



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA COFFEE DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
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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 Uganda Coffee Development Authority 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 Uganda Coffee Development Authority 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 Authority 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, the following observations were made;

- **Non- compliance with commitment control procedures**

Section 21(2) of the Public Finance management Act, 2015 provides that a vote shall not take any credit from any local company or body unless it has capacity to pay the expenditure from the approved estimates as appropriated by Parliament for that financial year.

It was observed that an amount of UGX.28,076,941,800 was irregularly incurred as domestic arrears contrary to regulation. This may be a result of weak budgeting and budgetary control measures in place.

Consequently, there has been an increase in the domestic arrears position by 23% (UGX.5,255,282,260 in absolute terms) and the trend may not be sustainable. This poses a risk of litigation.

According to the accounting officer the 23% increase in the seedlings arrears is as a result of scaled up replanting in line with the directive from H.E the President of Uganda, to produce 20 million coffee bags by 2020 (60 kilogram bags), to boost the Country's balance of trade. The Presidential directive requires that UCDA in collaboration with other partners should generate, distribute and plant 322 million seedlings per year for three years between 2014/15 and 2017/18 and the payments for the arrears have been prioritized within 2017/18 Budget.

The Accounting Officer should stop the practice and ensure strict compliance with the provisions of the Treasury Accounting Instructions.

➤ **Un Budgeted for Domestic Arrears**

Section 13(10) (a) (iv) of the Public Finance Management Act, 2015 requires that while budgeting to include financial liabilities in the budget for the financial year. Review of the approved estimates for the district did not include any budget provision for settlement of domestic arrears totaling to UGX.22,821,659,540.

Failure to make the necessary budget provisions may lead to diversion of funds for settling the obligations.

According to the accounting officer on several occasions they have sought guidance and given a case on the continuous accumulation of seedlings arrears to meet the Coffee 2020 Roadmap target of planting 322 million seedlings per year, as justification for additional resources but to no avail. However, on implementation, as per the PFMA Act, 2015 arrears take the first call on available resources for any given financial year.

The Accounting Officer should ensure that sufficient budget provisions are made for domestic arrears to enable their eventual settlement.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters included under operating expenses in the statement of financial performance.

- **Mischarge of Expenditure**

Expenditure totaling to UGX.84,249,757 was inappropriately charged on budget lines to fund activities that were not planned for without authority. Mischarges undermine the budgetary process and the intentions of the appropriating authority as funds are not utilized for the intended purpose. The practice also leads to financial misreporting.

According to management this was due to the fact that UCDA did not receive a release in the 2nd quarter (Oct/Dec 2016). In 2015/2016, the vote remitted UGX.4.138 billion more than what had been appropriated and through consultations with MoFPED Official, there were indications that these excess remittances would be released to the vote in the 1st quarter of 2016/2017. However, this promise did not materialize leading to a shortfall of the same amount in the quarter that created shortfalls on some critical line items for which they were advised by the PSST to effectively plan and adequately provide for critical expenditure needs within the resources available.

The Accounting Officer should streamline the budget process to ensure that sufficient funds are allocated to each account and budget controls are fully adhered to such as seeking authority for any reallocations.

Other Matter

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

- **Budget Performance**

- **Budget Shortfall UGX 2,103,480,000**

Budget estimates are based on outputs to be achieved for the financial year and during implementation effort should be made to achieve the agreed objectives or targets of the entity within the available resources. Further, Part IV (b) of the UCDA Statute 1991 authorizes the authority to levy 1% Cess fee on all coffee exports.

Review of the Financial Statements revealed that the approved annual budget of UCDA was UGX.87.413 billion inclusive of Appropriation in Aid (AIA), however only UGX.85.309 billion was released, resulting into a shortfall of UGX.2.103 billion representing 2.4% under performance of the budget. I noted that the Cess budget for the period was UGX.19.501 billion, however, only UGX.17.660 billion was realised representing 9.4% shortfall. Further, it was also noted that out of the released UGX.85.309 billion, only UGX.85.231 billion was spent leaving unspent balances of UGX.78 million. Details are in the table below.

