



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MINISTRY OF SCIENCE, TECHNOLOGY AND INNOVATION
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

GAR	Gross Annual Revenue
ICT	Information Communication Technology
IESBA	International Ethics Standards Board for Accountants
ISSAI	International Standards of Supreme Audit Institution
MoFPED	Ministry of Finance Planning and Economic Development
MOSTI	Ministry of Science, Technology and Innovation
MOWT	Ministry of Works and Transport
NAA	National Audit Act
PERD	Public Enterprises Reform and Divestiture Act 1993
PFMA	Public Finance Management Act 2015
PFMR	Public Finance Management Regulations 2016
PPDA	Public Procurement and Disposal of Assets
UGX	Uganda Shillings
URA	Uganda Revenue Authority
UTL	Uganda Telecom Limited
VAT	Value Added Tax
WHT	Withholding Tax

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF
MINISTRY OF SCIENCE, TECHNOLOGY AND INNOVATION
FOR THE YEAR ENDED 30TH JUNE, 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Ministry of Science Technology and Innovation for the year ending 30th June 2018. These financial statements comprise the Statement of Financial Position as at 30th June 2018, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, accompanying schedules and a summary of significant accounting policies and other explanatory notes.

In my opinion, the financial statements of Ministry of Science Technology and Innovation for the year ended 30th June 2018 are prepared, in all material respects, in accordance with Public Finance Management Act, 2015 and 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 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 key audit matters 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.57,952,422,345 was budgeted to cater for the Ministry of Science, Technology and Innovation activities. However, by the close of the financial year 99% of the approved budget i.e. UGX.55,843,593,135 had been received resulted into a budget shortfall of UGX.4,033,993,094 (9.77%). The shortfall was attributed to release of less than budgeted funds from GOU which negatively affects the implementation of the Ministry’s activities. I advised Management to liaise with MoFPED to ensure the full release of budgeted funds for provision of services as planned.

I further noted that Management implemented a number of planned activities during the year, with the major activities including; Biosafety and Biotechnology bill finalized and

approved by Parliament, intra and inter regional transfer and adaptation of appropriate technologies promoted, research and development initiatives supported, start-up technology enterprise established, technology mass sensitization undertaken with district authorities on technology enterprise development. However, I noted that some of the planned activities like, Draft Innovation Guidelines, profiling/stock taking of innovation and research activities undertaken in specific locations across the country, research and innovations in areas of textile industrial research, solar irrigation water pumps, commercialization local banana juice were not implemented. **Appendix 1** shows the status of implementation of planned activities, and the related Management responses.

Management explained that this was due to the delayed recruitment process. I advised the Accounting Officer to ensure adequate planning and implementation of planned activities, as well as working in liaison with other stakeholders for timely recruitment of staff.

Other Matters

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements.

- **Understaffing**

Section 14 (A-a) of the Uganda Public Service Standing Orders 2010, vests the overall responsibility for ensuring proper implementation of Human Resource Management procedures, policies, practices, structures, systems, terms and conditions of service for the Public Service with the responsible Accounting Officer.

I noted that out of the approved structure of 136 Staff, only 61 (45%) positions had been filled leaving 75 (55 %) positions vacant including three key senior positions of Director Technopreneurship, Director Science Research and Innovation and Director Policy, Planning and Regulation. Understaffing negatively affects implementation of planned activities and is likely to curtail the ministry from effectively delivering on its mandate. The Accounting Officer stated that the Ministry is in the recruitment process for the various staffing positions to fill the gaps. I advised the Accounting Officer to expedite the process and ensure that the vacancies are filled to enable effective and efficient service delivery.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. 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 of Science, Technology and Innovation (MoSTI).

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 Ministry's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Ministry of Science, Technology and Innovation, 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 the 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 sections 13 of the NAA, 2008, I have a responsibility to report material findings on the compliance of Ministry of Science, Technology and Innovation 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;

- **Lack of Contract Management Plans**

Regulation 51(3) of the Public Procurement and Disposal of Public Assets (Contracts) Regulations 2014 requires that, upon receipt of a contract, the contract manager shall prepare a contract management plan using Form 49 in Schedule 2 and forward a copy to the to the procurement and disposal unit for purposes of monitoring.

