



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL AGRICULTURAL ADVISORY SERVICES
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

NAADS	National Agricultural Advisory Services
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
OWC	Operation Wealth Creation
PAYE	Pay As You Earn
URA	Uganda Revenue Authority
F/Y	Financial Year
GOU	Government of Uganda
MOFPED	Ministry of Finance, Planning and Economic Development
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
MDA	Ministry, Department, and other Agencies
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL AGRICULTURAL ADVISORY SERVICES
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 the National Agricultural Advisory Services for the year ended 30th 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 National Agricultural Advisory Services for the year ended 30th 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, 2018.

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 NAADS 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 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.279,704,838,142 was budgeted to cater for the National Agricultural Advisory Services activities and by the close of the financial year, all the budgeted amounts had been received (representing 100% of the approved budget). It was however noted that out of the received UGX.279,704,838,000, only UGX.278,897,629,732 were spent leaving unspent balances of UGX.807,208,268 (0.3%).

In implementing its mandate of procurement and distribution of agricultural inputs to farmers, management implemented a number of planned activities during the year and these included; procurement and supply of; 1,006,500 passion seedlings, 1,724 bags of ginger, 7,362 heifers, 3,156 beef cattle, 1,461,521 fish fingerlings and 6 pickup motor vehicles for OWC officers among others.

However, I noted that some of the planned activities like procurement and distribution of 20 milk coolers and generators, 110 tractors, 1,000,000 hoes, ground nuts, mushroom

spones, household cocoa fermentation structures/bins and security cameras among others were partially implemented or not implemented at all, which is likely to impact on the achievement of the NAADS mandate. Management explained that failure to achieve some of the planned outputs was as a result of the procurement process spilling over after the end of the year and reallocation of funds to strategic interventions in the sugarcane project in Atiak. Underperformance of some of the agricultural inputs was attributed to shortage of material on the market for commodities such as bean seed, cowpeas seed, sorghum seed, groundnuts seed, banana suckers (tissue cultured material) and mushroom spones while delivery of dairy cattle Heifers delayed partly due to the standing quarantine in the major sources of livestock in South Western Uganda. **Appendix 1** shows the status of implementation of planned activities, and the related Management responses.

I advised the Accounting Officer to ensure adequate planning and implementation of planned activities to avoid making payments towards end of the financial year.

- **Domestic Arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been persistent accumulation of domestic arrears to unmanageable levels which has led to settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears.

Consequently, domestic arrears were considered a key audit matter which needed to be examined to assess: the appropriateness of recording, recognition and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears.

During audit planning, I focused on examination of domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness; ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me arrive at the audit conclusions.

Based on the procedure performed, the following observations were made;

➤ **Non- compliance with commitment control procedures**

An analysis of domestic arrears over the past two financial years shows that there was an increase in the domestic arrears position of 11% (UGX.5,606,923,249 in absolute terms).

Review of the financial statements indicated that the domestic arrears had increased from UGX.52,024,371,979 in the year 2016/2017 to UGX.57,631,295,228 in the current year. Domestic arrears of only UGX.3,389,659,521 relate to the previous year while arrears of UGX.54,241,635,707 were incurred in the current year. Failure to pay suppliers implies that the Accounting Officer has not adhered to the commitment control system of Government and thus has over committed Government. Further, the annual growth of 11% in domestic arrears is quite significant and unless properly managed and controlled, it might grow to un-manageable levels

The Accounting Officer attributed this to the growing demand for planting, breeding and stocking materials by farmers. He also explained that in order to counter the growing demand, they sought authorization from the Ministry of Finance, Planning and Economic Development to procure the inputs on credit and clear them in the subsequent financial year and sufficient budget provision were made in the FY 2018/2019 to settle domestic arrears of previous year and they had accordingly cleared the commitments as at 30th June 2018 in quarter 1 and 2 of 2018/2019.

The Accounting Officer is advised to put in place a strong commitment control system to enable proper tracking and management of domestic arrears and to avoid risk of overcommitting Government. The Accounting Officer is also advised to ensure sufficient budget provisions are made to cater for settlement of payments within the year to avoid accumulation of domestic arrears.

