



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
DISTRICT COMMERCIAL SERVICES SUPPORT PROJECT (DICOSS)  
FOR THE 5 MONTHS PERIOD ENDED 31<sup>ST</sup> MAY 2017**

**OFFICE OF THE AUDITOR GENERAL  
UGANDA**

## TABLE OF CONTENTS

LIST OF ACRONYMS .....	2
Opinion.....	3
Basis of Opinion.....	3
Key Audit Matter.....	4
Other Matter.....	4
• Transfer of Project closing balances – UGX.2,333,103 .....	4
Other Information .....	5
Responsibilities of the Accounting Officer for the Financial Statements .....	5
Auditor’s Responsibilities for the Audit of the Financial Statements.....	6
Other Reporting Responsibilities .....	7
REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION .....	8
• Implementation of the Project .....	8
• Incomplete production of documentary Video - UGX.45,000,000 .....	8
• Non-deduction of tax – UGX.1,062,000 .....	9
• Lack of Pre and Post inspection reports – UGX.11,494,147 .....	10

## **LIST OF ACRONYMS**

<b>GOU</b>	Government of Uganda
<b>DICOSS</b>	District Commercial Services Support Project
<b>WHT</b>	Withholding Tax
<b>ISA</b>	International Standards on Auditing
<b>PAYE</b>	Pay As You Earn
<b>UNOPS</b>	United Nations Office for the Projects Services
<b>MoU</b>	Memorandum of Understanding
<b>PFMA</b>	Public Finance Management Act, 2015
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>F/Y</b>	Financial Year
<b>MDA</b>	Ministry, Department, and other Agencies
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions

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FOR THE 5 MONTHS PERIOD ENDED 31<sup>ST</sup> MAY, 2017**

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of the District Commercial Services Support Project for the 5 months period ended 31<sup>st</sup> May 2017. These financial statements set out on pages 6 to 14 comprise of;

- The statement of financial position
- The statement of financial performance
- Statement of cash flow
- Notes to the financial statements including a summary of accounting policies used.

In my opinion, the project financial statements present fairly in all material respects the financial performance of the District Commercial Services Support Project for the 5 months period ended 31<sup>st</sup> May 2017 and the receipts and payments for the period then ended in accordance with the Enhanced Integrated Framework Trust Fund guidelines and the basis of accounting policies described under note (b) to the financial statements.

**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 Project 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 Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), 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 Matter**

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current period. I have determined there are no key audit matters described to communicate in my report.

### **Other Matter**

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

- **Transfer of Project closing balances – UGX.2,333,103**

At the close of reporting period 31<sup>st</sup> May 2017, the project had unspent balances of UGX.2,333,103. However, it was noted that these funds were transferred to TRACE III project without proper guidelines on the use of the funds.

There is a risk that project funds may be spent on activities that were earlier not planned.

Management explained that there were consultations and correspondences between the Project Coordinator and EIF Secretariat on how to handle the balance. It was agreed between the parties that instead of remitting the balance to EIF Secretariat in Geneva, the remaining funds be transferred to TRACE II account for the next phase, since it is funded by the same source.

Considering that the project has closed, I advised the Accounting Officer to ensure that before project balances are utilized, there should be specific workplan to enable monitoring of these funds in the future.

### **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 District Commercial Services Support Project.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, EITF guidelines and the basis of accounting described in note (b) to the financial statements, 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 Project's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the District Commercial Services Support Project, and using the Enhanced Integrated Framework Trust Fund guidelines unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Project's 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 Project'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 Project'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 District Commercial Services Support Project 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 sections 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 AND AGREEMENTS**

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

- **Implementation of the Project**

The project was not implemented within the specified period of 3 years due to several challenges that included delays in the commencement of recruitment of staff, procurement of equipment and consultancy services, delays in submission of accountability and activity reports by some District Commercial Officer (DCOS), changes in accounting procedures due to amendment of the financial management Act and delays in disbursement of funds.

According to the Project implementation plan, the project was implemented in 5 years instead of the original period of 3 years. The project management requested for a no cost extension from the development partners provided.

Further, the Enhanced Integrated Framework closure report dated June 2017 indicated that the project has now achieved all the intended targets as indicated in **Appendix 1**.

A review of the expenditure has however revealed the following:

- **Incomplete production of documentary Video - UGX.45,000,000**

The PPDA Regulations 236 (6) states payments shall only be made for the final contract price, which shall be the total of the actual quantity of work performed.

DICOSS entered into an agreement with a service provider for the production of 2 video documentary detailing the outcome of the DICOSS project at a contract sum of UGX.45,000,000. According to the agreement, the final deliverance would be a presentation of a 45 minutes and 25 minutes documentary film version.

A review of the documentary presented revealed that the 1 documentary video lasted only 18 minutes an indication that actual quantity of work performed did not conform to the agreed contract.

