



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL INFORMATION TECHNOLOGY AUTHORITY-UGANDA
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
NITAU	National Information Technology Authority-Uganda
PFMA	Public Finance Management Act
ISSAI	International Standards of Supreme Audit
MTEF	Medium Term Expenditure Framework
MICT	Ministry of Information and Communication Technology
BPO	Business Processing Output Centre

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL INFORMATION TECHNOLOGY AUTHORITY-UGANDA
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 Information Technology Authority-Uganda 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 Information Technology Authority-Uganda 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 Commission 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 to be the key audit matters communicated in my report.

- **Review of Commercialization of NBI and EGI contract**

Government of Uganda has been focused on computerization of its processes such IFMS, IPPS, National identity cards, payment of taxes among others. In line with this objective, the Government formed NITA-U in 2009 through an Act of Parliament whose roles were to provide first level technical support, identify and advise Government on all matters of information technology development and to create and manage the national databank among others

In order to provide some of the above functions, the Authority signed a contract with an IT company for provision of Management services for the Commercialization of the National Data Transmission Backbone Infrastructure (NBI) and E-government Infrastructure (EGI).

A review of the contract performance was taken as an area of emphasis during my planning of audit because of the overall government focus on development of the ICT sector and the big role IT plays in the development of systems and procedures in government operations.

I planned and developed audit procedures to review the performance of the contract. I examined the feasibility study report on the proposed National transmission backbone and E-government Infrastructure(2008), ICT rationalization strategy (2011), progress reports on data connectivity and usage of internet in MDA's, contract between M/s Soliton Telmec and NITA-U, performance reports of the contract and financial statements of the entity among others.

Based on the procedures performed on the contract performance, I made the following observations;

- **Project feasibility study**

Although NITAU conducted a feasibility study to establish the costs of the project, the study did not provide the detailed costs of maintaining the NBI/EGI and costs of commercialisation of the services. As a result it was difficult to assess the economic sense of the project as Management lacked sufficient benchmark to assess the bid

proposals on contract aspects such as the cost of maintaining the NBI, revenue sharing ratios and price of internet services.

Management explained that in July, 2008, MoICT conducted a study on the Management model for the NBI/EGI which recommended an outsourcing model through the Ministry of ICT in July 2008, however, the above issue was not addressed

Management should assess the cost of maintaining the NBI/EGI and the revenue sharing ratio in the contracts in order to obtain Value for Money.

➤ **Internet charges**

According to the records of contract negotiation and schedule of the costs of operation in the contract, the contractor offered a price of US\$ 30 and US\$50 per Mbps per month for internet band width services to government agencies and private sector entities respectively. However, NITAU commenced operations with a higher internet charges cost of \$300 per Mbps per Month.

Management explained that the price was majorly dependant on how much bandwidth was procured. Management further explained that the Authority did not have enough funds to procure bulk bandwidth over a long period which would have lowered this cost.

The Accounting Officer should ensure adherence to the provisions of the contract that specified amounts to be charged in the absence of any documentation relating to changes of charges.

➤ **Inadequate allocation of risks and responsibilities during contract negotiations**

The targeted clientele was mostly MDAs where Government was responsible for compelling its entities to join the NBI thus the revenue sharing ratio should have changed as Administrative costs such as marketing (\$1,830,469) over 5 year period should have been significantly low.

Although Management explained that the cost of marketing and staff costs associated thereto is within industry standards of 2%-5% and that the marketing cost is used to

market to the private sector, there was no target on the number of private operators to connect to the NBI by the contractor.

I further noted that the contractor did not provide a breakdown for the Cost of Fibre Maintenance and Cost of Equipment Maintenance in the financial bid of US\$ 28,658,134 over five years (51% out of the total 5-year cost projections US\$.56,375,891) thus it was difficult to ascertain how these costs were evaluated during the procurement process and the impact of such costs on the revenue sharing ratio.