➤ **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 of the Organisation for the financial year under review indicated that the Secretariat failed to budget for domestic arrears to a tune of UGX.52,024,371,979. The Organisation did not make any budget provisions towards settlement of domestic arrears despite recognition of UGX.177,800,711 as domestic arrears for the prior year and irregular multiyear commitments of UGX.51,846,571,268. It was further noted that despite this failure to plan and budget for domestic arrears, all prior year arrears amounting to UGX.48,634,712,458 were paid during the year 2017/18. Failure to settle arrears exposes the Organisation to a risk of litigation from suppliers and anticipated planned outputs by the appropriation authority may not be achieved due to diversion of the funds to pay outstanding arrears which hampers the timely implementation of the planned activities.

Management explained that arrears for the year 2016/2017 amounting to UGX.177,800,711 was WHT arising from payments that bounced in the F/Y 2016/17 but were paid in the year under audit and domestic arrears of UGX.51,846,571,268 were the commitment as at 30th June 2017 arising from purchase on credit of planting and stocking inputs which were authorized by MoFPED to meet the demand by the beneficiary farmers. The authorization allowed NAADS to give domestic arrears first call on the resources released to the sector in the year of audit.

The Accounting Officer is advised to ensure that sufficient budget provisions are made to cater for the growing demand for inputs to avoid purchases on credit that lead to domestic arrears. The Accounting Officer is also advised to seek for funds for settlement of all arrears to enable undertaking of planned activities of current year.

Emphasis of Matter

Without qualifying my opinion, I draw attention to the following matters included under operating expenses in the statement of financial performance.

- **Payment for tea lead agency fees for Kabale and Kisoro districts**

M/s Kigezi highland Tea Ltd entered into contractual agreement with the Kabale and Kisoro District Local Governments for the implementation of the Tea Development Project as a lead agency. The project activities included procurement of clonal tea plantlets from prequalified nursery operators, training of nursery operators, tea growers, extension staff and other stakeholders and monitoring and evaluation of project activities. The lead agency had several responsibilities among which included identifying nursery operators,

identification of farmers in collaboration with development partner, supervision of tea transportation, provide training and field extension services to nursery operators, tea growers and extension staff, oversee distribution of plantlets and provide market for the green leaf. The Lead Agency was to earn 30% of the unit cost of each tea plantlet distributed throughout the districts.

I noted that M/s Kigezi Highland Tea was paid UGX. 1,270,448,618 as 50% of lead agency fees for Kisoro District pending a joint verification team with stakeholders to confirm the billed amount of UGX.3,241,062,155. However, several issues were noted in regard to this payment as below;

➤ **Flawed MOU with regard to measurement of deliverables**

The MOU signed by the parties had weaknesses in regard to measurement of the lead agency deliverables. It was for instance noted that one of the key deliverable was provision of extension services to the tea growers, however there was no criteria stated in the MOU against which this would be certified. There were no records of attendance for farmer's outfield visits to be relied on before payment is undertaken but rather blanket computation of 30% on total seedlings supplied. Further, an audit undertaken by my office in the previous year in five Districts of Kisoro, Kanungu, Kabale, Buhweiju and Kabarole had revealed that no extension services had been undertaken and as a result losses were noted in seedlings procured due to inappropriate topography and lack of extension services despite payments to the Lead Agencies.

➤ **Rationale for the 30% Lead agency fee on distributed tea:**

I found this costing peculiar and without any clear basis given the deliverables expected from the Lead agency. Costing would have been on the basis of services offered, that is, allowances for extension staff at fixed rates, administrative expenses with identifiable costs such as airtime, stationery, office hire.

➤ **Partial consent settlement without Guarantee;**

It was noted that UGX.1,270,448,618 was paid to the Lead Agency as 50% of the total claim despite my earlier recommendation to pay after verification and evidence that the services were actually rendered. This payment was contingent on confirmation of services provided and in this case, should have requested for a bank guarantee pending the verification findings.

Payment for uncertified services without any payment guarantee exposes the entity to a risk of loss in the event of non-performance. Further flawed MOU's expose Government funds to loss through exploitation by service providers.

Management explained that it always takes findings and advice from the Auditor General very seriously and indeed they did not honour the invoice from Kigezi Highland Tea Company in respect to Kisoro District because it was not backed by evidence of work done. However, subsequently the company filed a suit against NAADS and in a bid to settle the matter out of Court, management took a decision to pay a provisional sum of 50% of the invoice presented by Kigezi Highland Tea Company pending findings from a field verification to be carried out by a commissioned team. The field report had inadequacies and therefore the matter was escalated to Courts of Law that have eventually ruled in favour of the Lead Agency.

