



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**PUBLIC SERVICE COMMISSION**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

## **TABLE OF CONTENTS**

LIST OF ACRONYMS.....	2
Opinion .....	3
Basis of Opinion .....	3
Key Audit Matters .....	3
Other Matters .....	5
Responsibilities of the Accounting Officer for the Financial Statements .....	7
Auditor’s Responsibilities for the Audit of the Financial Statements.....	7

## LIST OF ACRONYMS

<b>Acronym</b>	<b>Meaning</b>
<b>AAPSCOM</b>	Association of African Public Service Commissions
<b>DSC</b>	District Service Commission
<b>IFMS</b>	Integrated Financial Management System
<b>IPPS</b>	Integrated Payroll and Personnel Systems
<b>ISSAIs</b>	International Standards of Supreme Audit Institutions
<b>IT</b>	Information Technology
<b>LGs</b>	Local Governments
<b>MDAs</b>	Ministries, Departments and Agencies
<b>MoFPED</b>	Ministry of Finance, Planning and Economic Development
<b>MTEF</b>	Medium Term Expenditure Framework
<b>URA</b>	Uganda Revenue Authority
<b>TAI</b>	Treasury Accounting instructions
<b>PFMA</b>	Public Financial Management Act
<b>PPDA</b>	Public Procurement and Disposal of Assets
<b>PSC</b>	Public service Commission

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
PUBLIC SERVICE COMMISSION  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the financial statements of the Public Service Commission for the year ended 30<sup>th</sup> 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 Public Service Commission for the year ended 30<sup>th</sup> 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 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 procedures performed, I observed that an amount of UGX.297,498,437 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. On the overall, has been an increase in domestic arrears over the period of three years. Whereas there was a reduction from UGX.53,870,300 in 2014/15 to UGX.31,714,347 in 2015/16, there was a significant increase to UGX.297,498,437 in 2016/17. I further observed that there was no budget provision for settlement of domestic arrears totalling to UGX.330,310,801 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 Commission for delayed payments. Accumulated payables may also hinder future budget activities.

Management explained that the Commission has over time accumulated outstanding bills because of the inadequacy of its budget. Domestic arrears therefore have been settled in a phased manner in order not to suffocate the Commission`s planned activities.

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

### **Other Matters**

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

- **Budget Performance**

Out of its approved budget of UGX.6,877,314,000 the Public Service Commission received funds totaling to UGX.6,821,109,330 from Ministry of Finance Planning and Economic Development. This constituted 99.2 % of its approved budget estimates for the FY 2016/17. However, a review of the budget performance for the year under review revealed that some targets were partially or not achieved despite release of funds to the vote functions as detailed in the **Appendix. 1**

Service delivery is hampered in the circumstances and the appropriating authority's objectives are not achieved.

Management explained that other capacity building initiatives such as induction, mentoring and monitoring were carried out in other Districts for instance 41 DSCs were visited by Members, 71 DSC Members and 22 Secretaries/PHROS were inducted, 18 Secretaries/PHROs were mentored by technical officers.

I advised the Accounting Officer to ensure adequate supervision of the activities being undertaken.

- **Mischarge**

A review of the Commission's expenditures revealed that the entity charged wrong expenditure codes to a tune of UGX.236,362,000. This practice undermines the importance of the budgeting process and leads to financial misreporting.

Management explained that the Commission has in the past had problems in implementing its budget due to the static nature of its MTEF but care has been

exercised to ensure that resources are applied to the activities for which the funds were voted and the associated accountabilities filed.

I advised the Accounting Officer to streamline the budget process to ensure that sufficient funds are allocated to each account and budget controls are fully adhered to including seeking authority for any reallocations.

- **Support to District Service Commissions**

There has been inadequate monitoring and supervision of District Service Commissions. According to the annual reports only 58 performance audits in 58 Districts have been conducted out of a total of 115 District Service Commissions since 2013 which represents 50% of the total number of districts in Uganda. Inadequate monitoring of activities of the District Service Commissions may lead to poor service delivery.

Management explained that apart from Performance Audits, there are other initiatives which addresses the same issues under support to District Service Commissions i.e. Monitoring visits by Members & Technical Officers, Mentoring of Secretaries by Technical Officers, Induction programmes both Regional and demand driven. 41 DSCs were visited by Members, 71 DSC Members and 22 Secretaries/PHROs were inducted, 18 Secretaries/PHROs were mentored.

I advised the Accounting Officer to intensify supervision efforts in districts in order to enhance service delivery.

- **Handling of Appeals from Districts and Central Government**

A review of the comparative analysis of appeals made to Commission revealed that the appeal cases reduced from eighty five (85) in FY 2015/16 to sixty one (61) in the FY 2016/17. However, Management did not provide a case handling tracking schedule indicating; the details of the appeals case, how and when these cases were resolved. Under the circumstance, I was unable to assess the efficiency and effectiveness of the Commissions Complaints Handling process.

Management explained that although there have been delays in handling some appeals especially when the Districts delay to forward the necessary documents and comments, Public Service Commission has now introduced/Online Case Management System to track the processing of appeals which will address the delays. Management further

explained that the Commission had also constituted an Appeal's Committee to handle complex cases to mitigate further delays.

I await the outcome of Management's efforts to enhance efficiency in the Appeals Handling process.

### **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 Ministry's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Ministry, 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, sweeping flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

19<sup>th</sup> December 2017

**Budget Performance**

<b>Vote Function Output</b>	<b>Item Description</b>	<b>Planned output/Qty</b>	<b>Budgeted Amount (UGX)</b>	<b>Released Amount (UGX)</b>	<b>Actual output/ quantity</b>	<b>Unachieved outputs</b>
Programme -03 Guidance and Monitoring	135201 DSC monitoring and Technical Assistance provided	<ul style="list-style-type: none"> <li>• 70 DSCs with critical capacity gaps identified, monitored and technical guidance tendered</li> <li>• All complete appeals received, investigated, determined and decision communicated</li> <li>• Performance Audits carried out in 30 priority DSCs using the approved performance standards and minimum conditions manual</li> </ul>	502,830,000	502,830,230	<ul style="list-style-type: none"> <li>• 41 Districts were visited and on spot technical support provided.</li> <li>• Concluded 47 appeals from a total of 22 Districts</li> <li>• 16 performance audit carried out in 16 DSCs</li> </ul>	Despite full funding of activities, only 16 out of 30 performance audits were carried out
	135205 DSC capacity Building	<ul style="list-style-type: none"> <li>• 80 DSC member and secretaries from 16 DSCs inducted</li> <li>• Performance enhancement programmes conducted for secretaries of 20 DSCs and PHROs in CAO's offices</li> <li>• Guidance provided to DSCs</li> <li>• Appointment of chairpersons</li> </ul>	461,429,000	461,428,835	<ul style="list-style-type: none"> <li>• Inducted 71 DSC members and 22 secretaries/PHROs from 20 Districts.</li> <li>• Conducted monitoring of Secretaries in 18 Districts</li> <li>• Guidance have been developed for approval by PSC</li> </ul>	<p>Delayed provision of guidance to 9 DSCs</p> <p>Delayed approval of 57 chairpersons and members of DSCs</p>

		<p>and members of all DSCs approved</p> <ul style="list-style-type: none"> <li>• All new DSCs inducted</li> </ul>			<p>expected to be printed and disseminated in FY 17/18. However 52 requests for guidance from MDAs and districts were handled.</p> <ul style="list-style-type: none"> <li>• Approved appointments of 219 chairpersons and members. 57 were not approved</li> </ul>	
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**FINANCIAL STATEMENTS**