



THE REPUBLIC OF UGANDA

MINISTRY OF AGRICULTURE, ANIMAL INDUSTRY AND FISHERIES

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
ENHANCING NATIONAL FOOD SECURITY THROUGH INCREASED RICE
PRODUCTION PROJECT FOR THE YEAR ENDED 30TH JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

CR	Credit
DED	Detailed Engineering Design
ENRP	The Enhancing National Food Security Through Increased Rice Production Project
FYR	Financial Year
GoU	Government of Uganda
IDB	Islamic Development Bank
IESBA	International Ethics Standards Board for Accountants
ISA	International Standards on Auditing
ISSAIs	International Standards of Supreme Audit Institutions
M&E	Monitoring and Evaluation Unit
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MOFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of understanding
MTR	Mid Term Review
PDP	Private Development Partners
PIU	Project Implementing Unit
RT.HON	Right Honourable
TOR	Terms of Reference
UGX	Uganda Shillings
US \$	United States Dollar

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THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of The Enhancing National Food Security through Increased Rice Production Project for the year ended 30th June 2018. The financial statements set out on pages 13 to 18 comprise of;

- Fund accountability statement
- Statement of financial position
- Statement of cash flows
- Statement of special designated account activity
- 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 fund balances of the Enhancing National Food Security through Increased Rice Production Project for the year ended 30th June 2018 and the receipts and payments for the period then ended in accordance with the IDB guidelines and the basis of accounting described under note 10 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 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 years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

In the overall office wide planning, I assessed risks such as 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 the approved annual budget and work plan for the year under review was UGX.6,453,873,265, however only UGX.2,091,248,686 was received (representing 32% funding). This resulted into a shortfall of UGX.4,362,624,579 (representing 68% underfunding of the budget). Furthermore, I observed that despite the availability of funds amounting to UGX.2,091,248,686 during the year, only UGX.1,326,658,432 was spent representing a substantially low absorption rate of 63% of the available funds.

In implementing the project mandate of increased production of high quality rice, management implemented a number of planned activities during the year. Implemented activities included Continuous mobilization and engagement of farmers and other stake holders, revision of the Memorandum of Understanding with private development partners and preparation of terms of reference for the project studies among others.

However, I noted that some of the planned activities such as supply of certified seeds to farmers, Procurement of vehicles, procurement of IT equipment and office establishments, base line studies, indicator profiling and detailed engineering designs and construction supervision consultancy were not implemented, which is likely to impact on the achievement of the ENRP mandate and hinders service delivery to the intended beneficiaries. **Appendix 1** shows the status of implementation of planned activities, and the related Management responses.

Management explained that anticipated start date of the project was supposed to be in October, 2013 which was delayed up to October 2017 due to Tilda Co. Ltd one of the initial project partners pulling out and because of this delay, the project re-scoping exercise had to be done in order to cater for the new changes. Management further explained that this brought in new adjustments that required the old financing agreement between the GoU and IsDB to be amended which took time but was later signed in February, 2018. IsDB could therefore not disburse funds without an amended agreement and these delays affected project implementation of activities as per the planned timelines thus leading to budget shortfalls and low absorption capacity as funds were disbursed towards the end of the financial year on 26th May, 2018.

I advised the Accounting Officer to fast track the projects implementation to ensure that further delays are not experienced and all funds should be absorbed within the project timelines.

Other Matter

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements: There were no other matters that came to my attention that warranted specific reporting.

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 Enhancing National Food Security through Increased Rice Production 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, IDB guidelines and the basis of accounting described under note 10 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 Enhancing National Food Security through Increased Rice Production Project, and using the IDB 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 Enhancing National Food Security through Increased Rice Production 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

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

- **Failure to hold Project Steering committee meetings**

Contrary to section 34 of the draft Project Implementation Manual (PIM) that requires the Project Steering Committee (PSC) to meet twice a year and its mandate include approval of the annual project work plan, budget and the annual procurement plan before submitting them to the Bank for review. I noted that the project steering committee did not sit at all during the year 2017/18 but instead sat once in October 2018.

Because of lack of PSC sitting, I noted the following;

- The work plans, budgets and procurement plans were not approved on time. This exposed the project to a risk of rendering all the expended funds in the financial year ineligible.

Management explained that the PSC delayed to sit and approve the work plan and budget before the financing agreement amendment was approved and signed between the two parties. After the signing of the amendment, the PSC sat in October, 2018 to approve the work plan and budget which was done retrospectively.

- PIM was not approved by the PSC and IsDB and as such authoritative guidance in implementation of the project activities could not be ascertained. Lack of an approved PIM exposes the project to a risk of undertaking activities outside the project scope thus negatively impacting on the implementation of the project components.

Management explained that in the next sitting of the PSC scheduled for March, 2019, PIM approval shall be part of the agenda of the day. The submission for the rectification by Bank has already been submitted.

- The project did not have an approved Project Appraisal Document and as such, I was not able to relate project implemented activities to the long term project objectives. In the absence of an approved Project Appraisal Document, there is lack of strategic guidance since the budget process is not linked with the strategic plan. There is also a risk that the strategic objectives of the project will not be fulfilled in the long run.

Management explained that with the amendment of the Financing Agreement, it also required the new approval of the Project Appraisal Document (PAD) which is to be approved by the IsDB Board of Directors because the old approved PAD was rendered irrelevant with the new changes in the amended Financing Agreement. The new PAD was worked upon, sent to the IsDB and awaits Board's approval.

