



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ANIMAL GENETIC RESOURCE CENTRE & DATA BANK FOR THE YEAR
ENDED 30TH JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ANIMAL GENETIC RESOURCE CENTRE & DATA BANK
FOR THE YEAR ENDED 30TH JUNE, 2017**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the financial statements of National Animal Genetic Resource Centre & Data Bank (NAGRC & DB) 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, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements of the National Animal Genetic Resource Centre & Data Bank 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 for Qualified Opinion

• **Mischarge of Expenditure –UGX.305,561,786**

Expenditure totaling to UGX.305,561,786 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 led to financial misreporting to the extent of the mischarged expenditure.

• **Unaccounted for force on account Funds-UGX.322,443,441**

I noted that a sum of UGX.322,443,441 were expended on force on account works through individual's personal accounts without adhering to PPDA guidelines on use of Force On Account. There were no work measurement sheets, certification of work by the Engineer/Consultant and inputs supplied were not recorded in the stores records to confirm works undertaken contrary to section 215 (a) of the Treasury accounting instructions that requires advances to be accounted for without delay. Unaccounted for funds render the expenditure doubtful and as a result, I could not confirm that the funds were used for the intended purposes.

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 Authority 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 Matter

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 as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matter described below as a key audit matter to be communicated in my report;

- **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.180,390,000 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament and I further, observed that there was no budget provision for settlement of domestic arrears totaling to UGX.344,492,268 posing a risk of diversion of funds 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.

Management explained that the amount reported in the financial statements as payables were brought forward from 2015/16 financial year and no new arrears were incurred in the year 2016/17.

I advised the Accounting Officer to ensure adherence to the commitment control system to limit incurring of domestic arrears. Further, effort should be made to obtain supplementary funding.

Other Matter

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

- **Budget Performance**

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 report of the entity for the year revealed that out of UGX.13.14 billion that was budgeted for, only UGX.13.049 billion was released causing a

budget shortfall of UGX.0.091 billion representing 0.7% underperformance. Further, it was also noted that out of the released UGX.13.049 billion, only UGX.12.972 billion was spent leaving unspent balances of UGX.0.077 billion. In some instances some activities were not implemented despite the fact that funds required were released. Failure to implement activities denies service to the beneficiary communities and defeats the purpose for which budgeting and budgetary controls are instituted. The planned activities not implemented are as per **Appendix I**.

According to management some of the activities which were not implemented were due to economic changes brought by inflationary changes in the economy.

I advised the Accounting Officer to ensure funds received are absorbed for timely implementation of planned activities according to the budget as approved by parliament.

- **Encroachment on Farmland**

I noted that out of the eleven (11) ranches managed by the NAGRC & DB ten (10) of them were encroached on and management had failed to evict the encroachers. It was observed that though this encroachment was reported on last year, no action had been taken to mitigate the situation. Audit inspection revealed that most of the farms/ranches were encroached on by the neighbouring communities undertaking various activities like charcoal and bush burning, animal rearing, forestry/lumbering, agriculture and mining among others. Interview with the farm managers revealed that the actual boundaries of the ranches were not clearly marked and as a result, the communities in the vicinity took advantage with some claiming to be in possession of land titles.

Failure to open boundaries and fence off the land exposes the entity land to continuous encroachment by unscrupulous individuals which will eventually lead to inadequate land for undertaking breeding activities in future.

I advised the Accounting Officer to source for funding from the line ministry to enable the fencing and opening of the entire boundaries of farm land to deter neighbouring communities from any temptation of illegal occupancy.

- **Loss of Livestock through Death and Theft –UGX290,000,000**

A review of the livestock dynamics on several farms revealed that during the year, management lost up to 288 heads of cattle and 231 goats through deaths and theft.