I advised the Accounting Officer to ensure that in future all contracts contain clear terms and conditions to avoid disputes. Further, I advised him to study my special audit report and the subsequent verification reports in respect of extension services in order to address the issues raised to minimize re-occurrence.

- **Mischarge of Expenditure**

Expenditure totalling to UGX.1,009,498,818 was inappropriately charged on budget lines to fund activities that were not planned for without authority. Mischarges undermine the budgetary process and the intentions of the appropriating authority as funds are not utilized for the intended purpose. The practice also leads to financial misreporting.

According to management, mischarges arose from realised balances on planned recurrent expenditures that were used to offset budget shortfalls under the development budget for provision of planting materials which resulted from increased demand by farmers.

The Accounting Officer is advised to project increased demand by farmers during the budget process to ensure that sufficient funds are allocated to each account area. The Accounting Officer is also advised to ensure that budget controls are fully adhered to and authority sought for any reallocations.

Other Matter

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

- **Nugatory Expenditure – UGX 93,159,046**

M/s NAADS entered into contractual arrangement with 2 local companies for supply of pineapple processing equipment and milk coolers respectively. The contracts provided that the supplier transports the equipment, deliver and install them at the recipients premises.

It was noted that the pineapple equipment and milk coolers were imported into the country by the suppliers and not delivered to their destinations for installation as agreed but instead were stored at A Plus Associates Ltd (milk coolers) and a bonded warehouse (Pineapple equipment) at a cost of UGX.89,592,000.

Further, management entered into contractual arrangements with 3 service providers with payment terms requiring opening of Letters of Credit. I noted that contrary to the delivery terms, the suppliers payable by LC's failed to deliver on time thus leading to LC renewal charges of UGX.3,567,046 incurred by NAADS. Nugatory expenditure encumbers committed funds leading to non-implementation of budgeted activities and thus inadequate service delivery

Management attributed this to unanticipated circumstances during the implementation such as in the case of milk coolers where there was delay in getting engagement of the relevant technical officers from UNBS to carry out the pre-delivery inspection and further delay was experienced in having the inspection report submitted to the NAADS Secretariat. In the case of the pineapple processing equipment for Kayunga district, management stated that whereas the NAADS Secretariat assessed the beneficiary group and qualified them on the basis of the assessment criteria, by the time of delivery of the equipment the beneficiary had not completed construction of the structure for housing the equipment reportedly due to lack of funds. In the case of LC's, suppliers presented justification that warranted management to extend the letters of credit without reverting to enforcing the performance securities.

I advised the Accounting Officer to ensure proper planning for all import supplies that require supplier installation and third party certification to minimize delays and such unplanned expenditure.

- **Pending court cases and outstanding legal bills**

A review of NAADS litigation profile revealed that the Organisation had fifteen (15) pending cases whose value was in excess of UGX.18 billion pending resolution by court. It is probable that some of the cases arose as a result of failure by management to undertake due diligence before taking decisions and failure to seek legal advice. Further, analysis of the cases revealed that outstanding invoices for legal services stood at UGX.261,500,000 as at end of the financial year.

Pending court cases expose the entity to a risk of diversion of funds in subsequent years and nugatory expenditure in form of interest charges on delayed payments in respect of court awards and legal fees.

Management explained that that Court case outcomes are keenly followed and all obligations during the year of audit were cleared and in order to minimise nugatory expenditure through payment to legal firms, they will with effect from December 2018, seek representation from the Attorney General and only in a few instances utilise private Attorneys where circumstances so warrant.

The Accounting Officer is advised to engage private attorneys only where the circumstances so warrant and under clear engagements, that is, legally binding agreements to avoid future litigation

- **Operation Wealth Creation vehicle status review**

OWC staffs are facilitated by NAADS with vehicles for undertaking planned activities in form of supervision and monitoring. Vehicle fleet management includes many diverse tasks and responsibilities. It requires a dedicated staff to manage vehicle acquisition, maintenance, repairs and disposal, while following all pertinent laws, regulations and policies.

