



**THE REPUBLIC OF UGANDA**

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

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

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## LIST OF ACRONYMS

<b>Acronym</b>	<b>Meaning</b>
<b>CPG</b>	Commuted Pension Gratuity
<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>NIN</b>	National Identification Number
<b>NIRA</b>	National Identification and Registration Authority
<b>NRAC</b>	National Records Centre and Archives Centre
<b>NSIS</b>	National Security Information System
<b>URA</b>	Uganda Revenue Authority
<b>TAI</b>	Treasury Accounting instructions
<b>PFMA</b>	Public Finance Management Act, 2015
<b>PPDA</b>	Public Procurement and Disposal of Assets
<b>PSC</b>	Public service Commission
<b>OOB</b>	Output Oriented Budgeting
<b>ROM</b>	Result Oriented Management System

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**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 Ministry of Public Service 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 Ministry of Public Service 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 Ministry 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 performance of the Integrated Personnel and Payroll System (IPPS)**

In 2010, Ministry of Public Service began implementing the Integrated Personnel and Payroll System (IPPS) at a contract price of US\$4,437,817 as part of the Public Service Reform Programme with the aim of putting in place an all-inclusive Human Resource management system that would enhance accountability, strengthen establishment controls and ultimately be a repository for all employment data pertaining to a public officer and pensioner.

The performance of the IPPS was an area of focus during the year. The area was identified during the risk assessment of the Ministry, at the preliminary stage of the planning, as a significant service delivery point of the Ministry, directly impacting on its mandate and an area of high stakeholder concern on the operational efficiency of the Ministry. Senior staff were assigned to this area specifically to review the operation guidelines of IPPS, system functionality review reports and interview IPPS users to ascertain system challenges and potential solutions.

I noted that despite spending a total of UGX.904,546,374 that is UGX.188,167,762 (2015/16) and UGX.716,378,612 (2016/17) on IPPS system costs, the IPPS still faced a number of technological and operational concerns. For instance there was no integration between IPPS and IFMS to date, and there were frequent reports of network challenges experienced by system users across government which constrained smooth Payroll management. The implementation of IPPS system has not been effective and has not fully yielded the expected results.

Ministry of Public Service agreed with the observation and indicated that an Inter-Ministerial taskforce comprising officials from the Ministries of Public Service, Finance, Planning and Economic Development, Local Government and National Information Technology Authority Uganda, conducted an understudy of the existing system and established the underlying systemic dysfunctions. The gaps were identified and have been considered in the development of the technical requirements of the new system.

Management should ensure that proper needs assessment and feasibility is conducted while acquiring the new system in order to avoid wasteful expenditure.

- **Decentralization of pension management**

Pension management was partially decentralized in Financial Year 2014/15 with the Planning (budgeting) and processing of files done by MDAs and LGs. The implementation of the IPPS Pensions Module was effected on 1<sup>st</sup> October, 2014. The module was expected to yield the following benefits; automatic transmission of results from the active payroll to the pension payrolls and immediate payment of Commuted Pension Gratuity (CPG) upon retirement, timely processing of retirement requests, and improved accountability through regular system checks. According to the Establishment notice No.2 of 2015, 4.1.3 the Ministry of Public Service was to continue to be the Pensions Authority in the Public Service, in accordance with the provisions of Sections 2.22 & 23 of the Pensions Act and the Fourth Schedule of the Act.

The decentralization of pension management was prioritized as a focus area during the audit. The area was also identified during the risk assessment of the Ministry, as a key area pertaining to the social welfare of former government employees. Senior staff were assigned to this area to review the system of controls on the decentralization of the pension management and any backlogs in settlement of pension liabilities.

Pension and gratuity was decentralized with arrears amounting to UGX.199 Billion which were disaggregated by votes and transferred to MoFPED. However, to date only UGX.7.4bn of 199bn (3.7%) had been paid to 1,238 pensioners from 26 votes. Furthermore, a review of the report on the assessment of the effectiveness of the decentralization of pension management revealed that only 37 districts were monitored during the financial year 2016/17.

Management of the pension decentralization is not yet satisfactory. The pensioners are unlikely to receive their pension on time.