Computation using the average disposal rates at the various farms revealed that UGX.290,000,000 was lost in anticipated maturity sales. Farm managers largely attributed the above to lack of fencing which exposes them to danger by the neighboring community, broken down water pumps, vandalized metallic pipe system and lack of tyres bath at the entrance to enforce hygiene. Death and theft of animals leads to loss of government biological assets and thus Government revenues.

According to management thefts have been carried out at times with the connivance of staff with outsiders that are being discouraged by reporting any staff caught in the act to the authorities for prosecution and possible imprisonment. This has been complimented with a reviewed budget for drugs, acaricides and vaccines, construction of modern disease control units and Fencing materials.

I advised the Accounting Officer to expeditiously follow up the issue with the line Ministry for adequate capital development financing to address theft and death of cattle.

- **Utilization of Revenue at Source - UGX.35,393,950**

My review of four NAGRC & DB farms revealed that they earned and collected revenue from the sale of milk to the tune of UGX.70,597,150 out of which UGX.35,393,950 was not banked on the Centre's non-tax revenue account but was instead utilized at source for funding operational activities contrary to section 29 (2) a of the Public Finance Management Act, 2015 that requires all revenue collected or received by a vote, state enterprise or public corporation under subsection 29 (1) to be paid into form part of the Consolidated Fund. Utilization of NTR at source leads to diversion of Government funds to unapproved activities.

I advised the Accounting Officer to ensure that all NTR collected is remitted to the Consolidated Fund as required, failure of which recovery measures be instituted against the responsible farm managers

- **Dilapidated infrastructure at the farms/Ranches**

Among the infrastructure to facilitate modern farming practices are staff houses and offices, electricity, firefighting equipment, fences, tractors, incinerators, water systems, fire breaks, foot and tyres bath, dip tanks, paddocks etc.

In all farms inspected, I observed that staff and office blocks were dilapidated, had unhealthy asbestos roofing, leaking roofs and in some cases condemned structures. The

farms had inadequate facilitation in terms of transport (motorcycles and vehicles), lacked tractors, firefighting equipment and incinerators for disposal of waste. Further and more critical given the entity's mandate, I noted that the technical infrastructure for animal production and breeding was significantly below the average standards. The infrastructure included dilapidated cattle dips (visible deep holes in the holding ground, blown off roofs and lack of draining areas), non-functional milking parlours, inadequate water troughs, insufficient paddocking, lack of or silted foot and tyre baths and dilapidated and inadequate pig stys and goat pens. Details are as below;

S/N	Facility	Entities affected	Remarks
1	Staff houses and administrative offices	Rubona, Nshaara, Sanga, Njeru, Lusenke, Kasolwe, Aswa, Bulago Note: Maruzi ranch has no single structure	<ul style="list-style-type: none"> • Significant cracks • Dilapidated buildings • Condemned structures • Filled and inadequate pit latrines • Asbestos roofing • Caged in or cracked ceilings • Leaking roofings
2	Machinery – Tractors, Vehicles and motorcycles, firefighting equipment and incinerators	Rubona, Nshaara, Sanga, Njeru, Lusenke, Kasolwe, Aswa, Bulago, Maruzi, Ruhengere	<ul style="list-style-type: none"> • With the exception of Maruzi and Ruhengere, the rest lack vehicles • Nshaara, Sanga, Kasolwe, Bulago, Maruzi lack tractors • Njeru, Lusenke, Bulago lack motorcycles and the rest of the farms have very old ones • All farms lack firefighting equipment and incinerators
3	Animal infrastructure – cattle dips, milking parlours, water troughs, paddocks, kraals, foot and tyre baths, pig stys, goat pens	All farms/ranches	<ul style="list-style-type: none"> • Dilapidated cattle dips with deep holes in the holding ground, blown off roofs, lack of draining areas • Non-functional milking parlours • Inadequate water troughs, rusted steel troughs • Insufficient paddocking • Lack of or silted foot and tyre baths • Dilapidated and inadequate pig stys and goat pens

There is a risk that the mission and objectives of the Centre may not be achieved.