Review of the OWC fleet status as at August, 2018 revealed that out of the total 253 vehicles, 226 were operational representing a fairly well 90% utilisation. However scrutiny of the un-operational vehicles revealed the following;

- One vehicle Ford Ranger (UAR 813Y) was reportedly parked at URA headquarters Nakawa after being impounded on smuggling charges for more than one year and a half. The vehicle has since been disposed of in line with the customs Act.
- Seven vehicles were involved in accidents and some of them were still parked at various police stations while others were in garages pending repairs. Details of the vehicles are as below;

Vehicle No.	Make	Type of accident	Estimated Repair	Location	Remarks
UAR 804Y	Ford	Side impact collision	18,299,800	Garage	pending repair since 2016
UAR 873Y	Nissan	vehicle rollover	-	Migera Police station	Yet to be towed
UAR 723Y	Nissan	vehicle rollover	13,554,880	Garage	pending repair since 2017
UAY 004Z	Tata	Rear end collision	20,448,590	Hoima Police station	pending repair since 2017
UBB 338M	Isuzu	Side impact collision	24,000,000	Garage	Accident in 2018
UAR 880Y	Tata	-	-	Entebbe CPS	Accident in 2018
H4DF 1676	Foton	Side impact collision	-	Garage	Accident in 2018

NAADS is exposed to a risk of nugatory expenditure in form of repair costs, compensations and loss of vehicles due to misuse of vehicles resulting from officer's negligence.

Management explained that they will tow six of the seven vehicles to a central place for assessment by Ministry of Works to guide further action by 31st January 2019 and the Ford Ranger (UAR 813Y) was disposed of by URA. The Foton H4DF1676 has since been repaired.

The Accounting Officer is advised to institute disciplinary action against the Officer who led to auctioning of a NAADS vehicle for smuggling and recover from his salary through the responsible Accounting Officer. For accident vehicles, where no economic value can be gained, board offs be recommended and repairs undertaken on the useful ones.

- **Basis for computation of transport costs**

GCC 25.1 of the Special Conditions of the contracts signed by NAADS and input suppliers provides for transportation to be a responsibility of the provider; and the transportation and related costs to be quoted separately depending on the destination against which a separate contract should be signed between the provider and the PDE.

A review of sample procurements worth UGX.19,897,739,064 revealed that transport costs to the tune of UGX.1,978,744,208 were awarded to providers, with contracts being entered into between the providers and NAADs Secretariat. However, it was noted that transportation costs paid had no basis. There was no market assessment carried out for the determination of the prices that would be acceptable by both parties for the different agricultural inputs supplied to the different locations. I noted that there was no expert advice on transport computations sought from the relevant ministry (MoWT) which could have created a loophole leading to differing charges from various contractors. I could not ascertain the basis for this charge given that management did carry out its own market assessment and document it. My assessment is that computations should have been based on truck capacity, distance covered, tonnage to be transported and runs made for delivery of inputs.

Value for money may not have been achieved as transport prices were determined without a basis against which equity could be ascertained. In one instance transport costs were 70% (UGX.88,084,000) of the total inputs supplied (UGX.124,545,000).

Management noted the anomaly and promised that future contracts will include transportation costs up to the final destination and this will be guided by rates from Ministry of Works and Transport to inform subsequent decisions on transport costs.

I advised the Accounting Officer to ensure that consultations are undertaken with Ministry of Works to determine the appropriate costing of transport for inputs. I intend to review this in depth in my next audit.

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 National Agricultural Advisory Services.

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, 2018, 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 delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the National Agricultural Advisory Services, 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 Secretariat'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 Secretariat'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 Secretariat'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 National Agricultural Advisory Services 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;

- **Sugarcane Production in Northern Uganda**

Government during the financial year came up with an intervention to support out growers of sugar cane in northern Uganda to enable a holding Company operate the prospective sugar factory in Atiak, northern Uganda. Consequently, NAADS undertook three procurements to facilitate the intervention as follows;

- **Cane seed procurement-UGX.4,518,260,220**

NAADS entered into a contract vide reference number NAADS/SUPLS/17-18/00017 to a tune of UGX.4,518,260,220 with the holding company for the supply, transportation, delivery of cane seed to facilitate the implementation of the sugar cane production project in Northern Uganda. Review of the procurement file revealed the following anomalies:

- (i) **Non consideration of the evaluation methodology and criteria**

Section 19 (2) of the PPDA (evaluation) regulations, 2014 requires a detailed evaluation to compare the details of the bid with the criteria in the bidding document. The Bid data sheet (ITB 11 (h)) of the bidding Document issued to the Company required that the bidder states the location of their cane seed multiplication gardens, the varieties available and the respective quantities per variety ready for season one and two,

whether the seed is grown using out growers or self and in case of out growers, to state their acreage per variety, the firm to be certified by Ministry of Agriculture Animal Industry and Fisheries (MAAIF) under exclusive rights and the bidder to state the production capacity for the year 2017,2018, 2019, and 2020.

