



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**UGANDA INDUSTRIAL RESEARCH INSTITUTE (UIRI)**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

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## **LIST OF ACRONYMS**

<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>ISSAIs</b>	International Standards of Supreme Audit Institutions
<b>MoSTI</b>	Ministry of Science, Technology and Innovation
<b>MTEF</b>	Medium Term Expenditure Framework
<b>PFM</b>	Public Finance Management
<b>UGX</b>	Uganda Shillings
<b>UIRI</b>	Uganda Industrial Research Institute

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**UGANDA INDUSTRIAL RESEARCH INSTITUTE FOR THE**  
**YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of the Uganda Industrial Research Institute (UIRI) for the year ended 30<sup>th</sup> June 2018. 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 of the Uganda Industrial Research Institute 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 Statement's section of my report. I am independent of the Institute 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 (IESBA0 Code of Ethics for Professional Accountants (Parts A and B), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics 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.

- **Revenue and Expenditure 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. 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 the following;

**a. Revenue Performance Analysis**

A total of UGX.14,152,156,456 was budgeted to cater for the Institute activities and by the close of the year, 99% of the approved budget i.e. UGX.14,053,299,235 had been received resulting into a budget shortfall of UGX.98,857,221 (1%). The slight shortfall was attributed to release of less than budgeted funds from GOU which negatively affects the implementation of the Institute's activities. In response, management explained that shortfalls are indeed chronic, and cash limits are at the discretion of MoFPED. I advised Management to liaise with MoFPED to ensure the full release of budgeted funds for provision of services as planned.

**b. Un-implemented planned activities – UGX.1,651,510,600**

I further noted that despite the good overall performance in receipt of budgeted revenue, the entity did not implement some of the planned activities to the tune of UGX.1,651,510,600 by close of the financial year. These activities included; Supply, installation, and commissioning of a complete Poultry Feeds Line for *Kamadif*, Equipment for the production of Pads, Purchase of equipment for microbiology and Purchase of lab apparatus for microbiology. This was partly attributed to diversion of

funds to implement other unplanned activities as explained in the subsequent paragraph. This hampered service delivery and the appropriating authority's objectives were not met as the activities were not performed as planned. Although Management attributed this budget shortfalls, I did not find this explanation satisfactory, given that the shortfalls were far less than what was not implemented.

I advised the Accounting Officer to ensure that the amounts appropriated and released are always utilized to implement planned activities.

**c. Diversion of funds to unplanned activities**

Section 45 of the Public Finance and Management Act 2015, requires the Accounting Officer to control the regularity and proper use of the money appropriated to the vote.

To the contrary, it was noted that management implemented unbudgeted for activities amounting to UGX.1,067,947,407 during the period under review. These activities included; Feasibility studies for value addition and skilling centers, Payment to Tessa Dairy Machinery Ltd for supply and installation of dairy equipment, Peanut butter processing equipment and Water for Karubuga Dairy Project. The practice distorts implementation of planned activities and translates into undermining the decisions of the appropriating authority.

Management explained that some of the projects had been started but due to unanticipated shortfalls, they were never implemented and remained work in progress. I advised Management to always ensure adherence to budgetary provisions and utilize appropriate mechanisms provided for by the law, in the event new activities are to be implemented.

**d. Failure to Budget for Domestic Arrears**

Section 13 (10) (a) (iv) of the Public Finance Management Act 2015, defines an annual budget as the financing estimates for the financial year to which the budget relates, including a plan for Government debt and any other financial liabilities for the financial year to which the annual budget relates.

A review of the approved budget estimates for UIRI for the past two financial years indicated that management did not make any budget provisions towards the settlement of domestic arrears despite an accumulation of a total of UGX.831,107,348 in unpaid obligations reported in the financial statements as at 30<sup>th</sup> June, 2018. As a result, a sum of UGX.532,849,043 from other budgeted activities was spent towards

the settlement of domestic arrears during the year. This negatively affected the timely implementation of sampled planned activities and led to the creation of new arrears to the tune UGX.325,321,320. Management explained that the arrears relate to electricity bills and going by the circular from PS/ST, arrears were given priority in the subsequent budget. I advised the Accounting Officer to always adhere to budget provisions and seek prior authority before spending on unbudgeted for activities in accordance with the laws and regulations.

