



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE OFFICE OF THE PRIME MINISTER (OPM)
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
OPM	Office of the Prime Minister
PFMA	Public Finance Management Act
ISSAI	International Standards of Supreme Audit
ICT	Information Communication Technology
INTOSAI	International Organization of Supreme Audit Institutions
IESBA	International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants
MoFPED	Ministry of Finance Planning and Economic Development
G.O.U	Government of Uganda
MTEF	Medium Term Expenditure Framework
UGX	Uganda Shillings

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
OFFICE OF THE PRIME MINISTER
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 the Office of the Prime Minister 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 the Office of the Prime Minister 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 Office of the Prime Minister 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 matter described below as key audit matters to be communicated in my report;

- **Outstanding 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 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.1,566,126,597 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 UGX.86,484,721 in 2014/15, to UGX. 797,401,768 in 2015/16, and UGX 1,566,126,597 in 2016/17. This makes the trend unsustainable. I further observed that there was no budget provision for settlement of domestic arrears totalling to UGX.797,401,768 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 OPM for delayed payments. 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 OPM for delayed payments.

Management explained that the increase was due to unpaid VAT on civil works, salary arrears and delay in clearance of pension liabilities.

I advised the Accounting officer to adhere to the commitment control system to limit accumulation of domestic arrears and where arrears exist, there should be a budgetary provisions to avoid diversion of funds. Furthermore, I advised the Accounting Officer to expedite the process of clearing the gratuity with Ministry of Public service and liaise with MoFPED in order to obtain funds to settle the outstanding obligations.

Other Matter

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

- **Failure to Implement Budget as approved by Parliament**

I observed that out of the budgeted revenue of UGX. 156.851 billion, the entity received UGX.130.487 billion resulting into a shortfall of UGX.26.364 billion (16.8%). I further noted that some of the planned outputs were not implemented. **Refer to Appendix.1**

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

I advised the Accounting Officer to engage the relevant authorities and ensure that budget deficiencies are addressed so that all the allocated funds are released and all activities are implemented according to the budget as approved by parliament.

- **Budgeting for Item code 221006 (Commissions and related charges) – UGX.1,400,000,000**

According to GOU chart of accounts, item code 221006 (Commissions and related charges) under general expenses is to be charged with costs incurred to cater for commissions and other charges payable to third parties for services rendered, that is; commissions paid to URA for revenues collected, retention fees to contractors for revenues collected and others.

A review of the Office of the Prime Minister's Policy Statement, approved budget estimates and financial statements revealed that services of ICT services were budgeted and approved under line item 221006 (commissions and related charges), instead of

charging various line items on ICT. This distorts the GOU financial statistics system and misrepresents disclosures in the financial statements.

Management explained that they are liaising with the Accountant General to provide appropriate codes that reflect the nature of activities implemented by Office of the Prime Minister.

I await Management's effort to resolve the matter.

- **Mischarge of Expenditure UGX. 467,849,137**

A review of the Office of the Prime Minister's expenditures revealed that the entity charged wrong expenditure codes to the tune of UGX.467,849,137 representing 0.35%. Mischarges undermine the importance of the budgeting process as well as the intentions of the appropriating authority and lead to financial misreporting.

Management explained that the Vote suffered budget shortfalls especially on the development budget where only 42% of the approved development budget was released which constrained the entity to respond to the emerging priorities and demands of the office. Management undertakes to continue ensuring that budget controls are adhered to.

I advised the Accounting Officer to streamline the budget process to ensure that sufficient funds are allocated to each account, liaise with MoFPED for funding and budget controls are fully adhered to such as seeking authority for any reallocations.

- **National policy for Disaster preparedness and management**

OPM developed a policy on disaster preparedness and management in 2011. However, I noted that that some of the key policy deliverables such as introducing the Disaster Preparedness and Management bill and the National Disaster Preparedness and Management Fund bill to Parliament for approval had not been implemented since 2011.

Absence of the above legal frameworks could affect smooth operations of the disaster preparedness and management department mission to mitigate the disaster affecting the country such as drought, floods, landslides, crop and animal diseases.

Management explained that the development of the Principles for Disaster Preparedness and Management Bill had been prioritised and will be submitted to Cabinet before December, 2017. Furthermore Management explained that liaising with stakeholders to have the Contingency Fund operationalized will continue.

I await for the outcome of Management effort on the matter.

