

**OFFICE OF THE AUDITOR GENERAL**



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
NATIONAL INFORMATION TECHNOLOGY AUTHORITY- UGANDA  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL  
KAMPALA, UGANDA**

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## **LIST OF ACRONYMS**

<b>EGI</b>	Electronic Government Information
<b>FY</b>	Financial Year
<b>Gbps</b>	Gigabits per second
<b>GOU</b>	Government of Uganda
<b>IEC</b>	Information, Education and Communication
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>ISSAI</b>	International Standards of Supreme Auditing Institutions
<b>MDA</b>	Ministry, Department, and other Agencies
<b>MDA/LGs</b>	Ministries Departments & Agencies/Local Governments
<b>MICT</b>	Ministry of Information and Communication Technology
<b>MoFPED</b>	Ministry of Finance Planning & Economic Development
<b>NBI</b>	National Data Transmission Backbone
<b>NITA-U</b>	National Information Technology Authority-Uganda
<b>ONUs</b>	Optical Network Units
<b>PFMA</b>	Public Finance Management Act, 2015
<b>RCIP</b>	Regional Communication Infrastructure Program
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>USD</b>	United States Dollar
<b>UTL</b>	Uganda Telecom Limited

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF THE FINANCIAL STATEMENTS OF NATIONAL INFORMATION TECHNOLOGY AUTHORITY -UGANDA FOR THE YEAR ENDED 30<sup>TH</sup> 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 National Information Technology Authority – Uganda for the year ending 30<sup>th</sup> June 2018. These financial statements comprise the Statement of Financial Position as at 30<sup>th</sup> 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, as set out on pages 9 to 41.

In my opinion, the financial statements of National Information Technology Authority – Uganda for the year ended 30<sup>th</sup> 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 Statements section of my report. I am independent of the Authority 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 Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), 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 the approved Budget**

Section 21(1) of the Public Finance Management Act 2015, entrusts the Accounting Officer with the responsibility of planning and managing the entity activities as indicated in the policy statement of the vote 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.

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 I developed, it was noted that whereas a total revenue budget of UGX.89,952,802,272 was approved to be received from various sources as detailed in the table below, only UGX.59,410,206,919 was realised for the period, resulting into a funding gap of UGX.30,542,595,353 (i.e. 34%). The most affected revenue sources were Non-Tax Revenue and Donor (RCIP Project) under the development budget.

**Table showing revenue budget performance**

	<b>Approved budget (UGX)</b>	<b>Release for the period (UGX)</b>	<b>Variance (UGX)</b>	<b>Funding gap as a percentage</b>
<b>Recurrent Budget</b>				
Wage	6,645,161,981	6,645,161,924	57	0%
Non-wage	21,637,981,145	20,286,302,897	1,351,678,248	6%
<b>Total recurrent</b>	<b>28,283,143,126</b>	<b>26,931,464,821</b>	<b>1,351,678,305</b>	<b>5%</b>
<b>Development budget</b>				
RCIP-GOU	1,914,479,000	1,549,997,942	364,481,058	19%
Non-Tax Revenue	25,416,402,958	9,695,118,352	15,721,284,606	62%
Donor (RCIP Project)	34,338,777,188	21,233,625,804	13,105,151,384	38%
	61,669,659,146	32,478,742,098	29,190,917,048	
<b>Total</b>	<b>89,952,802,272</b>	<b>59,410,206,919</b>	<b>30,542,595,353</b>	<b>34%</b>

Management attributed the shortfalls in NTR to the reduced uptake and usage of the services as a result of the change in policy to utilize internet provided by UTL as well as delays by MDA/LGs to pay for the services provided. The shortfall in GoU releases was attributed to the budget cuts across the entire government implemented by MoFPED.

It should be noted that budget shortfalls negatively affect implementation of planned activities, since the authority is unable to fully deliver on its mandate.

I advised management to come up with strategies to enhance the collection of non-tax revenues including follow up of all outstanding dues from MDAs/LGs. I also advise the Accounting Officer to continue to engage MoFPED regarding the release of the development budget.

**Other Matter**

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.

- **Impact of planned transfer of national backbone infrastructure to UTL (in Administration)**

Regulation 10 of the NITA-U (E Government) Regulations provides that all public bodies shall use the National Data Transmission Backbone Infrastructure and the E-government Infrastructure (NBI/EGI) as the primary vehicle for all Government data, internet and voice services. I noted that NITA-U signed a contract referenced NITA-U/SRVCS/11-12/00057 with a company to provide management services for the commercialization of

NBI/EGI on behalf of the Government of Uganda for a period of 10 years as amended. A subsequent addendum dated 27<sup>th</sup> December 2016, further provided for among others, revision of the commercialization plan; revision of the revenue projections for years 4 and 5 of the contract and extended the term of contract by an additional 10 years.

I however noted that, Government through the Permanent Secretary, Ministry of Information, Communication Technology and National Guidance (MOICT&NG) approved provision of internet to all Ministries, Departments and Agencies through Uganda Telecom Limited by guaranteeing UTL free and unlimited access, and use of the National back-borne infrastructure (NBI), for delivery of services; and that UTL would meet any associated maintenance costs for use of the National Backbone Infrastructure.