A review of procurements sampled revealed that there were no contract management plans prepared. Lack of contract management plans may lead to poor and delayed contract implementation. In their response, Management acknowledged that the contract management plans had not been prepared. I advised the Accounting Officer to comply with the requirements and request all appointed contract managers to prepare contract management plans so as to ensure effective contract management and implementation.

- **Lack of Strategic Plan**

Section 13(7) of the Public Finance Management Act, 2015 demands that the entity obtains a certificate of compliance issued by National Planning Authority (NPA) aligning the entity budget to the Strategic Plan and the National Development Plan.

It was however noted that the Ministry did not have a strategic plan since its establishment in 2016. A Strategic Plan outlines the strategic objectives and milestones upon which an entity can measure its performance. Absence of such a plan denies the entity direction and makes it difficult to evaluate and assess performance of the Ministry in terms of its strategic objectives and mandate.

Management acknowledged that there is no strategic plan but they are in process of formulating one. I advised the Accounting Officer to expedite the compilation process so that the plan is put in place to strategically guide the Ministry in fulfilling its mandate.

- **Absence of an Audit Committee**

Section 46 (7) of Treasury Instructions, 2017 and Section 49 (4) of the Public Finance Management Act, 2015 require the Minister to appoint Audit Committee members for

each sector of government on recommendation by the Secretary to Treasury. The audit committee plays a role of oversight in the financial management and reporting process.

Contrary to the above provision, it was observed the Sector of Science, Technology and Innovation does not have an Audit Committee. Absence of an Audit Committee weakens the governance and internal control structure of the Ministry as well as the other entities in the sector.

The Accounting Officer acknowledged that they do not have an Audit Committee however, they have written to the Permanent Secretary/Secretary to the Treasury requesting him to appoint an Audit Committee for the Science, Technology and Innovation Sector. I advised the Accounting Officer to follow up this matter with the relevant Ministry with a view of establishing an Audit Committee.

PRESIDENTIAL INITIATIVE ON BANANA INDUSTRIAL DEVELOPMENT (PBID)

- **Revenue Performance**

A review of the statement of financial performance for PBID for the year ended 30th June, 2018, revealed that out of the budgeted revenue of UGX.22,471,349,969 a sum of UGX.20,423,430,264 (93%), was realized resulting into a shortfall of UGX.2,047,919,705 as shown in the **Table below;**

Table 1: Revenue Performance

Budget Category	Budget 2017/18 (UGX)	Actual (UGX)	Variance (UGX)
<i>Bal. b/fwd from FY 2016/17</i>	5,005,181,474	5,005,181,474	
Government of Uganda Funding	17,466,168,495	15,418,248,790	2,047,919,705
Total	22,471,349,969	20,423,430,264	2,047,919,705

Such shortfalls hinder the entity from implementing its planned activities, hence negatively impacting on service delivery. PBID Management explained that this shortfall was drawn to the attention of the Permanent Secretary (Accounting officer).

The Accounting Officer is advised to ensure adequate planning and implementation of planned activities, as well as working in liaison with other stakeholders for timely receipt of appropriated budget funding.

- **Expenditure Performance**

Section 21(1) of the Public Finance Management Act 2015 entrusts the Accounting Officers with the responsibility of planning and managing the entity activities as

indicated in the policy statement of the votes based on the annual cash flow plan issued by the Secretary to Treasury during budget execution. 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 availed resources.

However it was observed that at the close of the financial year, PIBID had a variance of UGX.3,249,559,719 where by the PIBID's total budgeted expenditure stood at UGX.22,471,349,969 against actual expenditure of UGX.19,221,790,250 as shown in the table below;

Table showing Expenditure Performance

Budget Category	Budget - UGX	Actual - UGX	Variance - UGX
FY 2016/17 end of year expenditure	5,005,181,474	4,477,535,290	527,646,184
Personnel	3,844,141,754	3,557,863,171	286,278,583
Administration	2,761,314,000	2,347,697,978	413,616,022
Programme activities	10,860,712,741	8,838,693,811	2,022,018,930
Total	22,471,349,969	19,221,790,250	3,249,559,719

The under expenditures by PBID were attributed to budget shortfalls. This leads to low levels of service delivery and failure to fully implement planned activities.