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 Office of the Prime Minister's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Office of the Prime Minister, 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 'J. Muwanga', with a large, stylized flourish extending from the end.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

15th December 2017

Appendix.1: Budget Implementation

Vote function output	Item description	Planned outputs/Quantity	Amount (Billions) budgeted	Amount (Billions) released	Unachieved outputs	Management response
Programme 14 Information and National Guidance	13 01 05- Dissemination of Public Information	<ul style="list-style-type: none"> • Communication Units in 7MDAs strengthened • Public Education Programmes Coordinated • Local governments sensitized on Access to Information Act(ATIA) 2005 • The Press and Journalists Act 1995 Reviewed 	0.740	0.740	<ul style="list-style-type: none"> • Review of the press and journalist Act has not been completed 	Consulted meetings with key stakeholders to review the draft principles to guide the amendments of the press journalist Act 1995 were held and draft principles await cabinet approval
Programme 19 Refugees Management	130207-Grant of asylum and repatriation refugees	<ul style="list-style-type: none"> • 20,000 new refugees granted refugee status • Contribution to International bodies (IOM) • 10 Laptops for use by REC procured • 4 Refugee Eligibility Committee sessions conducted 	0.135	0.135	<ul style="list-style-type: none"> • 10 laptops (UGX.40m budgeted and released) were not procured for the REC despite receiving 100% budget release 	Laptops were not procured because of influx of refugees which necessitated prioritizing other activities.
Project 0922 Humanitarian Assistance	130204-Relief to disaster victims	<ul style="list-style-type: none"> • 1,000 MT of Relief food and 2,000 assorted Non Food Items procured and distributed 	2.288	2.100	<ul style="list-style-type: none"> • Management did not carry out procurements of food and nonfood items 	Part of the funds were spent on activities to support the distribution of food and nonfood items procured under sub program 18(output:04 relief to disaster victims) and rice donated by the Chinese government.
Project 0922	130272-	<ul style="list-style-type: none"> • Namanve stores 	0.917	0.695	<ul style="list-style-type: none"> • Eviction of encroachers 	Due to budgetary cuts suffered

Humanitarian Assistance	Government Buildings and Administrative Infrastructure	<p>building, fencing and connection of utilities completed</p> <ul style="list-style-type: none"> • Completion of back filling undertaken • BOQs and designs for NECOC building made • Eviction of encroachers and Wall Fencing off Land in Kisugu • Ground prepared for future construction of NECOC HQs • Design for large Relief stores completed • Security house constructed in Namanve 			<p>and Wall Fencing off Land in Kisugu was not done.</p> <ul style="list-style-type: none"> • Security house construction in Namanve was not done. 	by vote 003 especially under development budget in FY 2016/2017, all planned outputs could not be realized, thus funds available were prioritized.
	130275-Purchase of Motor Vehicles and Other Transport Equipment	<ul style="list-style-type: none"> • Two (2) twelve tons 6*6 cargo trucks purchased • Two (2) heavy duty land cruiser hard top wagon cars purchased 	0.419	0.419	<ul style="list-style-type: none"> • Two (2) twelve tons 6*6 cargo trucks purchased were not purchased • Two (2) heavy duty land cruiser hard top wagon cars were not purchased 	As guided by section (34)(ii) of the budget execution circular for 2016/2017 management prioritized payment of outstanding bills for the 2 vehicles procured in 2015/2016.
	130275- Purchase of motor vehicle and other transport equipment	<ul style="list-style-type: none"> • Purchase of twelve tons 6*6 truck. 	0.245	0.130	<ul style="list-style-type: none"> • The procurement process for the Twelve tons 6*6 truck. cargo truck deferred 	Funds released in the financial year were not sufficient to procure the cargo truck and was therefore taken to sensitize the population on the rainfall outlook and food security
Project 0932 - Post-war Recovery, and Presidential	130307-Restocking Programme	<ul style="list-style-type: none"> • 18,600 cattle procured for the Sub regions of West Nile, Lango, Teso and Acholi 	18.000	10.110	<ul style="list-style-type: none"> • No new procurements for cattle were done but rather funds were spent on domestic arrears 	As guided by Section I(34)(ii) of the budget circular for FY2016/2017 management prioritized payment of

Pledges		<ul style="list-style-type: none"> • Coordination, Monitoring and Inspection visits on Restocking carried out. 				outstanding bills of cattle accrued from the previous year 2015/2016.
Project 0019 Strengthening and Re-tooling the OPM	134901-Ministerial and top management services	<ul style="list-style-type: none"> • Government web Portal programme implemented • ICT support to MDA and LG websites carried out • Executive office (the prime minister service delivery unit and other operational costs) supported 	2.232	2.225	<ul style="list-style-type: none"> • Government web Portal programme implementation was not done. • ICT support to MDA and LG websites was not done 	Management paid for customs clearance of rice donated from china government, facilitated staff on monitoring the distribution and were guided by PS/ST to prioritize expenditure requirements within available budget

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