The Ministry agreed with the observation and explained that they have undertaken initiatives to improve the decentralized management, such as; the pensioners' census which is aimed at building a national database of all genuine pensioners, fully decentralise the processing of pension as well as building capacity and regular training to strengthen the existing arrangements. Management further promised to undertake surveys to assess the effectiveness of the decentralized management of pension.

The Accounting Officer should expedite the establishment of a comprehensive pensioners' database, which should regularly be updated. Management should also

empower the MDAs and districts with a view of streamlining the pension management and regular supervision.

- **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.2,410,426,853 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. I observed that there has been an increase in domestic arrears over the period of three years, from UGX.996,701,459 in 2014/2015 to UGX.2,041,837,542 in 2015/2016 and UGX.2,410,426,853 in 2016/2017. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.1,695,324,520 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, and failure to follow the government commitment control system.

The Accounting Officer explained that the increase in domestic arrears and delayed settlement is due to under-funding.

### **Other Matters**

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**

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.

I observed that out of the budgeted revenue of UGX.31.60 billion, the entity received UGX.24.55 billion resulting into a shortfall of UGX.6.48billion(22%). Further, I noted that some of the planned outputs were partially or not implemented as indicated in **appendix 1.**

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

The Accounting Officer should engage the relevant authorities and ensure that budget deficiencies are addressed so that all the allocated funds are released with the activities implemented according to the budget as approved by Parliament.

- **Lack of an Approved National Policy and Capacity building frame work**

Ministry has overall responsibility for the management and administration of the Public Service as per the Public Service Act, 2008. The specific mandate is to develop, manage, and administer human resource policies, management systems, procedures and structures for the Public service. The policy is supposed to guide the Ministry in the execution of its mandate in as far as capacity building is concerned.

It was observed that although the Ministry developed a National Policy and capacity building framework, these were still in draft format and had not been approved by the relevant authority.

In the absence of a policy and a frame work, the Ministry may not appropriately identify and evaluate capacity gaps within the civil service which negatively affects the efficiency and effectiveness of government staff.

The Accounting Officer should liaise with the relevant authorities to have the National Policy and Capacity Building framework approved.

### **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

8<sup>th</sup> December, 2017



## Appendix 1

Vote output	function	Item description	Planned outputs/ Quantity	Amount (Billions) budgeted	Amount released (Billions)	Unachieved outputs	Management response
Program Human Resource Management	1312	Upgrading of the Civil Service College Facility	<ul style="list-style-type: none"> <li>• Induction Training Program for 200 new public officers.</li> <li>• Induction Training Program for 100 promoted Officers in U1SE and U1E delivered.</li> <li>• Public Sector Governance and Accountability Training Program launched.</li> <li>• 50 HR Officers trained in performance management</li> <li>• Curriculum for HR for non-HR Managers</li> <li>• 3 tracer courses conducted</li> <li>• Audio Visual training materials developed.</li> </ul>	2.6	2.3	<ul style="list-style-type: none"> <li>• Curriculum for HR for non-HR Managers was not achieved</li> <li>• 3 tracer courses were not conducted</li> <li>• Audio Visual training materials were not developed.</li> </ul>	Inadequate funds
		MDAs and LGs Capacity Building	<ul style="list-style-type: none"> <li>• Human Resource Policies formulated and reviewed.</li> <li>• Capacity of staff to undertake specialized HR activities built.</li> <li>• Implementation of HR policies supported and monitored.</li> <li>• HRP/D policies and Guidelines formulated and reviewed;</li> <li>• Core competences for the Uganda Public Service developed and disseminated.</li> <li>• Human Resource planning framework for the Public Service developed.</li> </ul>	1.71	1.61	<ul style="list-style-type: none"> <li>• Review of the training policy and finalization with the training needs assessment for common cadres was not undertaken.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of adequate funding to conduct training.</li> <li>• Review of the training policy and finalization with the training needs assessment for common cadres was delayed due to inability of some MDAs and LGs to easily give information.</li> </ul>