SECTOR	Year: 2016-2017 (Billions)				
	APP EST (A)	RELEASE (B)	Variance C= (A-B)	Expenditure (D)	Unspent (B-D)
UCDA	87.413	85.309	2.103	85.231	0.078

As a result of the above it was noted that some planned outputs like Robusta coffee seedlings, seed gardens supported, stores, Primary processing factories and Wet mills inspection, Coffee Platforms organised and inter regional farmers tours were not completed as per details in **Appendix I**.

Management explained that the observations are valid and confirm the reasons advanced in quarterly and annual performance reports. The AIA collection is determined partly by the realized export prices which are market determined (follow the global market which exhibited a negative trend) as well as the exchange rate variations which are also exogenous yet the projections are done almost a year earlier.

Management should draw the issue to the attention of the responsible Ministry to ensure that all funds budgeted for are actually received to enable service delivery in this critical sector and institute strong budget monitoring and supervision controls.

- **Inadequate Coffee Extension Services**

Strategic action 1.14 of the Authority's Corporate Plan 2015/16 – 2017/18 is to provide coffee specific extension services within the centralized/unified extension delivery system. This includes advisory services to coffee farmers such as land preparation, planting of coffee seedlings, weeding, thinning, pruning, water control, harvesting and drying of coffee beans produced.

However, it was noted that the area of coverage of the coffee extension staff was significantly limited due to inadequate extension staff in service. I noted that management employs a total number of forty four (44) coffee extension staff in 102 coffee planting districts within the country and as a result, the average ratio of extension services per district is 1:3 and 1:32 per Sub County as well as 1:169 per parish. Refer to table below.

Description	Districts	Sub counties	Parishes	Coffee Extension Officer (CEOs)
Total Number	102	1,403	7,431	44
Ratio Per Extension Staff	1:3	1:32	1:169	-

Accordingly, most of the farmers interviewed indicated that no extension staff had visited their plantations to provide these specific coffee extension services. Inadequate provision of extension services leads to poor coffee agronomical practices of the beneficiary farmer plantations i.e. bushy and abandoned farms, seedlings not bent in time to prompt growth of more stalks, intercropping with competing perennial crops, non-adoption to spacing of 10 feet by 10 feet and drying of coffee beans directly on bare soil (instead of using tarpaulins).

Management acknowledged the observation on the current challenges in regard to provision of extension services and explained that at the last Board of Directors meeting the Board approved a revised organizational structure that includes 93 Regional Coffee Extension Officers which implies approval of additional 49 RCEOS and translates into one (1) RCEO per coffee growing district. However, this is expected to be conducted in FY 19/20 upon availability of funds.

The Accounting Officer should expedite the recruitment of the extension officers, ensure adherence to the Standard Operations Procedures (SOP) and to strengthen the monitoring roles of OWC and DLGs to enable achievement of programme objectives.

- **Centre of Robusta Excellence (CORE) Project**

- **Suspension of CORE Project**

The Centre of Robusta Excellence (CORE) project was established between the Agriculture Business Initiative Trust (aBi Trust) and UCDA for a period of 3 years (2014-2016) aimed at establishing a Centre of excellence to promote sustainable coffee value chain through technology transfer by implementing various complementary activities.

My review of project documents and interviews revealed that the project was inadequately managed and subsequently suspended by the Fund pending resolution of the issues raised. Project management in April 2016 informed the Accounting Officer that all aBi contracts with implementing partners were suspended and further disbursements would not be available until all the issues were resolved. By the time of writing this report in December 2017 (one and a half years later) the suspension was yet to be revoked by the Fund.

Suspension of project activities affected full implementation of several items on the work plan i.e. internal and external Capacity Building, Quality Improvement and conformity to SPS Standards, Promotion of production through technology transfer and

Research, Promotion and Marketing, Information, Education and Communication and Monitoring and evaluation of Project Activities.

➤ **Comingling of Project Funds**

I noted that management did not open a separate Project account and as a result funds from various revenue sources were comingled with the project funds contrary to Article 2.8 (obligations of the authority) of the memorandum of understanding that required the authority to open a separate bank account for the aBi Trust funds exclusively.

Non-adherence to the MOU may lead to termination by the grantor despite a possibility of extension provided in Article 4.1 which provides that the collaboration may be extended by mutual agreement for a further period.