This therefore means that the non-tax revenue receivable from sale of services off the National Backbone Infrastructure is to be affected negatively. I observed that NTR from commercialization of the back bone contributes 38.1% of the entire overall NITA-U budget hence the decision is likely to negatively impact on the activities of the Authority. The Accounting Officer in response explained that, NITA-U has continued to engage the MoFPED on the impact of the above decision.

I advised management to continue engaging the Ministry of Information and Communication Technology and MOFPED for a detailed plan regarding the implications of the directive to the ongoing funding arrangement.

- **Unutilised Bulk Internet Bandwidth**

NITA-U signed a contract for the supply of bulk internet bandwidth of 10Gbps for a total of USD.4,745,000 for a period of 15 years. However, it was observed that the current national bandwidth consumption stands at approximately 3 Gigabits per second (Gbps) with excess capacity allowed to the public through *MyUg Free WiFi platform* and other scenarios that include testing/studies.

I noted that the contract locks NITA-U into paying for the entire internet bandwidth even when not consumed. This implies that currently, 7Gbps is being paid for by NITA-U without corresponding commercial utilisation. In addition, it was noted that entities were being given internet access in excess of what they pay for and there was no mechanism of tracking consumption.

In response, the Accounting Officer explained that NITA-U had already migrated all the MDAs/LGs site connected and utilizing services through the NBI to the Bandwidth Manager which was acquired under the Regional Communication Infrastructure Program (RCIP). He further stated that, NITA-U will be able to allocate and monitor Bandwidth provisioned to the MDAs and that MDAs will also be furnished with their respective weekly Bandwidth usage /consumption graphs and quarterly reports.

I advised management to expedite connection of other commercial users to ensure 100% uptake and also to expedite the migration of connected sites accessing Internet Bandwidth to the recently commissioned Bandwidth Manager to establish actual and required consumption of services as per the requirements agreed with the clients

- **Redundant Network investment**

NITA-U sanctioned work under a framework contract for extension works as per Procurement Ref NITA-U/SRVC/11-12/00057 to a service provider for civil works extensions to 74 (seventy four) MDA sites for the financial year 2017/2018, at a total contract price of USD.681,863 inclusive of 18% VAT. .

Audit inspection held in August 2018, revealed that a sample of 16 sites out of the 74 MDA sites did not utilize the network, despite an investment of USD.172,400.8 (approx. UGX.663,398,278.40). A total of 5.1808Km, 50 manholes, 14 switches and 2 Optical Network Units (ONUs) were implemented towards these unutilized sites resulting into wasteful expenditure of the same magnitude.

This was as a result of failure by management to conduct a specific user needs assessment and getting commitment prior to conducting the extensions to these MDA sites.

The Accounting Officer in his response explained that as a result of a directive to all Government MDAs to procure Internet Bandwidth from UTL, the Government entities that the NBI had been extended to required clear guidance before service could be activated and this hindered the provision of services.

I advised management to ensure that in future, they undertake pre implementation reviews and also enter into firm agreements prior to undertaking any investments.

- **Inadequate Staffing levels**

A review of the staffing levels of the NITA-U in comparison with the approved establishment structure revealed that there are 91 posts (57%) which are not yet filled out of 157 in the Organization structure. This includes key positions such as; Business Development Manager, Systems Officer WAN, Senior Unified Communications Architect among others. Without adequate staffing levels, the capacity of the organisation to deliver on its mandate is highly compromised.

This was attributed to inadequate wage funding and recruitment bans by appointing authorities.

The Accounting Officer in response explained that management was engaging with MoPS and MoFPED to lift the MTEF ceiling of the wage bill for NITA-U.

I advised the Accounting Officer to liaise with relevant authorities for approval to recruit especially for critical positions in the organisation.

### **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.

## **Management Responsibilities for the Financial Statements**

The Accounting Officer is responsible for the preparation and fair presentation of these 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 Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Authority's management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## **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 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 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 Company'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 Company'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 Company 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 matter raised in the compliance with legislation section below, and whose effect has been considered in forming my opinion on the 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 NAA 2008, I have a responsibility to report material findings on the compliance of NITA-U with specific matters in key legislations. I performed procedures to identify findings but not to gather evidence to express assurance.

The material finding in respect of the compliance criteria for the applicable subject matters is as follows;

- **Expiry of tenure of service of Board of Directors**

Section 7(1) of the NITA-U Act provides for establishment of a Board of Directors as the governing body of the authority, which shall constitute; the Chairperson, the Executive Director, the Commissioner responsible for Information Technology in the Ministry responsible for information technology; four other nominees at least one of whom shall be an eminent Ugandan with expertise in information technology. The chairperson and members of the Board shall be appointed by the Minister, with the approval of cabinet.

I noted that the Board was not fully constituted following the expiry of the two (2) statutory terms for the substantive Chairperson and two (2) other members. In the circumstances, effective oversight roles by the Board are compromised as a result.

The Accounting Officer in his response indicated that the Minister of ICT and National Guidance had been notified and that Management awaits his action to have the vacant Board positions filled.

I advised Management to continue engaging the responsible appointing authority over this matter, until the vacant Board positions are filled.

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**  
13<sup>th</sup> December, 2018