According to management this was attributed to lack of a development budget which hampered undertaking of development activities and led to the continued deterioration of the farm infrastructure.

I advised the Accounting Officer to utilise the availed development budget starting this financial year for the gradual improvement of the facilities.

- **Procurement Irregularities**

Section 26 (1) of the PPDA ACT 2003 requires the Accounting Officer of a procuring and disposing entity to have overall responsibility for the execution of the procurement and disposal process in the procuring and disposing entity.

However, audit review of the sample procurement files of the entity with a value of UGX.5,774,335,138 revealed a number of anomalies as highlighted below and details in **Appendix VII.**

- Funds availability part of form 5 not filled
- No implementation plan
- No submission of bid security
- The Evaluation committee members not signing Evaluation committee
- This item was not in the approved budget and work plan
- Lack of approval of the standard bidding document by Contracts committee
- Issuance of bids and receipts from bidders not approved by contracts committee
- Irregular approval of awards by expired contracts committee

Such irregularities in the procurement process hinder the promotion of fairness, transparency, accountability and value for money. Further, the entity is exposed to a risk of procurement review requests by aggrieved bidders which may be costly and leads to delays in service delivery.

I advised the Accounting Officer to ensure that all stakeholders in the procurement process undertake their responsibilities in accordance with the PPDA regulations and the PDU is appropriately staffed.

- **Irregular Direct Procurement**

Section 6 (3) a of the PPDA (rules & methods) regulations, 2014 provides that the choice of procurement method should be determined by the estimated value of the requirement and PPDA guidelines provide that all supplies above two hundred (200) million shillings should be by open bidding. Further, section 17 of the same regulations provides that direct procurement may be used where there is insufficient time for any other procedure such as an emergency, the works, supplies or services are available from only one provider, the existing contract could be extended for additional supplies of a similar nature and no advantage could be obtained from further competition, additional supplies are required to be compatible with existing ones and where it's

essential to purchase additional supplies from the original supplier to ensure continuity in technical approach, use of experience acquired or continued professional liability if prices are reasonable.

A review of the sampled procurements revealed that management on two occasions procured supplies above two hundred million shillings to the tune of UGX.803,985,806 using direct procurement method without adequate justification. Audit noted that there was no Contracts Committee decision on the direct method of procurement for justification and approval in all the mentioned procurements as detailed below;

S/N	Supplier/ Procurement reference	Amount (UGX)	Justification by PDU	Audit Remarks	Response
1	Medilink Lab & Surgical Ltd - - NAGRC/SUPLS/16- 17/00041 Procurement of Molecular Laboratory	311,385,873	Authorised agent of M/s Bioneer Corporation	-Manufacturer's Authorization to Medilink Lab & Surgical Ltd is doubtful since the authorization letter is not original -Manufacturers website lists its Sales representative in Uganda as M/s CIAT	Medilink are the agents to Bioneer and we had the interest in it because the machines have high resolution and definition results and have capacity to carry out up streaming sequencing.
2	Ms Double C Simmentals - NAGRC/SUPLS/16- 17/00037 Procurement of semen	492,599,933			The company has high quality semen which has been used on many farms in the country NAGRC inclusive and the products have performed very well. In addition we have a MOU with them where they are to supply reproductive inputs semen, embryo and hormones.
	TOTAL	803,985,806			

Direct procurements without justification and contracts committee approval expose the entity to a risk of uncompetitive prices and lack of value for money spent. Furthermore, the entity is exposed to a risk of procurement review requests by disgruntled suppliers which delays service delivery.

I advised the Accounting Officer to ensure competitive procurement processes are used and where there are no local suppliers, open international bidding should be used.

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 Ministry.

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 Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Entity, 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 entity'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 Entity'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 entity'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 entity 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.