Payment without fully completing work has an effect on value for money.

Management explained that 2 documentary DVD tapes were produced. One was 45 minutes and another one 25 minutes. At the time of auditing, one of 45 minutes was erroneously not attached on the file. The second documentary was 25 minutes, however, when the Project Coordinator was preparing to present it to the conference in Nairobi, with the consultation of the conference organizers; she was advised that the documentary should be edited to the minimum time possible for presentation. There was short time to make the presentations and there were many presenters. Therefore the Project Coordinator consulted the contractor and informed him of what was required at the conference. The documentary was edited and the final contents ended up as a recording of 18 minutes. The edited version which was summarized was accepted by the conference organizers. In other words that is how it ended in 18 minutes recording.

Considering that the project has closed, I advised the Accounting Officer to ensure that in future, the agreed version should always be retained in order not to interfere with the agreement.

- **Non-deduction of tax – UGX.1,062,000**

Section 19 (d) of the Income Tax Act states that any other allowance which is not paid under employment but is incurred in the performance of duties should be subject to a 30% charge which is provided for in the schedules for the same act.

It was noted that DICOSS paid UGX.3,540,000 to staff as sitting allowance without deducting 30% tax equivalent to UGX.1,062,000 as required by the Income Tax Act.

Non-deduction of tax exposes DICOSS to fines and penalties that may be imposed by Uganda Revenue Authority.

Management explained that the payment of UGX.3,540,000 was sitting allowance for the eight (8) members of the contracts committee which was an accumulation for a

period of six (6) sittings in a range of UGX.100,000 for the Chairperson and UGX.900,000 for members of the committee. The error was an oversight and management is in the process of recovering the deductions in the proceeding payments.

Considering that the project has closed, I advised the Accounting Officer to ensure that the law is always applied. In the meantime, the Accounting Office should deduct and remit the taxes to Uganda Revenue Authority as required by the law.

- **Lack of Pre and Post inspection reports – UGX.11,494,147**

Paragraph 836 (d) (iii) of the Treasury Accounting Instructions, 2003 Part II-stores, require that inspections of vehicles will be carried out whenever vehicles are handed over to a garage for repair. It is also good practice that before any vehicle is authorised for repairs, a pre-repair inspection is carried out to enable management assess the extent of faults/damages and specify the repairs required and a post inspection report prepared to confirm repairs carried out.

During the period January to May 2017, the project spent UGX.11,494,147 on repairs and service of Motor vehicle No.UAT 281X. However, there was no pre and post repair reports as required by TAIs.

In the absence of inspection reports, it was difficult to confirm whether the repairs were undertaken.

Management explained that during the period between November 2016 and December 2016, January 2017 and April 2017, the vehicle was used by the staff who were working with teams on documentary filming and final evaluation. Therefore regular service was being carried out during this period. As the project was closing, the management also saw it prudent to refurbish the vehicle so that it is handed over when it is in sound condition. It has since been handed over to TRACE II Project, for the final phase. It can be verified to ascertain its current status.

Therefore, following the observation by the Auditors, the Ministry has mechanical engineer who examines job card quotations before repairs and inspects vehicles together with the driver whenever they come out of the garage to ascertain that repairs carried out are satisfactory before the payment is affected.

I advised the Accounting Officer to always carry out pre inspection before vehicles are referred to the garage and post inspection prior to effecting payments.

A handwritten signature in black ink, appearing to read 'John F.S. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

11<sup>th</sup> December, 2018

## Appendix 1

### Implementation of the Project

<b>Narrative Summary</b>	<b>Key Performance Indicators</b>	<b>MTR target</b>	<b>Status as at 30<sup>th</sup> May 2017</b>	<b>% achievement</b>	<b>Management response</b>
<b>Output 1:</b> Equipment and retooling DCOs	District Commercial Officers equipped an retooled	25 district Officers	23 districts were equipped an retooled	100	
<b>Output 2:</b> Improvement MTIC effectiveness in the delivery of commercial services at grassroots level in targeted districts	DCOs facilitated to deliver commercial and business services	25 Districts	Some districts established information centres and conducted at least 2 radio programs from 2015-2016.	100	By the end of the project all this activity was achieved. The districts have soft copies of radio recordings. A soft copy of the documentary containing all the achievements is available This documentary outlines all the achievements during the tenure of the Project.
<b>Output 3:</b> Building networks between DCOs and other stakeholders	Establishment of trade related networks or association within districts	25 Districts	Quarterly meetings for DCOs were held throughout the project period. Bi annual meetings of DCOs MYIC, district and private sector representatives' organizations were held from 2013-2016. ADCOs also facilitated and supported the establishment of trade related networks or association within districts.	100	A soft copy of the documentary containing all the achievements is available This documentary outlines all the achievements during the tenure of the Project.