### **Other Matter**

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

- **Staffing levels**

In my previous report I noted that out of the available 560 posts, only 282 posts are filled leaving 278 posts vacant representing a 50% vacancy level. I observed that the Institute operated without Directors and that its Top Management was only occupied by the Executive Director and the Deputy Executive Director. The positions of Directors and Managers at the operational level that fell vacant have not been filled since financial year 2015/16. As a result, UIRI is unable to provide top management leadership to guide their day to day operations. This has the potential to lead to a breakdown in providing effective leadership to the Institute and therefore service delivery.

Management explained that the wage bill is limited by MTEF ceiling and is not "position-specific". The inadequacy of funds has denied the Institute the opportunity to fill critical high level management positions. Management is committed to fill some of the positions Human Resource manager, Director Finance and Administration and a substantive Manager of Business Incubator, by 3<sup>rd</sup> quarter. The Accounting Officer is advised to have the key top positions filled without further delay and initiate steps to regularize the appointment of the lower level staff if they are deemed to be critical to the Institute.

- **Uncollected Production fees**

The Institute runs an incubation programme whereby companies that seek to develop commercially viable products including Dairy, Meat, Bakery, Paper, Fruit ceramics, cosmetics, and other such products are nurtured by the Institute.

The institute levies production charges calculated on the basis of volume of production to meet overhead costs like water and electricity.

A review of the revenue ledgers and supporting documentation revealed that the Institute invoiced but failed to collect production charges from a number of clients totaling to UGX.78,138,376. Under the circumstances, there is a risk of these debts going bad if not collected sooner than later.

Management explained that efforts to collect overdue bills from incubates are continuing. Also there is now a heightened vigilance to make sure that incubates are not allowed to accumulate bills they cannot handle. I await the outcome of the efforts of management in collection of revenue.

- **Innovation Fund Management**

During the year, I noted that the Institute budgeted to spend UGX.9,370,000,000 on various Innovation Fund activities. However, out of the budgeted amount, UGX.6,030,200,000 was disbursed and received by the Institute resulting into a shortfall of UGX.3,339,800,000 (35%). I further observed that the Institute only spent a total of UGX.3,243,527,784 from the amount it received resulting into an unspent balance of UGX.2,786,762,216. By close of year, only one project out of seven funded was complete, five were work in progress and one had stalled as the supplier was unable or unwilling to issue a Bank Guarantee.

Furthermore, I noted that that the Institute did not have operational guidelines for the Innovation fund's management. This has left a grey area in aspects of project management. The lack of fund management guidelines exposes the fund to abuse.

Management explained that the choice of priority projects was informed by NDP II and Vision 2040. The final list of projects was approved by Top Management of MoSTI. I have advised the Accounting Officer to liaise with the Ministry of Science Technology and Innovation to ensure that fund management guidelines are put in place going forward.

### **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 Uganda Industrial Research Institute.

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 Institute's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda Industrial Research Institute, and using the Financial Reporting Guide 2018 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Commissions' 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 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 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 Institute'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 Commission's ability to deliver its mandate. 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 Institute to fail to deliver its mandate.
- 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.

### **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 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 the Institute with specific matters in key legislations. I performed procedures primarily to identify findings but not to gather evidence to express assurance.

The material finding (s) in respect of the compliance criteria for the applicable subject matters are as follows;

- **Absence of a Board of Directors**

Section 6 of the UIRI Act, 2003 provides for the appointment of a Board of Directors to govern the affairs of the institution with terms and conditions made in consultation with the Ministry responsible for finance. In addition, Section 8 of UIRI Act 2003, further provides that the Board shall ordinarily meet for the discharge of business at least once in every three months at such times and places as the Chairperson may determine.

However, during the period under review, the Chairperson did not convene any meeting as the term of office of the Board had expired in November 2016, and no renewal has been made to-date. Under the circumstances, the absence of a Board

which is supposed to provide strategic oversight may cloud the strategic focus of the entity.

Management explained that the process was underway in consultation with the Solicitor's Generals Office to ensure the appointment of the Board of Directors without further delay. The Accounting Officer is advised to follow up the matter with the relevant stakeholders so as to ensure the appointment of the Board of Directors without further delay.

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

John F.S. Muwanga  
**AUDITOR GENERAL**  
**KAMPALA**  
21<sup>st</sup> December, 2018

## **FINANCIAL STATEMENTS**