However, review of the procurement file revealed that contrary to the above, some of these criteria were not followed during the evaluation process. The company did not specify the acreage per variety for the cane seed that was to be obtained from the out growers and neither did it have certification from MAAIF. But the Evaluation Committee went on to evaluate HIHC as technically responsive as the certification from MAAIF was waived. Furthermore the evaluation methodology specified that a post qualification evaluation would be done to determine whether the best evaluated bidder had the capacity and resources to effectively execute the procurement for the PDE; but there was no post qualification evaluation undertaken to ascertain the capacity of the holding Company. Review of the reports by the project manager points to shortage of cane seed. Failure to follow the evaluation criteria as per the bid document leads to award of contracts to incompetent providers that are not technically able to deliver thus affecting the implementation and completion of the project.

Management explained that this is a unique project and was time bound in terms of weather which necessitated expediting the procurement process and commits to improve in future to ensure that the evaluation criteria set in the bid document is adhered to.

I advised the Accounting Officer to ensure that the evaluation criteria set in the bid document is adhered to so as to contract technically capable providers.

(ii) Delayed delivery and Liquidated damages charges

GCC 28 of the special conditions of the contract stipulate that liquidated damages shall apply at 0.5% per week and the maximum amount of liquidated damages to be 10%. Relatedly, GCC 12 of the special conditions of the contract stipulates the date of delivery to be within 107 days after the signing of the contract, spread across the project.

The contract between HIHC and NAADS was entered into on 9th August 2017, and the delivery date should have been 25th November 2017. However, out of the 41,640 tons of cane seed that should have been supplied by the contractor, only 2,023 tons were delivered by 15th July 2018 representing 4.8%. Delays of about eight months were noted and this necessitated deduction of liquidated damages at the maximum of 10% (UGX.451,826,022) on any subsequent payment due to the contractor. Delayed deliveries of the cane sugar delays service delivery which affects the out growers adversely especially where gardens are cleared but not utilised.

Management explained that the delayed deliveries were noted in one lot whose source of seed cane was from Kinyara Sugar Works Ltd and there were challenges in obtaining seed cane from this source because they give first priority to their out growers and only sell the surplus seed cane to outsiders. Furthermore, there is shortage of labour in the project area thus there are delays in planting the seed cane. The contract cannot be cancelled given the above unforeseen challenges encountered during the contract implementation.

I advised the Accounting Officer to consider contract amendment and source for a second supplier to beef up HIHC. Further, management should ensure that in the event of any payment liquidated damages should take a first call.

(iii) Expiry of the Advance payment guarantee

Special conditions of contract (GCC 16.1) provided for 30% advance payment against an advance payment guarantee. Further GCC 17.1 provided for the guarantee to be valid till 30th November 2017.

Review of the executed advance guarantee upon which the contractor was advanced UGX.1,355,478,066 revealed that it expired on 7th January 2018. This guarantee was never renewed by the contractor despite failure to deliver the cane sugar as required. Advance payments made without security expose NAADS to a risk of loss of funds especially in such cases where deliveries are not forthcoming.

Management explained that although the advance payment guarantee was not renewed, management devised alternative means to foster performance and ensured

that cane seed is delivered. To date cane seed delivered is worth more than the advance payment guarantee.

I advised the Accounting Officer to ensure that in future all funds advanced are fully secured at any given time of the contract.

➤ **Bush Clearing, Land preparation, Planting cane, weed management, manual and mechanical weeding, seed cane harvesting and loading- UGX.15,526,487,530**

NAADs engaged the same Holding Company in a another contract referenced NAADS/SUPLS/2017-18/00014 for the procurement of bush clearing, land preparation, planting cane, weed management, manual and mechanical weeding, seed cane harvesting and loading services for a contract sum of UGX.15,526,487,530 on 14th August 2017. Review of the procurement file revealed the following anomalies:

(i) Advance payment security in form of Log books- UGX.4,657,946,259

Section 47 (2) of the PPDA (contracts) regulations provides for payment to a provider before receipt of deliverables specified in the contract, after obtaining an appropriate payment security. Further, section 47 (4) of the same requires that a payment security shall be in a format provided by the Authority which shall be included in the bidding documents and be in a form and from an institution that is acceptable to the Bank of Uganda. GCC 22.3 (ii) and 24.2 (ii) of the special conditions of the contract detailed the payment structure for the above contract and specified 2nd payment to be 30% upon submission of an advance guarantee.