	Public Service Performance Mgt	<ul style="list-style-type: none"> <li>• Performance management tools reviewed and linked to the Balanced Score Card perspectives.</li> <li>• Performance management initiatives supported monitored and reviewed.</li> <li>• Performance Contracts introduced and rolled out to Public Officers in Salary scale U1SE</li> </ul>	0.32	0.24	<ul style="list-style-type: none"> <li>• Rolled out Performance Agreements to Heads of Department in 3Regional referral Hospital (Mbarara, Kabale, and Jinja) out of the planned five.</li> </ul>	Roll out of Performance Agreements to only 3 RRH instead of 5 was due to less funds released
	Management of the Public Service Payroll and Wage Bill	<ul style="list-style-type: none"> <li>• Payroll and Wage bill management supported and monitored.</li> <li>• Payroll managers trained in Payroll and wage bill management processes.</li> <li>• Alternative Pay Reform Strategies developed and implemented.</li> <li>• Monthly wage bill and Payroll analysis reports extracted.</li> </ul>	1.19	0.97	<ul style="list-style-type: none"> <li>• 60 votes were not trained in preparation of wage, pension and gratuity estimates.</li> <li>• Payroll managers were not sensitized on the management of the single deduction code</li> </ul>	This was attributed to inadequate funds.
	IPPS Implementation Support	<ul style="list-style-type: none"> <li>• IPPS integrated with IFMS and other PFM systems.</li> <li>• IPPS, DC Bio-metric Access System and EDMS upgraded supported and maintained.</li> <li>• Establishment ceilings on IPPS updated.</li> <li>• IPPS further rollout to new votes undertaken.</li> </ul>	2.96	3.39	<ul style="list-style-type: none"> <li>• Upgrade of IPPS to interface with National ID system not done, awaiting clearance by Solicitor General.</li> <li>• No integration of IPPS, IFMS and other PFM systems</li> </ul>	In F/Y 2016/17, the Ministry prioritized payment of arrears due to M/s free balance in respect of F/Y 2015/16 due to lack of sufficient funding.
Program 1313 Management Systems and Structures	Organizational structures for MDAs developed and reviewed	<ul style="list-style-type: none"> <li>• Structures of the Ministry of Education, science, Technology and Spots and its affiliated institutions reviewed and developed</li> <li>• Structures of newly created districts(9), 19 municipal councils, 32 town councils,</li> </ul>	0.86	0.73	<ul style="list-style-type: none"> <li>• All establishment control activities not completed.</li> </ul>	Establishment control not completed due to the IPPS system being off.

		<p>and 9 mother districts reviewed and developed</p> <ul style="list-style-type: none"> <li>• Technical support and guidance provided in the implementation of structures in the 12 MDA's and 28 Local governments</li> </ul>				
	Review of dysfunctional Systems in MDAs and LGs	<ul style="list-style-type: none"> <li>• Operational and management system identified and catalogued in the 2 sectors of Public sector Management and Education, Science technology and Sports</li> </ul>	0.10	0.10	<ul style="list-style-type: none"> <li>• Final restructuring reports for Education, Science technology and Sports were not undertaken.</li> </ul>	Identifying and cataloging other systems was not carried out due to limited funding.
	Development and Dissemination of Policies, Standards and Procedures	<ul style="list-style-type: none"> <li>• records and Archives policy developed</li> <li>• National records and Archives Act (2001) Amended.</li> <li>• Records Management systems introduced to four newly created local governments.</li> <li>• Records Management systems reviewed and streamlined in 34 MDAs.</li> <li>• Records Management audits carried in 12 MDAs and 25 LGs.</li> <li>• Retention and disposal schedule rolled out in 12 MDAS and 6 LGs.</li> </ul>	0.38	0.36	<ul style="list-style-type: none"> <li>• Surveys were not carried out in 24 MDAs and 7 LGs on development of records and archives policy and amendment of the National Records and Archives Act, 2001.</li> <li>• Streamlining of systems was not undertaken in 30 MDAs.</li> <li>• Records management audits were not carried out in 5 MDAs and 11 LGs.</li> </ul>	<ul style="list-style-type: none"> <li>• Some activities were not undertaken due to other commitments.</li> <li>• Some audits were not completed due to insufficient funds.</li> </ul>
Program 1314 Public Service Inspection	Results-Oriented Management (ROM) Systems strengthened across MDAs and LGs	<ul style="list-style-type: none"> <li>• MDAs and LGs supported to implement the ROM and OOB framework.</li> <li>• ROM/OOB technical focal point officers' forum held.</li> <li>• Staff trained in best practices on ROM/OOB</li> </ul>	0.17	0.16	<ul style="list-style-type: none"> <li>• ROM and OOB framework was not rolled out in 3LGs</li> </ul>	Preparatory activities were carried out to roll out the ROM and OOB framework in 11 LGs but funds were not released as expected.

