



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENT OF
UGANDA NATIONAL BUREAU OF STANDARDS
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA NATIONAL BUREAU OF STANDARDS
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 the Uganda National Bureau of Standards 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 present fairly, in all material respects the financial position of Uganda National Bureau of Standards as at 30th June, 2017 and its financial performance and cash flows for the year then ended in accordance with Section 51 of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2008.

Basis for 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 Bureau 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 (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. 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;

- **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.643,116,054 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. The trend shows a slight increase of 1.57% from UGX.1,110,984,563 in the F/Y 2014/15 to UGX.1,128,477,432 in 2015/16 and a reduction by 43% to UGX.643,116,054 in the year under review. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.1,128,477,432 incurred in the previous year leading to diversion of UGX.432,893,669 for settling some of 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.

Management explained that arrears arose due to the budgetary cuts that UNBS has been and continues to experience under the GOU budget component and arrears were indeed charged to the current year expenditure codes due to the fact that at the time of budgeting, the arrears couldn't be anticipated. The PS/ST–MFPED advised Management to always prioritize payment of arrears

I advised the Accounting Officer to always budget and settled arrears promptly.

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 (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.

The entity had an approved budget of UGX.14,164,097,126 but received UGX.11,763,490,748 (83%) resulting into a shortfall of UGX.2,400,606,378 (17%). Some of the planned outputs were not implemented as funds were reallocated to cater for the un-funded activities. **Appendix 1 refers.** The unachieved activities included; capacity building plan not in place, 72 market inspections not conducted, 1 stakeholder engagement meeting not held, non-participation in 10 Local and International exhibitions, publishing 12 promotional materials, payment of membership subscription to ARSO, OIML, IEC and SADC MET, and 1 double cabin pick-up truck not procured. Service delivery is hampered and the appropriating authority's objectives were not met as the activities were not performed as planned despite receiving some funds.

Management explained that some targets were not achieved due to inadequate funding. Detailed responses are in Appendix 1.

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

- **Delayed receipt of Appropriation in Aid (AIA)**

The Bureau received funding from Government of Uganda (GOU) and through Non Tax Revenue (NTR)/ Appropriation in Aid (AIA). GOU grants are expended on employee costs, utilities, rent, while the NTR/AIA is spent on operational and other activities.

I noted that there was a delay in release of the Appropriation in Aid. The funds were realized in May 2017, only a month before the end of the financial year. As noted in the performance report, there were major unspent balances in the Quality Assurance and Standards Development Program (Program 0652) as per table 3 below:

| Program, Projects | Sub Program | Item | Amount (UGX) |
|---|----------------------|----------------------|---------------------|
| Program 0652- Quality Assurance and Standards Development | 01 Headquarters | Vehicle Maintenance | 9,617,152,000 |
| | | Gratuity Expenses | 97,928.000 |
| | | Travel inland | 65,713.000 |
| | 0253 Support to UNBS | Furniture & Fixtures | 2,832,340.000 |

Delay in release of AIA stifles the implementation of planned activities. There is a risk that the bureau did not implement the planned activities for the year.

Management explained that UNBS will continue to engage the MFPED to always release AIA timely.

I advised the Accounting Officer to engage MFPED to avoid late remittance of AIA in the future.

- **Lack of standards for frequently imported products**

Standards are documents that contain technical and other requirements that products and services have to comply with. They are a representation of the current state of technology and are updated regularly to ensure their continuous applicability.

I noted that one of the challenges experienced by the Imports inspection staff at Malaba station is the inability to inspect/verify conformity of some imported products due to lack of standards. Examples sighted include new Motor vehicles, padlocks among others. Lack of standards poses a risk of substandard products that are harmful to the consumers flooding the market.

Management explained that UNBS inspects only goods with mandatory standards and development of such standards is informed by internal and external stakeholders including GOU. New requests for standards identified by the department of Imports are forwarded to the standards development department for action. Where necessary, appropriate international or regional standards are adopted to expedite the process.

Management further explained that standards have been developed through stakeholder consultation and are expected to be approved by end of November 2017.

I advised the Accounting Officer to profile goods that are frequently imported into the country and ensure that there are applicable standards in place. It may adopt international standards and localise them to suit the country.

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 Bureau's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Bureau, 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 Bureau'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 scepticism 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 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 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.

Report on other legal requirements

As required by the Public Finance Management Act 2015 and the National Audit Act, 2008, I report to you, based on my audit that;

- i) I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit.
- ii) In my opinion, proper books of accounts have been kept by the Accounting Officer so far, as appears from my examination of those books; and
- iii) The statement of financial position and statement of financial performance are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