A review of the procurement revealed that on top of the 1st advance payment (UGX.4,657,946,259) that was paid to the holding company for Labour services, an additional UGX.4,657,946,259 was paid out as a 2nd payment. This payment required execution of an advance security in an acceptable form as per regulations, however I noted that the security provided by the company were vehicle log books for equipment as collateral following a change order issued on 20th March 2018. A Memorandum of Understanding (MoU) was entered into between NAADs and the holding company for the transfer of logbooks to NAADs for custody and acceptance of the equipment as advance payment security. Whereas guidance was sought from Solicitor General about whether the equipment could be used as an advance payment guarantee and from

Ministry of Works and Transport (MoWT) as to the forced sale value of the equipment, the transaction was not provided for in the PPDA law.

Change of orders with regard to payment terms exposes NAADS to risks of loss in the event of non-performance by the contractor.

Although management explained that they were compelled to deviate from the commonly acceptable forms of security due to the unique nature of this project and the Solicitor General cleared, I noted that the advice from the SG dated 25th January 2018 indicated that NAADS should obtain bank guarantee.

I advised the Accounting Officer to plan ahead for the unique situations. Further, the contractor should be engaged to avail the rightful bank advance security.

- **NAADS' restructuring and Legal Mandate**

Section 6 (1) of the NAADS Act, 2001 provides for the functions of the Organisation as to contribute to the modernisation of the agricultural sector in order to increase the total factor productivity of both the land and labour for the benefit of farmers. To this end, the organisation was to support the provision of advice and information services to farmers, support technology development and linkages with markets, monitor and ensure the quality, appropriateness and affordability of advisory services, support private sector and farmer institutional development, provide program management and monitoring and ensure that the research and extension needs of farmers are identified and answered by service providers. I also noted that NAADS was restructured by a cabinet decision in 2015 from its legal mandate of providing technical advice and extension services to distribution of inputs.

Review of the restructuring in line with the legal mandate revealed some issues:

- **Change of mandate:-**

There was no bill prepared for Parliament's consideration and approval given the change in mandate.

➤ **Uncertainty on ownership of Assets:-**

Following the change in mandate, it became uncertain as to how the assets of NAADS such as vehicles, motor cycles, cash balances on bank accounts would be handled. There was no specific guidance provided by the Ministry in this respect.

➤ **Coordination among implementing Agencies:-**

It was noted that as a result of the restructuring, no clear legal bond exists between NAADS, MAAIF and OWC. This makes it difficult to resolve issues in case of disputes.

The ambiguity surrounding the legal mandate exposes the secretariat to unnecessary litigation that may be costly.

Management explained that the matter had been presented to MAAIF and the process of drafting a new Bill had commenced and they are following up progress on the draft principles of the Bill to review the NAADS Act 2001.

The Accounting Officer is advised to continue following up on the progress on the draft bill to review the NAADS Act.

• **NAADS' assets held by districts**

Cabinet in June, 2014 under Minute 186 (CT 2014) transferred the function of Agriculture extension from NAADS to MAAIF headquarters. As part of the transition, NAADS was required to avail an inventory of all assets dully accredited by the District Local Governments where such assets were held. Further, it was agreed upon that all assets acquired under NAADS-ATAAS project were to be distributed between zones, NAADS Secretariat and District Production Officers.

A review of the status of these assets revealed that despite NAADS compilation of a full inventory of these assets, they were yet to be officially handed over to MAAIF. It was noted that while 42 districts certified their assets held, seventy one (71) districts were yet to submit by the time of writing this report. Some of the ascertained assets are as below;

S/N	Asset type	Number acquired under GOU	Number acquired under ATAAS
1	Vehicles	76	66
2	Motor-cycles	900	Various
3	Furniture-office desks, filling cabinets, chairs	Various	Various
4	Milk coolers		20
5	Generators		20

I also noted that as at 30th June 2018 NAADS disclosed a receivable of UGX.2,384,883,016. The funds relate to advances to District Local Governments at the time when the Secretariat operations were being implemented at Local Government level. Delayed handover of assets exposes them to risks of loss as some individuals may personalize their utilization without adequate monitoring mechanisms. Further, failure to officially handover assets acquired under ATAAS project for redistribution may lead to sanctions from the donors. Unaccounted for funds imply that the planned activities were never undertaken and cash balances are being eroded by the monthly bank charges.