Management acknowledged the audit observation, adding that PIBID management took an initiative to address the matter with the PS/ST. I advised the Executive Director to closely liaise with the responsible stakeholders so as to ensure full funding of the budget in a timely manner in order to enable service delivery and attainment of project objectives.

- **Failure to Return Unspent Balances - UGX.1,303,336,960**

Regulation 17(1) of the Public Finance Management Regulations 2016 requires a vote or local government that does not expend all the money appropriated to that vote or local government within the financial year for which it was appropriated, to repay the unexpended balance of the money to the Consolidated Fund by the 31st of July of the proceeding financial year.

Review of the Bank statement for the month of July 2018 revealed that UGX.1,303,336,960 was still on the bank account of PIBID. Management acknowledged the observation and stated that for purposes of compliance with Regulation 17(3) on

unexpended balances, PIBID management wrote to the PS/ST on 16th July 2018 to declare the said balances but they were directed to return the funds and they transferred to the consolidated fund UGX.1,110,107,005, as the available fund on the main PIBID account as at 1st August 2018. I advised the Accounting Officer to always adhere to the provisions of the law and fully transfer all unspent balances by the year end.

- **Expired Term of the Board and Management Committee**

The Presidential Initiative on Banana Industrial Development (PIBID) is a project of the Government of Uganda, which was commissioned in January 2005 and was accredited an Executive Instrument in October of the same year. However, although there is an Executive Instrument dated 7th October 2011 renewing the life of the Project, its Board and Management Committee for another 5 years effective 7th October, 2010, I have not obtained evidence of renewal beyond the said expiry date (i.e. beyond 7th October 2015).

Besides, I observed that the Board and Management Committee was not fully constituted since one member did not take up the appointment. Failure to have clarity on the lifetime of the Project as well as a fully constituted and valid Board limits the oversight role of directing and controlling the business affairs of the entity including compliance with the applicable laws.

Management explained that the Board and Management Committee of PIBID upon expiry of its tenure wrote to the appointing authority seeking guidance on the way forward with their tenure and they also approved and submitted their Strategic Plan to the MoFPED. They also drafted and submitted the summary requirements for inputting into the cabinet paper which clearly stipulated the standardization of the governance of the successor entity and is still awaiting communication on the matter

I advised the Executive Director to liaise with the relevant authority to ensure there is clarity on its continued existence, and that a new Board is appointed to guide and provide strategic direction to the entity.

- **Lack of Internal Audit Function**

Section 48(6) of the Public Financial and Management Act 2015, provides for Internal Audit that shall submit quarterly reports on the execution of the work plan to the Accounting Officer and audit committee assessing the integrity of the internal controls and financial management practices. In the appointment dated 1st August 2017 as Sub Accounting Officer, the Executive Director is required to ensure that there is an effective system of internal control and Internal Audit function.

However, contrary to the above provision, I noted there was no internal audit undertaken by the entity during the year under review. Lack of an internal audit weakens the internal controls environment and may expose the entity to adverse risks.

The Executive Director explained that while still under MoFPED, they had been advised that the internal Audit function was observed directly by the Internal Auditor of MoFPED. Subsequently, failure to recruit has been due to lack of adequate finances and the uncertainty under the PIBID-BIRDC transition framework. Management further explained that the Internal Audit function is provided for in the BIRDC structure which is pending cabinet approval.

I advised the Executive Director to liaise with the mother Ministry of Science, Technology and Innovation with a view of having their Internal Auditors attached to the Ministry extending audit services to PIBID.

- **Lack of Land Titles for PIBID Land**

According to Paragraph 16.13.11 of Treasury Instructions 2017, a government entity shall be considered to have control if it has the certificate of title. If the government entity does not have title to the land, the entity shall not be considered to have control. The same criteria shall apply to buildings.

