period. Details are in table below.

S/n	District	Lead Agency	Amount Paid
1	Kisoro	Kigezi Highland Tea Co. Ltd	709,852,332
2	Kanungu	Kinkizi Development Company	692,631,527
	Total		1,402,483,859

Inspections of the sample farms visited in the above Districts revealed that many farms were bushy, abandoned, located in deep swamps or on very steep hills with huge water gullies that indicated poor agronomical practices. Failure by NAADs to supervise the lead agencies in ensuring that extension services were provided to the farmers as was envisioned resulted into loss of government funds paid for extension services and non achievement of set acreage.

Management acknowledged the shortcomings in the delivery of extension services by the Lead Agency and explained that they had taken action by disengaging the lead Agency services. Management noted that the Lead Agency applied a non-conventional approach of delivering extensions services whereby they used Trainer of Trainers Approach involving training suppliers and NAADS Coordinators who were expected to train the farmers which approach proved to be less effective and is no longer used.

Further, management explained that with the recent reforms in the National Agricultural Extension System, the extension services for tea are now being provided by local government extension workers who have been recruited in all district local governments.

I advised Management to ensure that in future they train and supervise the Lead Agencies in the provision of extension services to the tea farmers prior to paying funds related to this activity. I await efforts to have recruited extension workers at district level supervise the programme.

➤ **Inappropriate handling of planting materials**

I noted that the quality of planting materials greatly deteriorated at the time of planting due to poor handling and long distances of transportation of tea seedlings in Buweju, Kanungu and Kabale Districts. In most cases the nurseries were very far from the farms where the materials were to be planted. As a result many of the tea seedlings died resulting into huge gaps in the farms visited.

Management explained that at project inception, there were no nursery bed operators in the District of Kabale and therefore plantlets had to be transported from the nearby District of Kanungu which was a pioneer tea growing District under the tea intervention. However, this was short lived and with time, Nursery operators were mobilized and established nurseries across Kabale District and transportation to

long distances was phased out. Further, Management explained that they had developed guidelines for handling the transportation and distribution of tea seedlings and these came into effect in FY 17/18 and it is hoped that the problem will be eliminated by this measure.

I await Management's effort in regard to implementation of the guidelines for handling transportation, distribution and delivery of tea seedlings.

➤ **Delayed delivery of tea seedlings**

Interviews from farmers in Kabarole District indicated that the tea seedlings were delivered to the farmers during the dry season. Therefore some seedlings could not be planted in time. Delayed delivery of tea seedlings affected timely planting of seedlings and hence the reduced quality of the tea seedlings.

Management acknowledged the observation and explained that there was late notification of delegation of procurement of tea to Kabarole DLG which led to the late delivery of seedlings. Management has now improved on this matter. All District Local Governments required to execute delegated procurements are notified in advance with ample time to undertake the process and complete it within the season.

I advised management to ensure timely delivery of the tea seedlings during the planting seasons.

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 Agency.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, and the Financial Reporting Guide, 2008, 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 Agency's ability to continue delivering its mandate, disclosing, as applicable, matters related

to affecting the delivery of the mandate of the Agency, and using the Financial Reporting Guide 2008 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Ministry's financial reporting process.

Auditor's 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 the 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 judgment and maintain professional skepticism 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 our 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Ministry'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 Ministry 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 Accounting Officer 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 Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her 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 the Accounting Officer, 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

KAMPALA

12th December, 2017

APPENDIX 1

Vote Function output	Item Description	Planned Output/ Quantity	Amount Budgeted (UGX) (000')	Amount Released (UGX) (000')	Variance (UGX) (000')	Audit Remarks (Unimplemented activities)	Management Responses
015414	provision of agricultural inputs to farmers	-Procurement and distribution of seedlings -Procurement and distribution of livestock	88,330,593	42,282,093	46,048,500	-27.28 tons of Simsim -77 tons of sorghum -43 tons of G/nuts -4 green houses -25,000 seedlings of avocado -5,786 heifers -4,444 gilts and boars -2000 local sheep -300 fish cages -80 sets of modern beehives	Several tons of Simsim, Sorghum and dairy heifers were procured and delivered in DLGs. However, At the beginning of the FY 2016/17, Government provided strategic direction aimed at concentrating resources on strategic priority areas of Tea, Fruits (Citrus, Mangoes, pineapples, apples) and cocoa. Funds earlier on planned items such as local sheep, fish cages, modern beehives, G/nuts, green houses and avocado were allocated to supporting the key strategic crops. Funds for procurement of pigs- Gilts/ boars were allocated to the Meat Export Support Services Project
15415	Managing distribution of agricultural inputs	-Adverts, technical inspections, verification of deliveries, allowances for OWC, vehicle insurance, etc	22,094,567	18,481,360	3,613,207	-OWC vehicles not insured -Web based database under OWC not maintained.	OWC Secretariat opted to have more motor vehicles procured and requested to utilize the money to purchase 6 double cabin pickups. However, due to the lengthy procurement process, the funds were utilised on food security. The web-based database was still under

							re-development in line with the new NAADS mandate under OWC; It is under user testing
015416	Strategic interventions supported	-Procurement and distribution of agricultural inputs for strategic interventions to include establishment of mother gardens and farm equipment.	167,049,358	155,897,843	11,151,514	-26 out of 44 artificial insemination kits delivered -71,900 straws of semen for dairy and beef breeds -40,320 liquid nitrogen -50,000 tins of tomatoes -400 manual and Motorised sprayers -20 power tillers and implements -15,800 kgs of metalaxyl+ mancozeb pesticide -18,720 packets of Thiamothoate pesticide -742 tons of DAP -664 tons of Urea -350 tons of NPK 17.5.5 -208 tons of NPK 15.9.20 -430 tons of NPK 17.17.17 -416 litres pheromone hormone	- As part of strengthening the beef sector, part of the funds for AI kits, liquid nitrogen, straws of semen for dairy and beef breeds were allocated to procure beef cattle and training of AI technicians 30,000 packets of Thiamothoate and 15,800 kgs of Metalaxy+ Mancozeb pesticides were distributed. However, fertiliser funds were utilised to procure other strategic crops
015418	support agricultural value chain development	-Procure and distribute agricultural inputs for value addition	29,563,223	29,305,597	257,625	-8 fruit processing plant -200 Motorised coffee pulpers -8 coffee hullers -14 maize milling equipment -9 rice milling	- At the beginning of FY 2016/17, Government provided strategic direction aimed at concentrating resources on strategic priority areas to ensure greater impact on household incomes and national export earnings namely Tea, Fruits (Citrus, Mangoes, pineapples,

						<p>equipment -107 cassava milling Equipment -8 feed milling equipment -4 grain storage warehouses and aggregation centers -56 honey processing equipment</p>	<p>apples) and cocoa. -In addition part of the funds for. fruit processing, motorised coffee pulpers, coffee hullers, maize milling, rice milling, cassava milling and feed milling equipment, grain storage warehouses and aggregation centres, & honey processing equipment were allocated to supporting the Meat Export Support Services Project</p>
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FINANCIAL STATEMENTS