Management explained that the Bank Account was previously used as a collection Account for NTR but later dedicated to the CORE project as approved by Accountant General and notification given to aBi Trust. The non-related incomes related partly to deposits from clients that had previously been depositing on this account and these clients were reminded not to deposit on the account.

Management should address the various issues raised by the project funders and ensure the project is running again for the benefit of the coffee industry. Further, project funds should not be comingled with other funds to enable proper follow up.

• **Under Remittance of NSSF contributions-UGX.41,728,158**

I noted that staff at the authority were given a cash benefit in form of fuel allowance starting in the month of November 2016 up to the end of the year, but this was not considered in the calculation of the NSSF contribution of the staff to the fund contrary to Section 12(1) of the National Social Security Fund (NSSF) CAP 222 states that requires a contributing employer to deduct from the monthly wage payment of his or her employee the employee's share of a standard contribution of 5 per cent calculated on the total wages paid during that month to that employee. As a consequence, there were under contributions to the fund of UGX.41,728,158 on behalf of the employees. Under remittance of NSSF undercuts staff future benefits and may lead to future litigation to the Authority.

Management promised to comply with the NSSF Act.

Management should with immediate effect enforce the deductions from employee benefits to avoid penalties from NSSF.

- **Lack of farmer database**

UCDA management undertakes the distribution of coffee seedlings to willing farmers who possess sufficient acreage for maintaining coffee plantations. Accordingly, it was noted that the amount of seedlings distributed to potential farmers is dependent on the farmer's land available for planting.

Field inspections revealed that management did not maintain a farmer database specifying the actual numbers of beneficiary farmers supported, their credentials and with their respective land planted/available.

Lack of farmer database exposes the entity to a risk of supplying farmers without any land or inadequate land and end up not planting all the seedlings received.

Management acknowledges these observations. Farmer registration to establish electronic database is important and necessary for easy planning and targeting of coffee services to farmers. It is, however, very expensive to roll out comprehensive farmer registration exercise throughout the country. That notwithstanding UCDA has embarked on the registration of farmers starting with a Pilot Phase in Mukono and Buikwe districts. The exercise will be rolled in a phased manner over across the country starting with Kalungu District. The other districts within the greater Masaka area will follow subject to availability of funding. Thus, UCDA is in the process of soliciting for funds from the Ministry of Finance and development partners in order to finance a nationwide farmer registration exercise.

Management should continue soliciting for funds from the Ministry of Finance and development partners in order to finance a nationwide farmer registration exercise and establish a mechanism of verifying actual acreage of land prior to distribution of the seedlings.

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 Authority.

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



John F.S. Muwanga

AUDITOR GENERAL

14th December, 2017

APPENDIX 1

Budget performance

Planned Outputs	Annual	Output Description	Output Indicators	12 Months Planned Target	Planned Activities to deliver Outputs	Performance in 12 Months	Remarks	12 months' Budget
Clean planting Material produced		Robusta Seedlings raised	Number of seedlings	80 million	Procure and distribute seed from private suppliers and Research based seed gardens)	66.607 MT of Robusta procured raising 76.95 million seedlings	Below target achievement due to poor crop harvest in 1st Quarter, resulting from un-reliable rainfall.	63,539,327,094
		Arabica seedlings raised	Number of seedlings	20 million	Procure and distribute seed from private suppliers and Research based seed gardens)	18.346 MT of seed procured and distributed raising 38.7 million seedlings	Above target due to a better crop harvest and interest from Nursery operators	
		Arabica seed and Robusta seed raised	Number of seed gardens	4 seed gardens supported.	Financial Support to Seed gardens to generate seed	Financial and Technical support provided for Ngetta and Zombo seed Gardens. Seed produced to-date; - Buginyanya – 3.5 MT - Zombo – 252Kgs - Ngetta – 75 Kgs	Below target seed produced; Ngetta and Buginyanya seed gardens were stumped and will come into full production in 17/18 coffee year.	
Coffee Quality improved		Coffee Regulations are enforced	Number of stores, Primary processing factories and Wet mills	500 stores; 375 factories; 10 wet mills	Undertake monthly inspections of Buyers' Stores and Processing Factories to undertake their registration, licensing and Training	471 stores Registered; 450 factories registered and licensed; 1 wet mill registered.	Below target stores because of the variability in the seasons.	

