



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

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

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES**  
**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 Trade, Industry and Cooperatives 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 Trade, Industry and Cooperatives 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 Matter**

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 matter to be communicated in my report;

- **Inadequate Controls Surrounding Management of Domestic Arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been persistent accumulation of domestic arrears to unmanageable levels which has led to settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears. The variances between the reported figures in the financial statements and the amounts verified by Internal Auditor General formed a basis of my qualification of consolidated GOU financial statements for the year ended 30th June 2016.

Consequently, domestic arrears were considered a key audit matter which needed to be examined to assess: the appropriateness of recording, recognition and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears.

During audit planning, I focused on examination of domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness; ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me arrive at the audit conclusions.

Based on the procedure performed, I observed that there has been a decrease in domestic arrears over the period of two years from UGX.8,874,452,422 in 2015/16, to UGX.6,257,204,853 in 2016/17. However despite the reduction, I noted that UGX.768,420,748 was incurred as domestic arrears outside the approved estimates appropriated by Parliament during the year. I further observed that the Ministry budgeted for only UGX.2,621,940,033 for the settlement of domestic arrears carried forward from the previous year of UGX.8,874,452,422. In addition, there is an outstanding cooperatives war debt of UGX.50,978,685,649 which is yet to be settled.

Management explained that most of the new commitments under the Ministry are as a result of new assessments made for contributions to International organizations; mainly COMESA, WTO, and UNIDO. Although the Ministry makes budgetary provisions for payments to International Organizations each financial year, this item has been underfunded over the years.

I advised the Accounting Officer to liaise with the Ministry of Finance, Planning and Economic Development to ensure that funds are availed to settle the outstanding arrears.

### **Other Matter**

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

- **Budget performance**

Section 45 of the Public Finance and Management Act, 2015, requires the Accounting Officer to control the regularity and proper use of the money appropriated to the vote. According to Section 45 (3) of the same Act, the Accounting Officer shall enter into an annual performance contract with the Secretary to Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan for the vote for the financial year.

A review of the budget performance for the year revealed that some targets were partially or not achieved at all despite release of some funds to the vote functions. **Appendix 1 refers.** Service delivery is hampered and the appropriating authority's objectives are not met as the activities were not performed as planned despite receiving some funds

I advised the Accounting Officer to continue to liaise with the Ministry of Finance Planning and Economic Development to ensure that the amounts appropriated are availed and utilized to implement planned activities.

- **Mischarge of Expenditure – UGX 62,928,659**

A sum of UGX.62,928,659 was charged on items which do not reflect the nature of the expenditure as defined per Government Chart of Accounts. Appendix 2 refers. Mischarge of expenditure undermines the budgeting process, as well as the intentions of the appropriating authority. It further impacts on the credibility of the financial statements,

since the figures reported therein do not reflect the actual amounts expended on the respective items.

Management explained that the underfunded key activities have remained a major challenge for the Ministry. These led to accommodating critical activities from within the available resources, e.g engagements in trade negotiations (EAC, COMESA, WTO, Tripartite etc.) which requires mandatory attendance. Management further explained that they are continuously making effort to ensure increase in the Ministry budget allocation to enable the entity meet these challenges.

I advised the Accounting Officer to ensure that adequate funds are availed for this critical activity.

### **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, stylized flourish above the name.

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

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



**APPENDICES**

**Appendix 1: Budget performance**

<b>Item Description</b>	<b>Planned Output/Quantity</b>	<b>Amount Budgeted (UGX) B</b>	<b>Amount Released (UGX) B</b>	<b>Unachieved Outputs</b>	<b>Management responses</b>
<b>06 49 75 Purchase of Motor Vehicles and Other Transport Equipment</b>	<ul style="list-style-type: none"> <li>• 3 Motor Vehicles procured for Field Exercises (AGOA)</li> <li>• Procure Motor Vehicle - Pickup Trucks</li> <li>• Procure Motor Vehicle - Station Wagons</li> <li>• Procure Motor Vehicle - Saloon Cars</li> <li>• Procure Motorcycles</li> </ul>	0.509	0.400	3 Motor vehicles not procured (Under AGOA).	Shortage of funds.
<b>06 0203 Cooperatives Skill Development and Awareness Creation</b>	<p>1,000 Cooperative Societies supervised to ensure compliance to Cooperative Law;</p> <p>25 Cooperatives audited to ensure proper financial ability and reporting;</p> <p>24 Cooperatives inspected to ensure proper management and governance by the leaders;</p> <p>10 investigations</p>	5.2	5.07	<p>620 Cooperative Societies not supervised to Ensure compliance to the Cooperatives Law and regulations.</p> <p>15 Cooperatives not audited to ensure proper financial ability and reporting;</p> <p>13 cooperatives not inspected to ensure compliance and proper management and governance;</p> <p>6 Cooperatives not investigated</p>	<p>Activities not done due to shortage of funds</p> <p>As above</p> <p>The department was inadequately funded to enable inspection &amp; ensure management compliance</p> <p>Activity not fully done due inadequate funding in the financial year.</p>

	<p>180 farmers mobilized to form horticulture cooperatives in Central, Eastern and South West Uganda for export purposes; International Cooperative Day Nationally commemorated;</p> <p>Youth from 2 prominent Universities sensitized and mobilized to form investment</p>	0.119	0.043		This activity was not implemented due to shortage of funds to the Department
<b>06 04 Trade Development</b>	<p>Guidance to local manufacturers on how best to benefit from AGOA provided;</p> <p>Monitoring and Evaluation of AGOA Programmes and Interventions;</p> <p>Public Awareness created;</p> <p>Knowledge and skills of relevant technical officers enhanced; Conducive environment for AGOA Created</p>	1.04	0.492	<p>Benchmarking with the private sector operators in other AGOA eligible countries not done.</p> <p>So far close to 40% of the private sector and public sector is sensitized. 60% not sensitized.</p> <p>Technical workshops not done.</p>	<p>Insufficient funds.</p> <p>Insufficient funds.</p> <p>Insufficient funds.</p>

<b>06 04 04 Trade Information and Product Market Research</b>	Trade Licensing data collected from 20 municipalities for development of an Authentic National Business Register;  Local Government Grant for commercial services.	0.90	0.28	Failed to collect Trade Licensing data from 20 municipalities for development of an Authentic National Business Register; National Business Register;	Inadequate funds
<b>06 49 51 Contributions and Memberships to International Organisations</b>	Uganda's Membership subscriptions and Contributions made to International organisations; WTO, COMESA & UNIDO.	0.406	0	Membership subscriptions and Contributions not paid.	Activities not done due to shortage of funds
<b>06 49 76 Purchase of Office and ICT Equipment, including Software</b>	Power Backups (Service Free Batteries, 6pcs) Procured;  Desktop Computers Procured;  Tiling Office Premises - 3 Floors  Repair and Maintenance of Office Facilities  Heavy Duty Photocopier	0.26	0.083	Critical tiling in the corridors and Hon. Ministers Offices and washrooms undertaken. Other areas not done.	Insufficient funds

## **FINANCIAL STATEMENTS**