

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MINISTRY OF INFORMATION COMMUNICATION TECHNOLOGY AND NATIONAL
GUIDANCE FOR THE YEAR ENDED 30TH JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

FY	Financial Year
GOU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MDA	Ministry, Department, and other Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
MoICT	Ministry of Information Communication Technology
PDU	Procurement and Disposal Unit
PFMA	Public Finance Management Act, 2015
PPDA	Public Procurement and Disposal Unit
PS	Permanent Secretary
RT. HON	Right Honourable
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings

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MINISTRY OF INFORMATION COMMUNICATION TECHNOLOGY AND NATIONAL
GUIDANCE FOR THE YEAR ENDED 30TH JUNE, 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Ministry of Information Communication Technology and National Guidance for the year ended 30th June, 2018. These financial statements comprise of the statement of financial position as at 30th June, 2018, the statement of financial performance, and cash flow statement for the year then ended together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Ministry of Information Communication Technology and National Guidance for the year ended 30th June, 2018 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 Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (Parts A and B), 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 to be a key audit matter communicated in my report;

- **Implementation of Budget Approved by Parliament**

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. It has been observed over the years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

During the overall office wide planning, I assessed risks of inadequate release of funds, and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities. Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

Based on the procedures performed, I observed that a total of UGX.46,311,166,000 was budgeted to cater for the activities of the Ministry. However, by the close of the financial year 90% of the approved budget (i.e. UGX.41,695,084,513) had been received, which resulted into a budget shortfall of UGX.4,641,936,030 (10%).

Further scrutiny of the GOU releases and other sources of income revealed that out of the available funds of UGX.41,695,084,513, the ministry only spent UGX.38,707,712,915 leading to an under absorption of the funds to the tune of UGX.2,987,371,598 (i.e. 7% of the availed funds). The failure to release all the budgeted funds to the entity coupled

with the challenges of under absorption affect the entity's capacity to implement the ministry's planned activities.

In response the Accounting officer explained that he was in constant engagement with the Ministry of Finance, Planning and Economic Development to ensure 100% release of funds to the ministry, although he was aware that government operates a cash budget.

I advised the Accounting Officer to ensure that all planned activities are always implemented as per the work plan so as to fully utilize availed funds. Besides, the continued engagement of all responsible stakeholders is encouraged so as to obtain all appropriated funds in future.

Other Matter

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

- **Outstanding domestic Arrears**

The Circular from the PS/ST vide BPD 86/298/02 dated 10th June, 2016 directed that all Accounting Officers should prioritize the payment of domestic arrears in the first quarter of the financial year. The directive further stated that all arrears should be verified by internal audit and paid before payment of new suppliers. 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.

I noted that out of the outstanding commitments of UGX.1,064,418,515 as at 01.07.2017, only UGX.848,157,778 was paid by the ministry leaving an outstanding balance of UGX.216,260,737. Failure to clear all outstanding commitments was a violation of the directive issued by the PS/ST and could lead to unnecessary litigation.

In response, the Accounting Officer explained that the Ministry was cognizant of the outstanding arrears vis-à-vis the resources provided by Ministry of Finance, Planning and Economic Development. The entity's focus was to reduce arrears to zero and this had been demonstrated by not incurring any new arrears starting financial year 2017/18.

I advised the Accounting Officer to always adhere to the directives issued by the PS/ST in regard to management of the financial resources appropriated to the Ministry and should also expedite settlement of the outstanding obligations to avoid possible litigation.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer, the general information about the reporting entity, summary of employees of the ministry, the commentary by the Head of Accounts, and the key performance highlights. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

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, 2018, 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 General'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 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 judgement 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 my 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 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 Ministry 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 them 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.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements, that:

- Except for the matters raised in compliance with legislation section below, and whose effect has been considered in forming my opinion on financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

In accordance with Section 13 of the National Audit Act, 2008, I have a responsibility to report material findings on the compliance of the Ministry with specific matters in key legislations. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Unjustified Direct Procurements - UGX.456,826,431**

Regulation 8(5) of the Public Procurement and Disposal of Public Assets (Rules and Methods for Procurement of Supplies, Works and Non-consultancy Services) 2014 requires a procuring and disposing entity to give priority to other competitive procurement methods before using the direct procurement method in an emergency situation. Furthermore, Guideline 1 of the Public Procurement and Disposal of Public Assets Guidelines, 2014 stipulates the thresholds for which procurements can be carried out using micro procurement method, quotation method, selective and open bidding methods, for both works and supplies.

A review of expenditure revealed that the Ministry procured goods and services worth UGX.456,826,431 using the direct procurement method with no evidence of justification for use of the direct method of procurement. This was attributed to failure by the procurement officer to provide appropriate guidance to the contracts committee. Under the circumstances, there is a risk that the Ministry may not have achieved value for money since the procurements may not have been done at the most competitive market prices.

In response, the Accounting Officer explained that the procurement for the supply ICT equipment and purchase of a salon vehicle had been recommended by the contracts committee. A need to procure additional computers came up and it was prudent enough to procure from the already contracted provider at the same unit cost. Similarly, the vehicle was provided following earlier competitive process within the same period.

My further verification exercise revealed that the procurements identified were not properly justified by the Head PDU to warrant a direct procurement method. I accordingly advised the Accounting Officer to ensure the Procurement Officer always

provides guidance to the contracts committee in such circumstances so as to enable them make informed decisions that ensure attainment of value for money.

- **Irregular Issuance of Framework Contract for Supply of IT Equipment - UGX.573,851,258**

Regulation 24(2) of the Public Procurement and Disposal of Public Assets (Contracts) Regulations 2014 requires a procuring and disposing entity to use a framework contract for supplies which are needed repeatedly or continuously over a period of time, including stationery, office supplies, food stuffs and spare parts, or where there are logistical and procurement reasons for having the requirement available on a call off basis.

However, it was noted that the ministry issued a framework contract for supplies worth UGX.573,851,258 that were not of continuous nature thus circumventing effective competition from other interested suppliers. This could be attributed to failure by the procurement officer to provide appropriate guidance to the contracts committee. Under the circumstances, there is a risk that the Ministry may not have procured the items in question at competitive prices since there was no competition involved.

Although the Accounting Officer in his response indicated that ICT equipment may be procured under frame work contract arrangement since the items required were of repetitive nature and small amounts, I however noted that the procured items could not be considered to be of smaller amounts and repetitive to warrant framework contracts.

I advised the Accounting Officer to comply with guidelines regarding framework contracts and ensure that supplies and services are procured competitively in line with the procurement law.



John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
17th December 2018

FINANCIAL STATEMENTS