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

KAMPALA

13th December, 2017

APPENDIX 1-BUDGET PERFORMANCE

Vote function	Output Item description	Planned outputs/Quantity	Amount (Shs) '000' budgeted	Amount spent (Shs) '000'	Unachieved outputs	Remarks
0156 <i>Breeding and Genetic Development</i>	Output: 09 Multiplication of pure Dairy animals & appropriate crosses	<ul style="list-style-type: none"> • Seven hundred (700) Dairy crossbred calves born. • 2) One hundred fifty 150 pure dairy calves born. 	388,015	334,076	<ul style="list-style-type: none"> • 329 crossbred dairy calves were not produced 	<ul style="list-style-type: none"> • Variation below the set target on dairy crosses due to drought.
	Output: 015623 Breeding & multiplication of pigs	<ul style="list-style-type: none"> • Four hundred and fifty 450 piglets of quality genetic materials produced & ready for multiplication. • Two pig units Maintained creating good environment for multiplication. 	130,000	141,011	<ul style="list-style-type: none"> • 204 piglets of quality genetic materials were not produced 	<ul style="list-style-type: none"> • under performance was as a result of delayed restocking pure line flocks
	Output: 015640 Production, procurement and sale of liquid nitrogen and associated equipment.	<ul style="list-style-type: none"> • (43,200 LTRS) Liters of Liquid Nitrogen to be produced. 	160,000	117,500	<ul style="list-style-type: none"> • (11,600 LTRS) Liters of Liquid Nitrogen were not produced. 	<ul style="list-style-type: none"> • Production was below the set target due to delayed equipping of set light centers.
	Output: 015639 Production, procurement and sale of semen, eggs, ova, embryos and their associated equipment	<ul style="list-style-type: none"> • 76,200 doses of cattle semen produced at NAGRC&DB. 	160,000	160,000	<ul style="list-style-type: none"> • 54,534 doses of cattle semen were not produced at NAGRC&DB. 	<ul style="list-style-type: none"> • Under performance
	Output: 015672 Government Buildings and Administrative Infrastructure	<ul style="list-style-type: none"> -Four crushes with collecting bomas constructed at Ruhengyere, Aswa, Maruzi and Nshara` . -One AI Hostel established at Ruhengyere Construction of -One Pig sty established -Four(4) spray races Established at Lusenke,maruzi and Rubona stock farm. 	1,831,000	1,831,000	<ul style="list-style-type: none"> • Construction of One AI Hostel was not established at Ruhengyere 	<ul style="list-style-type: none"> • Under performance on service delivery. The construction of an AI hostel was rescheduled to FY 2017/18
	Output: 015675 Purchase of Motor Vehicles and Other Transport Equipment	<ul style="list-style-type: none"> -Increased access to Ai services. • Two cryo mounted vehicle for distribution of Liquid Nitrogen acquired. 	1,570,000	1,570,000	<ul style="list-style-type: none"> • Two cryo mounted vehicle for distribution of Liquid Nitrogen were not acquired. Only one was 	<ul style="list-style-type: none"> • Under budgeting for the items

		<ul style="list-style-type: none"> • Five service delivery vehicle acquired and utilized, one for the Executive Director, two for coordination unit and two for implementing farm 			contracted for distribution but not yet delivered.	
	Output:015677 Purchase of Specialised Machinery & Equipment	<ul style="list-style-type: none"> • One Semen packing and freezing machine acquired for Entebbe bull stud. • Fifteen Pressurized cylinders for LN2 storage (200 litres) at AI subcentres acquired for fifteen Ai sub-centers. • Fifteen sets (3, 10, 35 litres) AI Kits acquired. 	2,229,000	2,229,000	<ul style="list-style-type: none"> • Fifteen Pressurized cylinders for LN2 storage (200 litres) at AI sub-centres not yet acquired for fifteen Ai sub-centers. • Fifteen sets (3, 10, 35 litres) AI Kits not yet acquired. 	<ul style="list-style-type: none"> • Under performance on service delivery.

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