The Accounting Officer promised to complete the hand over process by January 2019. On the disclosed receivable, the Accounting Officer explained that at the time of restructuring NAADS in FY 2014/2015, Local Governments had cash balances which were to be accounted for or returned to the consolidated fund in the event that they are not accounted for.

The Accounting Officer is advised to draw the above issue to the attention of non-compliant Districts and MAAIF to facilitate the smooth handover. I further advised the accounting Officer to follow up on the unaccounted for funds to the Districts with a view of recovery. The cash balances should be returned to treasury and receipted accordingly.

- **Failure to execute performance security**

Section 12(4) of the PPDA (contracts) regulations, 2014 requires execution of a performance security equivalent to ten percent of the value of a call off order in the case of framework contracts. Further, it was noted that special Conditions to the Contract (GCC 18.1) for all framework contracts executed by NAADS required the Supplier to provide a Performance Security of 10% of the value of the Call off order in the forms of Bank Guarantee/Insurance Guarantees.

Review of the contracts register and call off orders made during the year revealed that procurements to the tune of UGX.233,258,739,576 had no performance securities worth UGX.23,325,873,958 executed in accordance with the regulations. Non-execution of performance security exposes the entity to a risk of under or non-performance by the contractor without any fall-back position thus delaying service delivery and incurring unnecessary costs.

Management explained that they wrote a letter to PPDA and copied to Solicitor General seeking for guidance on this matter and they await feedback from the two bodies.

I await the outcome of this interaction.

- **Recruitment of Civilians under Operation Wealth Creation**

Section 14 (1) and (2) of the NAADS Act, 2001 provides for the Organisation to have such other officers and employees at the secretariat as the Board may with the approval of the Minister determine. Further, it provides for the terms and conditions of service of these employees to be determined by the Board and approved by the Minister. The Standing orders of procedure of operation wealth creation 2015, section 7.0 provided for the command structure of the UPDF officers seconded to MAAIF to remain under the Office of the President and provide the day to day monitoring and implementation of the programme.

Review of NAADS facilitation to OWC during the year revealed the following observations;

- (i) Unclear Authority for the recruitment of civilians**

The OWC monthly payroll revealed addition of civilians to the OWC programme under the UPDF during the year who were paid UGX.1,475,120,000 with varying payment rates ranging from UGX.2,560,000 to UGX.4,560,000 per month. However, I noted that these civilians were not recruited by the Board as provided for in the NAADS Act nor were their terms and conditions set by the Board despite the fact that they are not UPDF officers under the command structure as envisaged in section 7.0 of the standing orders of procedure of operation wealth creation. In the circumstances, I could not verify whether the recruited staffs were qualified for the positions nor ascertain the terms under which they were operating. Further, the authority for determining monthly earnings and the budget provision could not be ascertained.

Management explained that the responsibility for appointment and deployment of Operation Wealth Creation Officers and civilians lies with the Office of the President and NAADS is served with communication on deployments.

I advised the Accounting Officer to seek confirmation of recruitment of such officers from the Office of the President to avoid legal consequences that may arise in the future. The

Accounting Officer is also advised to consider amendments to the standing orders of procedure to provide for recruitment of civilians.

(ii) Non deduction of PAYE from OWC civilian staff

Section 116(1) of the Income Tax Act, 1997 requires every employer to withhold tax from a payment of employment income to an employee as prescribed by the regulations. Best practice and case law provides guidance and indicators when determining whether one is under a contract of service (employed) by reference to Mode of payment, benefits of employment, provision of office space, determination of the work hours and Provision of work equipment. Section 21 (1) (q) of the Income Tax Act states that amounts from the official employment income of a person employed in the Uganda Peoples' Defence force, the Uganda Police or the Uganda Prisons Service, other than a person employed in a civil capacity is exempt from Tax.

A review of the Operation Wealth creation monthly staff allowances revealed that during the year several civilians were incorporated into the programme with varying fixed monthly entitlements ranging from UGX.2,560,000 to UGX.4,560,000. However, contrary to the Income Tax Act, Pay as you earn (PAYE) taxes to the tune of UGX.442,536,000 was not deducted and remitted to URA from payments of UGX.1,475,120,000 earned during the year. These staff's job designations were unclear as many were at OWC headquarters. Non-deduction of payee exposes the entity to a risk of fines and penalties from URA.

Management explained that on commencement of Operation Wealth creation activities, the Office of the President recommended a package of a vehicle, an office and a food ration while on duty. A vehicle was provided per officer and an office at the National/District/Sub-county Government offices. The food ration is therefore provided to officers in form of per diem while in the field supervising the distribution of inputs. Per diem payable to the officers are therefore not PAYE deductible.