Management explained that the cost maintenance costs proposed by the contractor were within the industry standard costs for maintenance of optic fibre cable networks.. However, the industry standards were not stated in the bid evaluation report and I could not confirm their source at the time of the audit.

Management should consider reviewing the contract terms by taking into account those provisions that appear unreasonable to government in order to obtain value for money.

➤ **Extension of the contract Period by Ten years**

The entity awarded a contract extension of 10 years to the IT company despite failing to meet its revenue collection targets in the first three (3) consecutive years and an accumulated revenue shortfall of UGX.108.1bn as at 30th June 2017. The long term contract extension limited NITAU from acquiring other service providers that would have offered competitive prices and innovation.

Although management explained that MoICT published a report on the 'Infrastructure Management Model' for the NBI/EGI which recommended for 20 years concession agreement, I noted that the extension of the contract by 10years was contrary to the 'Infrastructure Management Model' by MoICT which recommended for 20 year concession agreement subject to renewal every four to five years.

I advised the Accounting Officer to conduct a holistic contract review in accordance with the recommendations in the Infrastructure Management Model report to facilitate completion and quality service.

- **Outstanding domestic arrears – UGX.11,841,297,048**

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 investigated to establish the trend, the underlying factors and thereby make recommendations. During audit planning, I majorly focused on domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures; a trend analysis over a period of three years, review of the budget and commitment control procedures and accounting treatment for the domestic arrears. I also engaged the accounting officer to enable me arrive at the audit conclusions.

I observed that an amount of UGX 11,841,297,048 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. There has been an increase in domestic arrears over the period of three years from in UGX. 7,522,028,950 2014/15, to UGX. 8,349,403,655 in 2015/16, and UGX 11,841,297,048 in 2016/17. This makes the trend unsustainable. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX. 8,349,403,655 posing a risk of diversion of funds for settling the obligations.

Accruing domestic arrears without clearing previous domestic arrears is a violation of the law and may lead to nugatory expenditure in form of litigation costs in case suppliers sue the Ministry for delayed payments.

According to Management, the increase in domestic arrears was largely due to the fact that NITA-U is owed funds by MDAs, Uganda Communication Commission (UCC) and that there were budget cuts during the financial year.

I advised Management to improve collections of NTR and liaise with MoFPED in order to obtain funds to settle the outstanding obligations.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter described in notes 7 and schedule of significant liabilities and receivables in the financial statements.

- **Under collection of Appropriations-in-aid (AIA)**

The Authority budgeted for appropriations-in aid amounting UGX.22,258,620,390 in the financial year 2016/17 as revenue from the commercialization of NBI/EGI, sale of internet bandwidth to MDAs and private firms, sale of bid documents and other sources. However, a review of note 7 in the financial statements revealed that only UGX.12,217,841,951 was collected resulting into a short fall of UGX.10,040,778,439 representing 45% of the AIA budgeted.

This was caused by inadequate enforcement of contracts with clients and setting of unrealistic revenue estimates.

Under-collection of AIA resulted into the Authority spending UGX.1.87bn above its actual collection and this affected the budgeted activities of 2017/2018 as MoFPED deducted off the over spent UG.1.8BN from the actual collections of in AIA in the following year.

Management explained that the shortfall was caused by delay to connect some of the MDA to internet services, delays and or failure by some MDAs to pay up for the services including the failure by UCC to remit the funds as agreed in the Memorandum of Understanding (MoU).

I advised the accounting officer to enhance revenue collection processes and in cases where NTR is not collectable such as UCC, such funds should not be budgeted for as NTR.

- **Receivables**

I noted that revenue arrears have increased from UGX.16,509,866,770 in 2015/16 to UGX.22,635,876,750 in 2016/17 which represented a 37.1% increase. The increase in receivables was partly attributed to non-payment of 1% levy on Telecoms by Uganda Communication Commission (UCC) of UGX.14,900,000,000 which represented 65.8% of

the total revenue receivable. However, the recovery of the UCC fund was doubtful as UCC had terminated the MOU.

Management explained that the increase was due to unwillingness of MDAs to clear their outstanding amounts despite several reminders and suspension of services.

