



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL AGRICULTURAL RESEARCH ORGANISATION
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 RESEARCH ORGANISATION
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 Research Organisation 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 Research Organisation 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 Organisation 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 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;

- **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.269,798,696 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.269,798,696 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 outstanding arrears of UGX.269,798,696 were disclosed in the financial statements of 2015/2016 and reported to MoFPED, however, only UGX.7,486,000 was allocated for settlement of the arrears. Management pledged to continue lobbying MoFPED for more funds to clear the dues.

Other Matter

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

- **Budgetary 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 revealed that out of UGX.40,126,069,208 that was budgeted for, only UGX.35,376,444,060 was realised causing a budget shortfall of UGX.4,749,625,148. This represents 12% underperformance as indicated in the table below.

Description	Budget (UGX)	Actual (UGX)	Shortfall (UGX)	Percentage shortfall
Wage (UGX)	22,472,228,448	22,472,228,448	-	0
Non-Wage Recurrent (UGX)	8,523,347,198	6,921,649,732	1,601,697,466	19
Domestic Development (UGX)	9,130,493,562	5,982,565,880	3,147,927,682	34
Total	40,126,069,208	35,376,444,060	4,749,625,148	12

This shortfall affected implementation of production technologies. Out of the sixty (60) production technologies planned only thirty (30) under the "generation of Agricultural technologies" vote function could be produced.

The Accounting Officer explained that he wrote to the PS/ST requesting for funds to implement key priority areas of agricultural research for development but no response was received.

Management should continue engaging the MoFPED to secure additional funding.

- **Under collection of Non Tax Revenue**

NARO budgeted Non Tax Revenue collections expected from the various sources to the tune of UGX.6,271,885,000, however only UGX.2,996,778,945 was collected leading to a shortfall of UGX.3,275,106,055, representing 52.2%. This was partly attributed to unrealized land compensations from UNRA and Uganda Electricity Transmission Company Ltd (UETCL) for the land occupied in Mbarara ZARDI and Kawanda respectively.

Failure to collect the budgeted revenues affected implementation of planned activities.

I advised the Accounting Officer to liaise with the respective entities including the Solicitor General and MOFPED on the way forward.

- **Land encroachment and Ownership**

Audit review of NARO's land portfolio revealed that the entity did not possess certificates of land titles as evidence of ownership for most of the land located at Research Institutions country wide. The land has either been encroached on or has been taken away illegally with ownership claimed by other people. Outlined below is the status of land highlighting the extent of encroachment.

	Institute	<u>Observation</u>
A	National Coffee Research Institute (NACORRI) - KITUZA	<ul style="list-style-type: none"> • 195 Hectares In Kituza for Robusta coffee Research boundaries not well defined (likely encroachment on the land) • 12.5 Acres for Arabica coffee Research in Bugusege lacks Land title • The land and its status not updated in the asset register
B	MBAZARDI, ABIZARDI, KAZARDI,	<ul style="list-style-type: none"> • Lack of land Titles and land encroachment challenges. It was noted that there was no proof of land ownership for Research lands occupied by; MBAZARDI, ABIZARDI, KAZARDI. The Mbazadi land has continued to get encroached on. • Compensation for Mbazardi land to a third party- UNRA surveyed

