Office of the Auditor General - Uganda

# HIGHLIGHTS OF THE AUDITOR GENERAL'S REPORT TO PARLIAMENT 2018


OFFICE OF THE AUDITOR GENERAL


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# Message of the Auditor General to the Public on the release of the Auditor General's Report for the Period Ending 31st December 2018

**John F.S. Muwanga**
Auditor General of the Republic of Uganda

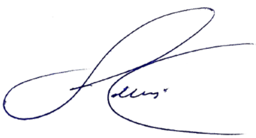
The Auditor General's mandate under Article 163 (3) of the Constitution of the Republic of Uganda and as amplified by Sections 13 (1) and 19 of the National Audit Act, 2008, is to audit and report to Parliament on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, Universities and public institutions of like nature, and any public corporations or other bodies established by an Act of Parliament.

In accordance with the above provisions, the report was submitted to Parliament on 31st December 2018.

The report focuses on the audit matters and emerging trends that may need urgent attention by those charged with Management and Governance of the audited organisations to improve public accountability in the processes of delivering public service.

The key highlights include audit findings from Government Ministries, Departments and Agencies, Commissions, Statutory Authorities And State Enterprises, Local Governments and Value For Money Audits.

I take the pleasure to thank all stakeholders for the continued support in delivering our mandate. Thank you.



John F.S. Muwanga
**Auditor General**

31st December 2018

# Introduction

During the year ended 31st December 2018, we concluded a total of 1919 audits, which include 1863 financial audits comprising of 168 MDAs, 134 Commissions, Statutory Authorities and State Enterprises, and 1561 Local Governments. I have included 10 Value for Money reports, 18 Specialised/ Engineering and 3 IT audit reports. The Engineering Audit reports have been included in the individual entity reports. The 25 forensic/special reports have been issued to the respective stakeholders who requested for them.

# Highlights from Audits Performed

Below are brief highlights of my findings, the details of which are in Parts 2 to 6 of this report.

## 1. Planning and Budgeting

a) There were gaps in Government planning and budgeting which affect the timeliness, accuracy and usefulness of plans by Government. The shortcomings include; sector delays to submit plans, lack of service delivery standards in all MDAs and LGs, delay in issuing of circular for NDP III by NPA, failure by NPA to undertake mid-term review assessment of the NPD II, failure by 40 entities to submit strategic plans, failure by 54% of MDAs in attaining satisfactory score on Certificate of Compliance (CoC). As a result most sector plans and annual budgets are not aligned with the NDP and assessing service delivery and level of implementation of the NDP is difficult without service delivery standards and regular reviews.

b) Out of UGX 28.2 trillion government had set out to receive in form of domestic, development partner funding, Treasury Instruments and Appropriation in Aid (AIA) only UGX 26.6 trillion (94.3%) was received leading to a shortfall of UGX 1.6 trillion.

c) During the year, government budgeted to spend a total of UGX. 30.8 trillion, through MDAs, LGs, Referral Hospitals, Missions and embassies. Only UGX26.1trillion was released representing a performance of 85%.
This affects implementation of planned activities.

## 2. Pension and Gratuity

By close of the financial year, MDAs and LGs had not paid out UGX 65.6bn in Pension and gratuity arrears despite the fact that these funds had been released. Funds were thus returned to the UCF. The implication is that either the pensioners are non-existent or MDAs/LGs are denying/delaying beneficiaries their benefits.

## 3. Management of Public Debt

a) Debt has increased by 22% from UGX 33.99trillion as at 30th June 2017 to UGX 41.51trillion as at 30th June 2018.

b) Although Uganda's debt to GDP ratio of 41% is still below the IMF risky threshold of 50% and compares well with other East African countries, it is unfavourable when debt payment is compared to national revenue collected which is the highest in the region at 54%.

c) 50% of the loans sampled totalling UGX 3.98trillion will expire in 2020. If government is to service the loans as projected in the next financial years (2018/2019 and 2019/2020), it would require more than 65% of the total revenue collections which is over and above the historical sustainability levels of 40%.

d) Interest payments (domestic and external) during the year amounted to UGX 2.34trillion, which is 17% of total revenue collections, above the limit set in Public Debt management Framework 2013 of 15%. This has been on the rise for the last 4 years.

e) Although absorption of external debt has improved compared to last financial year, I noted some loans with absorption levels as low as 10% and below. An example is the USMID project with over UGX 95bn (95%) still on the various accounts of Municipal Councils by close of year, despite various incomplete and abandoned works due to non-payment to Contractors.
Another project, Mbarara-Nkenda and Tororo-Lira transmission line has delayed for almost 8 years resulting into cancellation of the loan by the funder with an undisbursed loan amount of USD 6.5m.

f) I noted that significant value loans have stringent conditions which could have adverse effects on Uganda's ability to sustain its debt. These conditions include; waiver of sovereign immunity by government over all its properties and itself from enforcement of any form of judgement, adoption of foreign laws in any proceedings to enforce agreements, requiring government to pay all legal fees and insurance premiums on behalf of the creditor.