	Demand for Service Delivery Accountability Strengthened through Client Charters	<ul style="list-style-type: none"> <li>• Technical support and guidance on implementation of client charters provided to 8 MDAs and 15 LGs</li> <li>• MDAs and LGs supported to institutionalize the client charter.</li> </ul>	0.21	0.21	<ul style="list-style-type: none"> <li>• Technical support and guidance on development and implementation of client charters was not provided to 5 MDAs and 4 LGs.</li> </ul>	The department prioritized inspecting compliance to service delivery standards.
Program 1316 Public Service Pensions Reform	Implementation of the Public Service Pension Reforms	<ul style="list-style-type: none"> <li>• Decentralized pension Management system supported and monitored.</li> <li>• Reform of the Public Service Pension scheme (PSPS) implemented.</li> </ul>	0.70	0.72	<ul style="list-style-type: none"> <li>• 22,138(31%) pensioners not validated on the payroll.</li> </ul>	Management attributed this to low turning up during payroll validation.
Program 1349 Policy, Planning and Support Services	Public Service Negotiation and Dispute Settlement Services	<ul style="list-style-type: none"> <li>• Public Service Tribunal constituted and operationalized.</li> <li>• National negotiating and consultative council Strengthened.</li> <li>• Consultative committees established and supported.</li> <li>• National Salaries commission operationalized.</li> <li>• Grievances and complaints from organized labour handled.</li> </ul>	0.40	0.35	<ul style="list-style-type: none"> <li>• Public Service Tribunal not operationalized.</li> <li>• New members of the Council not oriented.</li> <li>• Statutory instrument for recognition of new unions not done.</li> </ul>	<ul style="list-style-type: none"> <li>• Public Service Tribunal not operationalized, awaiting approval from Parliament.</li> <li>• New members of the Council not oriented due to lack of funds.</li> <li>• Statutory instrument for recognition of new unions not done, awaiting Council meeting.</li> </ul>
Project 1285: Support to Ministry of Public Service.	134975-Purchase of Motor Vehicles and Other Transport Equipment	<ul style="list-style-type: none"> <li>• 3 executive motor vehicles procured.</li> <li>• 12 Double cabin pick-ups procured.</li> </ul>	2.00	0.15	<ul style="list-style-type: none"> <li>• 14 motor vehicles not procured</li> </ul>	Under releases of funds
	134976-Purchase of Office and ICT Equipment, including Software	<ul style="list-style-type: none"> <li>• Mobile shelving purchased.</li> <li>• 2 TV sets, 6 printers, 7 laptops , 86 desktops, 18 CCTV cameras, 3 servers , 2 fax machines, 1 CISCO call manager and 2 air conditioners.</li> </ul>	0.99	0.29	<ul style="list-style-type: none"> <li>• Instead of procuring as planned, Management considered a 12 months lease for the 6 heavy duty multi-purpose printers.</li> <li>• 50 computers, 2 TV sets, , 7 laptops, 18</li> </ul>	Under releases of funds

					CCTV cameras, 3 servers, 2 fax machines, 1 CISCO call manager and 2 air conditioners were not procured.	
	134978-Purchase of Office and Residential Furniture and Fittings	<ul style="list-style-type: none"> <li>• 22 reception chairs, 4 Sofa sets, 4 reception desks , 1 floor carpet, 4 conference tables, 22 conference chairs and 1 blind.</li> </ul>	0.59	0.26	<ul style="list-style-type: none"> <li>• 22 reception chairs, 4 Sofa sets, 3 reception desk, 1 floor carpet, 4 conference tables, and 22 conference chairs were not procured.</li> </ul>	Under releases of funds

## **APPENDIX 2**

### **FINANCIAL STATEMENTS**