



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA INDUSTRIAL RESEARCH INSTITUTE (UIRI)
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Abbrev	Meaning
CAP	Chapter
PPDA	Public Procurement and Disposal Authority
GAR	Gross Annual Revenue
IPSAs	International Public Sector Accounting Standards
UGX	Uganda Shillings
IT	Information Technology
USD	United States Dollars
VAT	Value Added Tax
PFMA	Public Finance Management Act, 2015

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA INDUSTRIAL RESEARCH INSTITUTE
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 Industrial Research Institute 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 Industrial Research Institute 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 Statements section of my report. I am independent of the Company 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

I consider it necessary to communicate the following matter other than that presented above:

- **Undisclosed assets**

There were no values attached to the non-produced assets of the entity in the financial statements. Non-produced assets include Land, Cultivated Assets and other naturally occurring assets.

I noted that UIRI owns land and buildings on Plot 42A Mukabya Road and Nakawa Industrial Area. However, the value of land and buildings was neither disclosed in the assets register nor in the financial statements. Lack of value for the land and buildings implies that the financial statements are misstated and may be misleading to the users.

Management explained that the process of revaluing non produced assets is on-going. Advertising was finalized and they are yet to procure a company to undertake valuation. A correct figure will then be reflected in the financial statements.

I advised the Accounting Officer to ensure that the value of non-produced assets is ascertained and disclosed in the financial statements.

- **Budget Performance**

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.

Out of the budgeted revenue of UGX.14,305,221,315 the entity received only UGX.12,097,248,888 (representing 84.57%) leading to a shortfall of UGX.2,207,972,427 (15.43%). As such, management could not implement all the planned activities as indicated in **Appendix 1**. No evidence was availed to show that these activities were rolled over to the following financial year. There is a risk that planned activities were not fully realized thereby hampering service delivery.

Management explained that for over 10 years the entity has received inadequate budget allocation under MTEF, yet the problems continue to be compounded by shortfalls within

the quarterly cash limits. Efforts to seek better funding have not been successful. This practice has been the cause and consequence of degraded performance, unfunded mandates, and inadequate implementation of planned projects.

I advised the Accounting Officer to liaise with the Ministry of Finance and Economic Development to lobby for better funding.

- **Lack of the Board of Directors**

Section 6 of the first schedule of the Act lists the composition of the members of the board. Under Section 8 in the second schedule subsection 1.1 states requires the Board to ordinarily meet for the discharge of business at least once in every three months at such times and places as the Chairperson may determine.

I noted that the board met only once during the year under review before its term expired in November 2016, leaving the entity with no board for rest of the year. Lack of a board hinders the operation of the entity since key strategic decisions are not addressed and implemented accordingly.

Management explained that the term for the outgoing Board ended on 6th November 2017. The Minister in charge is aware of this and he is handling the situation as appropriate. The Accounting Officer has prepared a report titled, "*Governance at UIRI: past and present*" This should shed some light on UIRI's experience vis-à-vis the Board's management oversight role.

I advised the Accounting Officer to ensure that the board is in place to undertake the strategic leadership of the institute.

- **Staffing gaps**

Out of the available 560 posts, 225 posts are filled leaving 237 posts vacant representing a 58% vacancy level. According to the management structure, UIRI has 4 directorates headed by directors and these are; Technology development, Product development, Product systems and Finance and Administration departments. It was however observed that only 1 director position (Technology development) was filled leaving the other critical directors vacant. There is a risk that the departments will not be run as anticipated thus affecting the achievement of organizational objectives.

Management explained that the recruitment plan for the 237 unfilled positions is over 4 financial years. However requests for funding to fill the staffing gaps have been in vain. Management await Ministry of Finance, Planning and Economic Development to provide the requested funding for UIRI to fill said positions.

I advised the Accounting Officer to ensure that the Board takes the necessary steps to have these positions filled.

- **Non enforcement of Workers Compensation Act**

Section 18 of the Workers Compensation Act requires every employer to insure and keep workers insured in respect of any liability which workers may incur. Section 2 of the same Act provides that insurance shall apply to all employment within Uganda except for active members of the armed forces in Uganda.

I noted that no payment for the workers compensation to any insurance company was made. Besides, there was no budget provision for the insurance of workers. Lack of a workers compensation scheme may put the institute into undue financial stress when its work force gets involved in a work related accident

Management explained that the institute already planned for workers compensation however for the last 4 years a request to MOFPED for release of 3.6bn that includes funds for worker's compensation has never been released. Once the funds are released then the workers compensation will be implemented.

I advised the Accounting Officer to comply with the Workers Compensation Act by following up with the relevant authorities.

- **Mischarge of expenditure-UGX.56,795,701**

The Parliament of Uganda appropriates funds through the budget in which funds are tagged to particular activities and outputs using account codes and MTEF codes. The Government Chart of Accounts defines the nature of expenditures for each item code to facilitate better classification of financial transactions and also track budget performance per item.

The entity charged wrong expenditure codes to a tune of UGX.56,795,701. Mischarges will lead to wrong classification and misstatement of account balances in the financial statements. The practice also undermines the importance of the budgeting process as well as the intentions of the appropriating authority.

I advised the Accounting Officer to always ensure that the correct account codes are charged and execute the entity activities as planned. In case of a need to mischarge, authority should be sought in line with PFMA.

- **Review of the objectives and functions of the Institute**

Section 4 of the UIRI Act 2016 provides that the objectives of the Institute as;

- To undertake applied industrial research; and
- To develop and acquire appropriate technology in order to create a strong, effective and competitive sustainable industrial sector for the rapid industrialization of Uganda.

However, from the review of the operations of the institute, I noted that the institute has spent most of the funds on business incubation, extension of power to manufacturers and purchase of equipment for the incubatee’s other than concentrating on the mandate.

Refer to table below.

Item	Amount (UGX)
Extension of power to manufacturers	427,128,144
Packaging materials and cold rooms for incubatee’s	549,008,602
Purchase of equipment for the incubatee’s	1,273,694,031
Production costs – UMEME and water	651,750,000
Taxes on purchased equipment	164,931,375
Total	3,066,512,152

There were no evidence that indeed research activities were undertaken, dissemination of research and development or acquisition of appropriate technology for creation of a strong, effective and competitive sustainable industrial sector. There is a risk that the institute could have deviated from its set objectives without amendment of the Act.

Management explained that the objectives and functions of the Institute as outlined in the old Act are a reflection of the circumstances and Government agenda of the day (2003). The Institute has however metamorphosed into a world-class centre of Excellence in R&D.

The updated version of objectives and functions is a significant part of the amendments to the Act.

I advised the Accounting Officer to urgently review the Act as provided to effectively support what is on ground in terms of R&D.

Responsibilities of the Accounting Officer for the Financial Statements

The Accounting Officer is 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 Institute's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Institute, 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 Company'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 continue as a going concern. 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 Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Accounting Officer, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because

the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

28th December, 2017

FINANCIAL STATEMENTS