## 4. Youth Livelihood Program

a) Whereas Ministry of Gender, Labour and Social Development had budgeted for a total amount of UGX. 231.2 bn for the F/Y 2013/2014 to F/Y 2017/2018, only UGX. 161.1bn (69.7%) was released to the program resulting in a shortfall of UGX. 70.1bn (30.3%).

b) As a result only 15,979 (67%) of the proposed 23,850 projects were funded. This affected the number of youths who had been targeted by the program by benefiting only 195,644 out of 286,200 youths, (68%) by 30th June 2018.

c) From a total amount of UGX.38.8 bn that was disbursed to 5,505 YIGs in the financial years 2013/2014 and 2014/2015, on average, only 26.7% was recovered from the youth countrywide. There is high probability that the balance of almost UGX 28.4bn may never be recovered as almost 64% of the sampled projects, consisting of 71% value of loans, were non-existent. Another 25% had reportedly embezzled or diverted the funds.

d) In the financial years 2015/16 to 2017/18, out of a total amount of UGX.83.3bn disbursed to 10,444 Youth Groups there was a noted improvement of recoveries ranging from 24% in 2015/16 to 60% in 2017/18 which is still below satisfactory performance.

e) Out of the total amount of the UGX.18.1bn recovered from the YIGs at the time of audit, UGX.16.1bn (90%) had been transferred to the Revolving Fund in BOU according to the guidelines. Besides, only UGX.8bn had been revolved to other Youth Groups. Delay in revolving funds to other eligible groups undermines the ultimate goal of the program.

## 5. Funding for Tax Incentives

Because of lack of a proper policy, tax incentives are given to Investors without an accompanying budget. Close of financial year debts for the incentives had grown by 83% to UGX153.6bn up from UGX83.8bn in the previous year.

## 6. Payroll and Pension management

Out of the total Government staff establishment of 469,216 positions, only 311,987 positions had been filled leaving a gap of 157,229 representing 34% of vacant posts across MDAs/LGs. This affects service delivery as a majority of these are critical jobs like Doctors, Clinical Officers, Professors, commissioners. Public Universities and Local government districts were most affected.

## 7. Management of court awards and compensations

a) Although government has won many cases in court and has been awarded a total of UGX 20.6bn as at 30th June 2018, this money has not been collected.

b) Government accumulated liabilities amounting to UGX 655bn in respect of unsettled court awards. As a result of non-payment of these liabilities, some cases had accumulated interest amounting to UGX.124bn for close to 10 years.

c) During the year under review, I noted that a sum of UGX15.8bn was garnished from three government Agency accounts resulting from Court judgements to creditors. This leads to the suspension of rights to withdraw funds from the affected accounts, thus delaying government projects/activities.

## 8. Land management issues

Significant pieces of land owned by government MDAs, SEs and LGs have either been encroached on, lack titles or are undeveloped. Further, over 2m hectares of forest cover have been encroached upon. Police, Prisons and NAGRIC land are the most affected.

## 9. Departed Asians Properties for which compensations were made

I noted that the Custodian board is in the process of winding up, as evidenced by minute 34/DAPCB/2018 of the 16th meeting of the Board of Directors, in which the Chairman emphasized the issue of winding up Custodian Board activities within one year. I noted that management is still in the process of claiming some assets which were not rightfully repossessed.

Management explained that 115 properties whose former owners had been earlier compensated through the British High Commission and 87 properties for which UNHCR made compensations to former owners way back in 1999, were not under the control of the Custodian Board by the time of the audit.

The Board maintains that the seating tenants did not legally repossess the properties and are not paying rent. I noted that some of the properties are in prime locations of Kampala City, for example; Kampala road, Hannington road, Kololo hill drive, Clement Hill drive, Dewinton road, etc.

Given the impending winding up activities of the Board, there is a likelihood of closure without proper accountability of the said properties which places them at risk of being lost and occasioning a loss to Government.