Planned Outputs	Annual	Output Description	Output Indicators	12 Months Planned Target	Planned Activities to deliver Outputs	Performance in 12 Months	Remarks	12 months' Budget
		Enforcement of coffee Regulations	Number of mini-Taskforces	10	Undertake Regional Quality improvement Initiatives through enforcement of the Coffee Regulations; Factory hygiene practices, Good storage practices, Waste disposal and management	6 Regional task forces carried out in Eastern (2), Western, South Western and 3 Central Regions. - 50 Coffee factories were inspected and closed; 90 Stores closed for various malpractices including moisture above the recommended 13% and extraneous matter (stones, husks and pods)	Below target because of the need to improve the quality of coffee in grater Masaka as all staff were to participate in the activities.	
Extension services provided to farmers and other Stakeholders		Improve farmers knowledge on GAPs and GHPs.	Farmers trained	864	RCEOs carry out trainings on GAPs and post-harvest handling (each 2 sessions per month)	905 training sessions carried out attracting 30,800 participants (6,232 female)	Above target due to increasing demand from stakeholders interested in planting coffee. More women and Youth encouraged to attend the trainings.	
		Coffee platforms are functional	Number of Coffee Platforms	31 Platforms	Coordinate Coffee Production Campaign Activities at districts in collaboration with the District Coffee Platform	11 platforms facilitated to carry out coffee activities.	Below target due to postponement main activity is organizing Coffee Shows.	
		Knowledge exchange on GAPs and GHPs is practiced	Number of Tours	5	Organize and implement inter-regional Farmers' Study Tours	2 Regional Tour carried out – Farmers from Eastern Region visited Central Region; Farmers from Central Region visited South – Western Region	Below target because Implementation of the activity affected by the seedlings verification and sensitization exercises	4,042,416,680

Planned Outputs	Annual	Output Description	Output Indicators	12 Months Planned Target	Planned Activities to deliver Outputs	Performance in 12 Months	Remarks	12 months' Budget
		Coffee knowledge is disseminated to all stakeholders	Number Air Minutes	15 Radios	Implement airing of coffee programs on Radio Stations	11 Radios Contracted to air Coffee Programs – a total of 5,280 minutes of air time procured	Key information aired on the radios - Nursery management - Pest and disease management - Coffee planting - Quality enhancement and management - Coffee Regulations and Task Forces - Policy and - strategic recommendations	161,400,000
Support to Program Implementation		Supervision and reporting enforced	Number Field reports produced	12	Overall Supervision and monitoring of all programs by the Director	7 Reports submitted. - Highlights of field activities (nursery, field, Quality and processing) in Eastern, Northern Western and South Western Regions	Below target due to verification and sensitization activities with OWC and Desk Directorate activities	
		Supervision and reporting enforced at Regional level	Reports submitted	60	Program implementation by Managers, Coordination and Supervision of all activities in the Regions	60 Regional Monthly reports submitted; - Nurseries and seedling generation - Coffee Planting - Yield improvement - Quality Improvement and processing - Extension and farmer training.	Additional Weekly reports are submitted to highlight all events including those outside the work plans.	
		UCDA image is upheld	Good working Environment	21	Facilitate Office Rental and Utilities Payments	All 5 Regional Offices and 16 Sub-region offices operational due to support provided	There is need for improved signage of the Regional offices.	

Planned Outputs	Annual	Output Description	Output Indicators	12 Months Planned Target	Planned Activities to deliver Outputs	Performance in 12 Months	Remarks	12 months' Budget
		Extension services delivered to farmers.	Reports submitted	432	Motorcycle Fuel , Night Allowances (Out of station + Regional meeting), Car Hire, Fuel for 19 Power saws , Reporting to H/Q once per quarter	All Field staff supported to carry out field activities and submit reports to the Regional Managers.	Regular reports submitted by all staff Including collaborative reports from other stakeholders.	366,888,000
		Total						68,110,031,774.0

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