Management further explained that following a policy Directive from the Ministry of ICT & National Guidance, NITA-U has stopped recognizing the receivable from UCC effective FY 2017/18 and the outstanding amount of UGX14.9 billion will be handled in accordance with the MoU and the Debt Collection Procedures Manual.

Other Matter

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

- **Delayed extension of Internet services to MDAs**

I noted that out of the fifty five (55) entities whose ICT budget was amalgamated by MoFPED and remitted to NITA-U, Six (6) MDAs with an ICT budget of UGX.2,083,674,000 had not fully or received the internet services. As a result some MDAs had to incur extra costs to acquire internet bandwidth from private operators which would have been avoided if the Authority had fulfilled its mandate.

Management explained that the speed of connecting MDAs is dependent on availability of NTR funds but consolidated MDAs which were not connect in to the NBI in FY 2016/17, NITA-U have been prioritised in the FY 2017/18.

I advised the Accounting officer to ensure that all Government entities whose budgets were affected are connected to the NBI and receive quality internet services from NITAU.

- **Outsourcing of NITAU's core activities**

One of the core functions of NITA-U as per section 5(a) of its Act is to provide first level technical support and advice for critical Government information technology systems including managing the utilization of the resources and infrastructure for centralized data centre facilities for large systems through the provision of specialized technical skills.

A review of the core activities provided by the Authority such as certification of IT services were outsourced to private service providers. For instance, the Authority contracted a company to provide certification for IT services (at a Gross revenue sharing ratio of 20.7% to NITAU and 79.3% to the contractor) to certify IT services of competitors in the same industry.

Outsourcing of the key activities such as certification of IT services to private service providers may come with risks such as conflict of interest and high cost of paying service providers. Furthermore, it reduces government capacity to provide first level technical support for IT systems.

Management explained that the certification process was outsourced because NITA-U, as an entity is not yet accredited to do certification and capacity building requires time and resources over time, which NITA will embark on.

I advised the accounting officer build capacity of its staff in order to manage its core services so as to safeguard government confidential data and to avoid conflict of interest.

- **Budget performance**

Section 45 (3) of the Public Finance Management Act, 2015 states that “ An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under section 13 (15)” of the said Act.

It has been observed over years that planned and budgeted for activities of a number of Government entities are not implemented thereby retarding service delivery.

Based on the procedures performed, I observed that out of the budgeted revenue of UGX.48.34 billion, the entity received UGX.36.11billion resulting into a shortfall of UGX.12.23billion (25.3%). However, I noted that some of the planned outputs were not implemented as indicated in the table attached. **Refer to Appendix 1.**

Service delivery is hampered and the appropriating authority’s objectives are not met.

Management explained that this was caused by delay to connected MDAs to internet services and delays in procurement of service providers.

I advised the accounting officer to ensure adequate supervision of the projects being undertaken and in future start early procurements so as to meet the desired targets.

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

A handwritten signature in black ink, appearing to read 'John F.S. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

20th December, 2017

Appendix 1

Budget performance

Vote function output	Item description	Budgeted Output	Amount budgeted (BN)	Amount released (BN)	unachieved Output	Management response
Programme 02: Technical Services	055101 Rationalized and Integrated national IT infrastructure and Systems	<ul style="list-style-type: none"> Phase III of the NBI/EGI Commissioned and launched; the remaining 220Km of fiber laid by Q3. the remaining 50% of the NOC completed and the commissioned by end of the Q2 FY 2016/17. The remaining one Transmission Site (Katuna) completed by Q2 of FY 2016/17 	25.673	20.877	Achieved	
		<ul style="list-style-type: none"> Environmental Monitoring system for one remaining transmission site (Katuna) completed by Q2 FY 2016/17 			Achieved	
		<ul style="list-style-type: none"> Additional 100 MDA sites,10 Municipal Councils, 3BPO Operators and 3 Innovation Hubs connected to the NBI by end of FY 2016/17 			Out of 100 MDAs targeted only additional 79 MDAs/ LGs were connected to NBI phase III. No Municipal Councils, BPO Operators or Innovation Hubs were connected to the NBI by end of FY 2016/17.Despite commercialization of phase III, the revenue target of 26 billion was	