22nd December, 2017

APPENDICES

Appendix 1: Budget Performance

| Output Item description | Planned outputs/Quantity | Amount budgeted (UGX) | Amount spent (UGX) | Unachieved outputs | Management responses (Populate) |
|---|--|------------------------------|---------------------------|--|--|
| 0652 01 administration | <ul style="list-style-type: none"> • Payment of Salaries to 316 staff. • Payment of Rent & Utilities • Human Resource Audit recommendations implemented • 316 staff & their dependents access medical insurance • Terminal , death and gratuity benefits paid • Capacity building plan in place • Staff welfare and office Supplies provided • Office and equipment maintained | 17.3bn | 16.58bn | <ul style="list-style-type: none"> • Salaries paid to only 296 staff implying 20 staff were not paid • Human Resource Audit recommendations not implemented. • Capacity building plan not in place. | <ul style="list-style-type: none"> • There were staff promotions made during the year as part of implementation of the HR Audit. This had a cost implication and affected the initial plan as salary levels had to change. • The HR Audit recommendations are being implemented in a phased manner due to budget limitations. • The Bureau undertakes annual Training Needs Assessment (TNA) to identify capacity gaps among staff and informs the annual training plan and budget form implementation during the year. UNBS has an approved capacity building / training plan and is being implemented |
| 0652 03 Quality assurance of goods and lab testing. | <ul style="list-style-type: none"> • 600 Product and certification Permits issued (Under Quality Assurance Department) • 1,200 market inspections Conducted (Under Quality Assurance Department) • 60,000 import consignments Inspected. (Under Quality Import Inspections department) • 8,400 samples tested by UNBS Testing department at Nakawa Head Office (Under Testing department) • Maintain accreditation of 3 Laboratories (Under Testing department) | 2.1bn | 1.42bn | <ul style="list-style-type: none"> • Only 1,128 inspections conducted thus 72 Market inspections not conducted. | <ul style="list-style-type: none"> • There was a shortfall due to suspension of activities pending completion of procedures for Market Surveillance. |
| 0652 05 stakeholders engagement to | <ul style="list-style-type: none"> • 24 stakeholder engagement Meetings. • Participate in 10 local and | 0.18bn | 0.11bn | <ul style="list-style-type: none"> • 1 stakeholder engagement meeting not held • Non Participation in 10 local | <ul style="list-style-type: none"> • UGX 1.7 billion (17%) of the recurrent budget was not released during the year. This affected implementation of the planned activities. |

| | | | | | |
|--|--|---------------|---------------|---|--|
| create awareness on quality and standards | International exhibitions. <ul style="list-style-type: none"> • Celebrate in two international Events. • Publish 12 promotional materials | | | and International exhibitions. <ul style="list-style-type: none"> • Did not celebrate in two international Events as planned. • Publishing of 12 promotional materials | |
| 0652 51 Membership to international organization (ISO, ARSO, OIMI, SADC MET) | <ul style="list-style-type: none"> • Membership to International Organizations such as ISO, ARSO, OIML, IEC and SADC MET | 0.185bn | 0.04bn | <ul style="list-style-type: none"> • Membership subscription to ARSO, OIML, IEC and SADC MET not paid. | <ul style="list-style-type: none"> • Subscription to International Organizations were affected by unreleased funds under the recurrent expenditure mentioned above. However payment has been prioritized during the FY 2017/18. |
| 0652 75 purchase of motor vehicle and other transport equipment | <ul style="list-style-type: none"> • Purchase of 6 Field vehicles and 1 Station Vehicle for Deputy Executive Director compliance. | 1.085bn | 1.085bn | <ul style="list-style-type: none"> • 1 Double Cabin Truck was not procured (Field Vehicle). | <ul style="list-style-type: none"> • The available funds could only procure 5 vehicles out of the planned 6. • Furthermore, UGX 1.5 billion (42%) of the Development Budget was not released during the year. |
| 0652 76 purchase of office and ICT equipment including software. | <ul style="list-style-type: none"> • Purchase of ICT equipment and soft ware | 0.9bn | 0.635bn | <ul style="list-style-type: none"> • These were assorted ICT equipment including Desktops, Laptops and Servers. Quantity not specified. | <ul style="list-style-type: none"> • 50 Desktops, 16 Laptops and 3 Servers were procured. • The un procured items were affected by the unreleased funds under the development budget mentioned above. |
| 0652 77 Purchase of Specialized Machinery & Equipment | <ul style="list-style-type: none"> • Specialized machinery procured | 0.7bn | 0.6bn | <ul style="list-style-type: none"> **Assorted Specialized machinery to be procured was not specified or quantified. | <ul style="list-style-type: none"> • 1 Universal Testing Machine (UTM) Power Stabilizer, 3 Laboratory Air Conditioning Systems, 1 Vortex Mixture and 1 Analytical Balance and 1 Explosion Proof Blender were procured. • The un procured items were affected by unreleased funds of UGX 1.5 billion under the development. |
| 0652 78 Purchase of Office and Residential Furniture and Fittings | <ul style="list-style-type: none"> • Office furniture and fittings purchased | 0.29bn | 0.168bn | <ul style="list-style-type: none"> **Assorted Office furniture and fittings to be procured was not quantified. | <ul style="list-style-type: none"> • 16 Lab Stools, 103 Office Chairs, 40 Work Stations/Office Desks and 74 Filing Cabinets/Cupboards were procured. • The un procured items were affected by the unreleased funds of UGX 1.5 billion under the development |
| 065272 Government | <ul style="list-style-type: none"> • Construction of Phase 1C of UNBS Office Block at Plot 2-12 By-Pass Link | 3,999,748,000 | 2,849,530,004 | <ul style="list-style-type: none"> • Only 1.9bn was spent on construction of phase 1C. | <ul style="list-style-type: none"> • |

| | | | | | |
|---|------------------------------|--|--|---|--|
| Buildings and Administrative Infrastructure | Bweyogerere Industrial Park. | | | <ul style="list-style-type: none"> The rest of the funds were used for motor vehicle repairs 256m, medical 300m, purchase of a pickup 58m, umeme 118m and other printing items. These activities were not budgeted under this project function hence the activity under performed by 863m. | |
|---|------------------------------|--|--|---|--|

Appendix 2: FINANCIAL STATEMENTS