		22.670 acres and 3.2 acres of NARO land for road construction. However, the 3.2 acres which also belong to the institute were surveyed in the names of Capt. David Bashaija, an encroacher and paid him UGX.600m. It was further noted that the claimant had encroached on the piece of the institute land in 1999 and the matter sent to court and judgement was made in favour of the institute.
C	BUZARDI	Land at Kakumiro; This land is held in trust by the Land Commission. It was noted that this land has been encroached on. Other challenges included; Land Commission (ULC) parcelling out pieces of land and allocating it to private developers.
D	NaFIRRI	<ul style="list-style-type: none"> • Land for construction of a pier for Nafirri (plot 20 pier lane) is being encroached on by unknown individuals. Institute operates from a pier that belongs to Rift Valley Railways (RVR) but there was no MoU between the two Institutions. • 18.459Ha. of Land at Kajjansi ARDC allocated for Agricultural research is currently still registered as a lease in the Names of Uganda Clays Limited • Other challenges included Irregular allocation of NAFIRRI Institute land to private developers: Details in table below
E	NaLIRRI	<ul style="list-style-type: none"> • Currently occupying 1920 Acres at main station in Tororo, proposed transfer from Tororo to only 600 Acres in Maruzi but its not clear how the remaining 1320Acres including buildings previously occupied by the Nalirri staff and Activities are to be compensated or managed. • Likely misplacement/ Loss of the tsetse fly Control Facility that serves East and Central Africa which Housed at the Tororo station
F	BUGINYANYA (BUGIZARDI)	<p>Encroachment on the Institute's land.</p> <ul style="list-style-type: none"> • Land measuring approximately 270 acres has triplicate title deeds in different individual names and the land was under threat of encroachment. • The institute has no title on file for its land.
G	NASARRI SERERE	<ul style="list-style-type: none"> • Land Grabbing by Local community. Some encroachment was reported on the Institute's land situated at Serere by the local community. In Kumi Town Council; un known persons had started putting up permanent structures.
H	Nabuin NABUZARDI	<ul style="list-style-type: none"> • Un-Surveyed land/Lack of a title deed. All the land occupied by the Institute estimated to be 1,300 acres has never been

		surveyed and hence no title deed to the same land.
I	Ngetta ZARDI	<ul style="list-style-type: none"> • Land at Ngetta Institute in Lira is measuring approx. 540 acres. It was noted that the eastern side of the land that was formerly used for animal rearing has been encroached on. • 90 Acres in Kitgum lacks title

Audit further noted that land encroachment has continued to increase hence threatening the existence of the Organisation’s activities country wide. This was partly attributed to lack of funds to survey the land to obtain land titles and the forced entry on the land by some individuals whom they could not prevent. Further, the remote locations of some centers rendered them difficult to monitor regularly and squatters took advantage of the situation.

Lack of land titles may lead to unscrupulous individuals acquiring the land and the institute is exposed to a risk of unnecessary land compensations in future to encroachers on their land. Research activities may also not be undertaken as a result of land shortage in future.

Management should ensure adequate planning and budgeting for processing of its land titles and recovery of its land from encroachers. Further, management should engage Uganda Land commission to ascertain circumstances under which land is parcelled out and a final solution to the anomaly be mapped out.

- **Establishment of NARO Holdings Ltd**

On 13th July 2016, NARO registered a Private company in the names of NARO Holdings Ltd for the purpose of enhancing financing of its mandated Agricultural Research activities as per the National Agricultural Research Act, 2005. However audit review of NARO compliance to the TAI, financial reporting guide, Companies Act and PFMA, 2015 revealed several anomalies as outlined below;

- Review of Management correspondences with the Accountant General revealed that the approval of request for opening of the company was not given considering the ongoing Governments decision to rationalise Government institutions. Further, the Solicitor General advised that management had to bring on board the Minister and also have Cabinet approval. However, there were no evidence that this was done.

- The company is managed under the business unit committee whose establishment is not clear since there are no records in terms of minutes of establishment, no criteria of selection of members to the committee, no individual appointments with clear terms of Reference and conditions to membership of the Business unit committee.
- The company has five (5) NARO staff acting as Appointed company Directors. However, the criteria of selection and approval of the appointment of these directors was not availed. Further, no minutes for both the Business unit committee and Directors were availed.
- A review of the bank statement for the company's account in centenary bank as of 30/6/2017 revealed a balance of UGX.396,804,150. However, while receipts and banking were verified, audit could not ascertain completeness of the revenues without inventory records for verification of their movement in generating the above stated amount.
- Bank reconciliations were not undertaken for the whole year to reconcile cash and bank balances and there were no final accounts prepared. Further, the bank statements of the company presented individuals as first and second beneficiaries to the account respectively which was found irregular.
- This investment was not disclosed in the financial statements of NARO as required under paragraph 294 of TAI Part I-finance. This is a misstatement of the accounts that misleads users of the financial statements.
- The company has not recruited any staff and there is no evidence of assignment of duty to any NARO staff to assist in the running of the company business with the exception of the Business Development manager. Audit found this irregular as NARO employees should not be running business of a private company.
- The NARO Business Development manager has a role of coordinating preparation of quarterly and annual reports showing achievements; however no report (especially financial) to that effect was presented for audit review. Further, other Business Development manager's required reports not presented for audit review were the NARO-wide Business plan, Policies to guide on good governance of the business unit and Assessment and Identification reports of potential business opportunities in PARIs.