					not met. The entity generated 16.5 billion but collected only 11.2 billion. This has been attributed to non-provision of services to other MDAs since out of 256 connected to NBI only 179 were receiving internet by end of FY2016/17	of FY2016/2017.
		<ul style="list-style-type: none"> NBI commercialization Contractor effectively supervised to generate the Projected Revenue of 26Billion. Implementation of improvements to the Network (Power and optical fibre installation) - Replacement of Equipment and relocations of fibre as an when they arise -Greening (Implementation of Solar) of 25 Transmission Sites by end of FY2016/17 			Achieved	
		<ul style="list-style-type: none"> Bulk Internet Bandwidth procured (6*STM1s for 6Months-Q1 &Q2, then 1*STM16 after Q3), and delivered to 200 MDA sites, 3 BPO operators, 3 Innovation Hubs and 10 Local Government sites. 			Achieved	
		<ul style="list-style-type: none"> Northern Corridor Integration Projects (NCIP) activities supported (National ID Data sharing, integration of National ID and SIM card 			<ul style="list-style-type: none"> Northern Corridor Integration Projects (NCIP) activities supported - Consultancy 	The activity was not achieved due to limited funds released

		Registration System, e-health, e-Agriculture, NCIP Portal)			Services (National ID Data sharing, integration of National ID and SIM card Registration System, e-health, e-Agriculture, NCIP Portal) was not done	
		<ul style="list-style-type: none"> Integrated e-Government applications hosted in the Data Centre /Cloud 3(GCIC, HCIS, OPM MIS) 			<ul style="list-style-type: none"> Integrated e-Government applications hosted in the Data Centre /Cloud 3(GCIC, HCIS, OPM MIS) was not done 	The activity was not achieved due to limited funds released
		<ul style="list-style-type: none"> NITA-U Human Resources System (Human Capital Information System) developed for better service delivery by Q4 2016/17 			<ul style="list-style-type: none"> NITA-U Human Resources System (Human Capital Information System) was not developed for better service delivery 	The activity was not achieved due to limited funds released
		<ul style="list-style-type: none"> E-Government Curriculum to be used for Training Civil Servants developed. 			Achieved	
		<ul style="list-style-type: none"> Marketing and Branding of BPO. 			Achieved	
		<ul style="list-style-type: none"> ICT Park studies completed and Transaction Advisor contracted, bid document for ICT Park developed 			<ul style="list-style-type: none"> Short term consultancy to carryout Feasibility study for BPO/ICT 	The activity was not achieved due to limited funds released

			and published -			park not yet done • Consultant for Geo-technical study - ICT Park was not procured	
Programme 06: Planning, Research and Development	055202 Research, Development and Innovations Supported and Promoted	IT and	• Five (5) new IT standards developed and gazatted to facilitate systematic delivery of priority IT infrastructure and services	0.960	0.857	Achieved	
			• Ten (10) IT service providers provisionally licensed			Achieved	
			• Certification contract managed to generate target revenue UGX 2.01BN			Achieved	

						2BN couldn't be met. In addition,
		<ul style="list-style-type: none"> NITA-U certification processes commenced 			Achieved	
		<ul style="list-style-type: none"> Three (3) Training sessions conducted in partnership with Civil Service College and other partners m). An e-learning Platform developed and operationalized 			Achieved	
		<ul style="list-style-type: none"> A strategy for Institutionalization of GCIO function in government developed 			<ul style="list-style-type: none"> A strategy for Institutionalization of GCIO function in government has not yet been developed 	Strategy for the institutionalization of GCIO is to be developed under the RCIP World Bank projects by a consultancy. Awaiting clearance of the Terms of Reference by the WB to be able to proceed with the procurement.

FINANCIAL STATEMENTS