However, I noted that the entity lacked land titles for its land at Sanga (approximately 50 acres) and land where the water source is located at Kyamugambira (approximately 4 acres). Management explained that the process of acquiring the land title of Katonya water works commenced in 2003 and they were due to start the process of acquiring the land title of 50 HA at Sanga early January after clarifying in whose names the title is

to be processed. I advised the Executive Director to expedite the process of acquiring certificates of title so as to safeguard its land from encroachment and possible loss.

- **Audit Inspection of TBI Factory**

An audit inspection was carried out in the Factory premises in Bushenyi (Tooke Factory) under presidential initiative on Banana Industrial Development. The project implementation framework provides for the establishment of a Technology Business Incubator (TBI) in Bushenyi District and an Industrial Technology Park (ITP) at Sanga in Kiruhura District and has the transformation of the TBI at Bushenyi into a state-of-the-art Banana Industrial Research and Development Centre (BIRDC) as one of the key outputs. The following observations were noted;

- a. Incomplete Works**

It was observed that construction of the pilot banana processing plant and quality assurance and research facilities is in progress and according to management; work is estimated at 95.4%, with ISO certification at 20%. I did not obtain full documentation and access to information necessary for the appraisal of the project since all the information (i.e. project appraisal reports) appears classified for fear of patent rights intrusion. Although the project has a number of objectives, it is not possible to assess the achievements listed due to the classified nature of information that is not made available for audit.

- b. Redundant Machinery**

Inspection of the factory and interaction with plant managers revealed that the factory operates once a week and other equipment such as industrial kettle, drum drier and slicing unit have never been used. According to a report by the plant manager, the factory has a capacity of producing two (2) tons per shift of flour but was being underutilised. The Executive Director explained that some of the equipment like the slicing unit has to be cleaned after use therefore the team visited after the equipment had been cleaned up.

I advised the Executive Director to ensure that the equipment`s full capacity is utilized so as to continue recouping the cost of investment as envisaged during the project start-up.

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

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
21st December, 2018

APPENDICES

Appendix 1: Status of Budget Implementation

Vote Function output	Item Description	Planned Output/Quantity	Actual Output/Quantity	Amount Budgeted (UGX '000)	Amount Released (UGX '000)	Amount spent (UGX '000)	Variance (UGX '000)	Management explanation	Audit Remarks (for material outputs provide verification results)
1801	Regulation	Biosafety and Biotechnology bill finalized and approved by Parliament	Biosafety and Biotechnology bill finalized and approved by Parliament	1,520,000	1,470,000	1,240,000	230,000	Funding Shortfalls	Activity implementation 100%
			Draft Innovation Guidelines prepared- Due for submission to Cabinet Secretariat					Funding shortfalls	The draft innovation guidelines had not submitted to cabinet.
			Profiling/stock taking of innovation and research activities undertaken in specific locations across the Country					Funding shortfalls	Profiling/stock taking of innovation and research activities undertaken in specific locations across the Country had not been done
Program 1802	Research and Innovation	Intra and inter regional transfer and adaptation of appropriate technologies promoted		1,740,000	1,910,000	1,420,000	490,000	Funding shortfalls	Activity had not been completed
			Production and Industrial application of phytolacca Dodecandra					Funding shortfalls	Activity had not been completed

			(PD) to control vector borne diseases (snailtox) etc.						
		Research and Development Initiatives supported	Research and innovations have been supported in areas of textile industrial research, Solar irrigation water pumps, Commercialization local Banana juice production					Funding shortfalls	Activity had not been done
		Research and Development collaborations strengthened	International collaboration strengthened with Massachusetts Institute of Technology (MIT), Iran, Agro Industrial Group, Uganda Silk Producers' Association					Funding shortfalls	Activity had not been done
1803	Technopreneurship	Innovation Fund Guidelines drafted	Guidelines finalized submitted and discussed by Top management	1,630,000	1,630,000	1,630,000	100%	No variation	Activity implementation 100%
		Start-up Technology enterprise established Technology Mass sensitization undertaken with District authorities on Technology Enterprise Development	sensitization undertaken in selected Districts on Technology Enterprise Development				100%	No variation	Activity implementation 100%
1849	Program 1849 General Administration and Planning			53,060,000	53,060,000	53,060,000	100%	No variation	Activity implementation 100%