## 10. Control and performance of State Enterprises and Corporations

a) Since 2012, government has made investments in various projects, through Uganda Development Corporation (UDC), amounting to UGX. 70.1bn. However projects with investments of UGX. 53.2bn are not operational. The only operational project of KIS with an investment of UGX. 16.9bn and 45.7% shareholding by UDC has not declared any profits to UDC since 2012.

b) I also noted that some assets like Munyonyo Commonwealth Resort, Nile Hotel, Logistics and Tristar Apparels, in which government has ownership have not been taken over for management by UDC. Government could be losing a lot of revenue from these investments.

c) Out of twenty seven (27) State Enterprises, only 17 (58.6%) made profits during the year. Of the profit-making enterprises, only one entity (New Vision) declared dividends to government.

## 11. Suspected Fraud

I noted that UGX. 2.3bn had been paid to 6 Apac district officials without any supporting documents. There were also no details on the IFMS (Tier II) payment file to indicate the purpose for the payments. Two staff have so far been interdicted and investigations continue.

## 12. Inadequate Financial Controls

I noted that MDAs and Statutory Authorities continue overriding financial controls which has resulted in mischarge of expenditure amounting to UGX. 369.8 bn, unaccounted for expenditure of UGX 21.7 bn, wasteful expenditure of UGX. 66.9 bn and expenditure on undisclosed domestic arrears amounting to UGX 377.1 bn.

## 13. Preparedness by the government of Uganda for the implementation of Sustainable Development Goals (2030 agenda)

Whereas government committed itself to implement SDGs Agenda 2030 over the next 15 years from 2016 to 2030, and had formulated the SDGs Coordination framework and launched the SDGs roadmap in 2018, some gaps were noted in the operationalisation of the SDGs framework which pose a challenge in creating a suitable environment for their implementation. The gaps noted included:

a) Failure by the National Planning Authority (NPA) to guide the review process of SDGs to identify applicable goals and targets, and how they were to be reflected in Uganda's development policies, strategies, and planning processes, which also affects the ability of the MoFPED to adequately budget and mobilise funds for the implementation of all SDGs.

b) Low awareness by the Public in regard to SDGs,

c) Technical Working Groups (TWGs) to steer the SDGs function were not fully constituted, and responsibilities to the various parties in the TWG had not been fully assigned.

d) UBOS was yet to establish comprehensive baseline data on all applicable targets that would be used to track progress for SDGs implementation.

## 14. Management of wetlands in Uganda by the Wetlands Management Department (WMD), Ministry of Water and Environment

a) The roadmap for cancellation of land titles in wetlands approved by Cabinet had not been funded by Ministry of Finance, Planning and Economic Development (MoFPED), and this hindered its implementation.

b) No evidence was obtained that shapefiles indicating wetland boundaries were being used by Ministry of Lands to prevent further issuance of titles in wetlands.

c) Whereas government's aim was to increase intact wetland coverage to 12% by 2020, only 0.3% of the required area had been restored in the 4 years under review, leaving a restoration shortfall of 99.7%. Moreover, degradation continues to outpace restoration, with about 28,261.43 hectares of wetland coverage lost each year, yet only 628.9 hectares were restored on average.

d) WMD had not gazetted the country's wetlands. It also failed to utilise all pillars and beacons purchased for demarcation, presenting a risk of potential wastage of the money spent on purchasing the unused pillars and beacons amounting to UGX. 662.84m.

e) There was unclear delineation of roles, responsibilities and mandates between WMD, NEMA and other key players in regulation and management of wetlands; A review of the legislation to clarify the mandates and roles of the different players was on-going.

f) WMD had not updated the National Wetlands Inventory since 2000, and had not adequately disseminated knowledge on wetlands to stakeholders to guide decision making.

## 15. The regulation of universities by the National Council of Higher Education (NCHE)

Whereas the National Council of Higher Education has undertaken specific interventions aimed at increasing the quality of higher education in universities, inadequate monitoring and conducting of institutional audits, tracer studies and non-establishment of minimum standards of courses of study have resulted in universities having unaccredited and outdated programmes, operating below the required quality assurance and capacity indicators, which has an effect on the quality of higher education.

## 16. The Identification and registration of persons by the National Identification and Registration Authority (NIRA)

There are delays in the processing of applications for registration. Three application strata were assessed, namely: processing of new applications, applications for replacements, and applications for change in particulars. The least delay was experienced for applicants for replacement National Identity cards while the most delay was for new applicants.

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