Management attributed the concept of establishing a business unit to the provisions in the NARO Act of 2005 aimed at diversifying sources of income to generate funds for sustained agricultural research and the identified gaps were partly attributed to

inadequate knowledge and experience in establishment and running of a company by NARO.

Establishment of this company with several flaws may lead to loss of public funds and may affect NARO service delivery in her core mandate of agricultural research.

The Accounting Officer should halt the process as advised by the Accountant General pending rationalisation of government institutions.

- **Infrastructural status at the Institutes**

Review of the state of infrastructure at the institutes revealed that some of them were in dire need of renovation and others were condemned and required demolition as outlined below;

- Incomplete and abandoned works at Ngetta ZARDI.
- Dilapidated, condemned and abandoned staff quarters and workshops at NABUIN, Rwebitaba etc.
- Improvised Research laboratory and area for Research samples at Rwebitaba ZARDI.
- Inadequate storage facilities at Kajansi station
- Abandoned project meant to serve as a Fish Hatchery at Kajjansi Agricultural Research Development center.

This state of affairs was partly attributed to inadequate funding to enable NARO renovate some of the infrastructure and complete the rehabilitations timely.

Lack of adequate office and accommodation structures affects staff morale and hampers service delivery. Further, improvised laboratories for agricultural research may hinder development of new technologies due to inadequate controllable environments necessary for achievement of research results.

Management should ensure adequate provisions in their capital development budget to cater for the infrastructure facelift in phases.

- **Failure to Renew Expired Marine Hull Insurance Cover for Research Vessels**

As noted in the previous year's audit, Marine Hull Insurance cover for the three Research Vessels namely MV Hammekop, MV IBIS and MV Cormorant based in National Fisheries

Resources Research Institute expired on 6th March 2016 and had not yet been renewed by August 2017 during the time of audit inspection which was one year and five months contrary to good practice that requires properties and fixed assets of organizations prone to risks to be adequately insured with a reputable insurance company against loss or damage by fire, theft, accidents etc. This was attributed to inadequate funds.

The entity is exposed to a risk of loss in the event of an accident occurring during the uninsured period given the fact that these are expensive vessels, which would adversely affect research activities.

Management should ensure that funds are sourced immediately for the insurances of the vessels.

- **Grounded Vessel**

Audit inspection revealed that a research vessel MV Cormorant No TVM/002/200 as previously noted in the 2015/16 report has been grounded and docked at Jinja Pier for over six years because of the need for an engine overhaul.

Research activities are affected by the grounded vessel which cannot be utilized for service delivery. Further, grounding of the vessel for a prolonged period may affect other components leading to deterioration.

Management should adequately plan and budget for the funding of the required overhaul.

- **Non Payment of Rent by Gulu University-UGX.192,720,000**

A memorandum of understanding was signed between National Agricultural Research Institute and Gulu University for five years in 2011 for the University to rent some of the Institutes designated premises for establishment of a temporary campus for teaching of students at a monthly payment of UGX.5,500,000. Among the terms of the memorandum, the university was supposed to manage and maintain the premises in an environment sound manner and pay for the utilities including water and electricity.

I noted that the contract period had already ended in June 2016 leaving unpaid rent of UGX.192,720,000 but the tenant was still occupying the premises, without a plan of

extension of the contract. Non-collection of budgeted revenue affects implementation of planned activities and hampers service delivery.

Management explained that they had several fruitless engagements with Gulu University over rent payments and was considering options of requesting PAC to direct MoFPED to recover the money from the university's budget. An eviction order had been issued to the University.

I advised Management to consider legal action with a view of recovering the outstanding rental dues.

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 Organisation's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Organisation, 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 Organisation'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 Organisation 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, stylized flourish extending from the top left.

John F.S. Muwanga
AUDITOR GENERAL

KAMPALA

12th December, 2017

FINANCIAL STATEMENTS