I advised the Accounting Officer to draw the issue to the attention of the PSC and the Bank and consider amendment of the PIM to allow delegation and smooth implementation of project activities.



John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
18th December, 2018

**REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL OF
THE ENHANCING NATIONAL FOOD SECURITY THROUGH INCREASED RICE
PRODUCTION PROJECT FOR THE YEAR ENDED 30TH JUNE 2018**

Opinion

I have audited the financial statements of the Enhancing National Food Security through Increased Rice Production Project, and reviewed the Internal Control procedures relevant to generation of accounting information presented in the financial statements, and those relevant to control over programme finances and the safeguard of its assets. I obtained all the information and explanation I considered necessary for the audit.

In my opinion, Programme Management maintained an adequate internal control system for the preparation of reliable financial statements, control over finances and safeguard of the programme assets during the year ended 30th June 2018.

Management Responsibility

Management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgment are required to assess the expected benefits and related costs of internal control structure policies and procedures.

Auditor's Responsibility

My examination was made in accordance with ISSAIs and accordingly included such tests of the accounting records, verification of assets and liabilities and such other auditing procedures I considered necessary in the circumstances.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:-

- Control over preparation of withdrawal applications for funds from the project account
- Bank and cash Purchases and payments,
- Monitoring, evaluation and reporting.

For all the internal control structure categories listed above, I obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation and I assessed control risk.



John F. S. Muwanga

AUDITOR GENERAL

18th December 2018

REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT
OPERATIONS OF THE ENHANCING NATIONAL FOOD SECURITY THROUGH
INCREASED RICE PRODUCTION PROJECT FOR THE YEAR ENDED 30TH JUNE, 2018

Opinion

I have audited the special account statement of the Enhancing National Food Security through Increased Rice Production Project for the year ended 30th June, 2018 which is set out on page 27 of the financial statements.

In my opinion, Project management complied in all material respects with IDB rules and procedures and that the Special Account Statement for the Enhancing National Food Security through Increased Rice Production Project for the year ended 30th June, 2018 presents fairly in all material respects the account transactions and the closing balance as at 30th June 2018.

Management Responsibility for the Special Account Statement

Project management is responsible for preparation of the special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations and IDB guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the Special Account Statement based on my audit. I conducted the audit in accordance with International Standards on Auditing and the IDB guidelines on auditing. Those standards and guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the Special Account statement is free from material misstatements. I believe that the audit provides a reasonable basis for my opinion.



John F. S. Muwanga

AUDITOR GENERAL

18th December, 2018

APPENDICES

APPENDIX I: BUDGET PERFORMANCE-UNIMPLEMENTED ACTIVITIES

Project Component	Sub-components	Planned outputs	Amount (UGX) budgeted	Actual output	Management response
Farmer organization strengthening and out growers arrangements (2500ha)	Producer organization development	-supply of Certified seeds to farmers -Signing MOUs with MoTIC together with Uganda Cooperative alliance to provide capacity building programmes to the farmers	490,000,000	NIL	- The supply of certified seeds to the farmers shall be implemented after the completion of the civil works -Signing of MoUs between all the partners (Pearl Rice Ltd, Busowa Cooperative & Savings Ltd & MoTIC among others) is in final stages
Project Management and co-ordination.	Technical support QA and certification	Quality assurance and certifications	168,793,905	NIL	The activity was not conducted
		Procurement and maintenance of vehicles	875,000,000	NIL	The procurement of vehicles is awaiting a NO objection from IDB.
		IT Equipment and office establishments	108,255,000	NIL	The contract was signed and submitted to the IDB for a contract review and clearance.
	Exposure and Familiarization Visits	Team visit to Jeddar (4)	33,530,000	NIL	The travel was not undertaken
		Air tickets	24,500,000	NIL	The activity was not conducted
		Team visit to Jeddar (3)	29,400,000	NIL	The travel was not undertaken
		Other international travels and Air tickets	17,150,000	NIL	The travel was not conducted
	Consultancies	Studies Detailed Engineering Designs (DED), tender documents & land settlement plans/consultancy fees & social impact assessment	2,699,999,995	Advertising undertaken but no deliverables	Advertisement for consultancies for studies, Detailed Engineering Designs and construction supervision consultancy, Land resettlement, Environmental Impact assessment have been made in both local and international newspaper
		Baseline studies	236,000,030	NIL	The activity was not conducted
	Monitoring and Evaluation	IDB Visits	105,000,000	NIL	The activity was not conducted
		Support work plans and budget preparations at the district	39,999,995	NIL	The activity was not conducted
		Support supervision and Monitoring	60,000,010	NIL	The IDB supervision didn't take place since IDB officials last came in March 2017
		Regular Monitoring	48,000,015	Mobilization undertaken partially	Continuous sensitization and mobilization of the farmers about the project goals and objective is being undertaken.
		Indicator profiling	18,000,010	NIL	The engagement is still ongoing with the farmers and steering committee to agree on the realistic indicators onto which the project will be measured before it's shared with IDB for a No objection.

		Establishment of M&E system	20,000,015	Draft M & E system in place	The M&E team has come up with a draft and their still engaging stake holders on what would suit the system before they share it with IDB
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FINANCIAL STATEMENTS