I advised the Accounting Officer to ensure that the tax is recovered from the civilians' subsequent payments for onward remittance to URA since the payees have no tax exemption status.



John F.S. Muwanga
AUDITOR GENERAL
17th December, 2018

Appendix 1 – Budget implementation

Vote Function output	Item Description	Planned Output/ Quantity	Actual Output/ Quantity	Amount Budgeted (UGX) (000,000')	Amount Released (UGX) (000,000')	Variance (UGX) (000')	Audit (Unimplemented activities)	Remarks	Management response
015414	provision of agricultural inputs to farmers	<ul style="list-style-type: none"> 59,500,000 tea seedlings 9625000 citrus seedlings 770000 grafted apples 10000000 pineapple suckers 5714286 cocoa seedlings 3580576 pasture seeds and planting pasture demo sites 500 weeding pasture demo sites 500 harvesting pasture demo sites 28 solar water pumping systems 100 tractors 1,000,000 hoes 3508000 kgs of maize 	<ul style="list-style-type: none"> 52,080,000 tea seedlings 7495837 citrus seedlings 550800 grafted apples 3692000 pineapple suckers 3580576 cocoa seedlings 0 pasture seeds and planting pasture demo sites 0 Weeding pasture demo sites 0 Harvesting pasture demo sites 13 solar water pumping systems 0 tractors 0 hoes 1959500 kgs of maize 570000 kgs of beans 	231,553,	231,553	0	<ul style="list-style-type: none"> 7,420,000 tea seedlings 2,129,163 citrus seedlings 219,200 grafted apples 6,308,000 pineapple suckers 2,133,710 cocoa seedlings 5572 pasture seeds and planting- pasture demo sites 500 weeding- pasture demo sites 500 harvesting- pasture demo sites 13 solar water pumping systems 100 tractors 1,000,000 hoes 1,548,500 kgs of maize 2,708,450 kgs of beans 	<ul style="list-style-type: none"> Additional funds were utilised to clear outstanding obligations for the tea seedlings procured in previous FY 2016/17 following guidance from MoFPED to rationalise budget and settle outstanding areas Additional funds were utilised to clear outstanding obligations for the seedlings procured in previous FY 2016/17 following policy guidance from MAAIF to procure more fruit tree seedlings on credit to scale up production and subsequently make payments in the medium term. Supplier had not fully delivered the 	

	<ul style="list-style-type: none"> • 3278450 kgs of beans • 132000 kgs of cow peas • 140000 kgs of Sorghum • 35000 kgs of Gnuts • 210000 bags of cassava cuttings • 1793000 banana suckers • 5266 bags of Irish Potato • 133333 mushroom spones • 1181818 Poultry • 6750 gilts/ boers • 90 Artificial Insemination kits 	<ul style="list-style-type: none"> • 88781 kgs of Cow peas • 11667 kgs of Sorghum • 0 kgs of Gnuts • 118000 bags of cassava cuttings • 534000 banana suckers • 4950 bags of Irish Potato • 0 mushroom spones • 813000 poultry • 6175 gilts/ boers • 4 Artificial Insemination kits 				<ul style="list-style-type: none"> • 43,219 kgs of cow peas • 128,333 kgs of sorghum • 35,000 kgs of Gnuts • 92,000 bags of cassava cuttings • 1,259,000 banana suckers • 316 bags of Irish potatoes • 133,333 mushroom spones • 368,818 poultry (layers, broilers, Kroilers + feeds) • 575 gilts/ Boers • 86 Artificial Insemination kits • 	<p>equipment (solar water pumping) by close of the FY hence full payment could not be effected. Funds reallocated to other areas</p> <ul style="list-style-type: none"> • Procurement process for tractors was still on going by close of FY • Funds (hoes) reallocated to supported strategic interventions on the sugar cane outgrowers scheme in Attiak. • Funds (beans) reallocated to procuremnet of maize seed for food security interventions across the country. • Shortage of quality seed (cow peas, gnuts Sorghum, cassava cuttings, banana suckers, mushrooms) on the market. Funds reallocated to other areas.
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								<ul style="list-style-type: none"> - Supply for Poultry kuroilers not done because the parent stock was still young. Payments for supplies of other inputs rolled to next FY 2018/19 due to delayed supply. - Delivery delayed (gilts/ boers) partly due to standing quarantine in the major sources of livestock in western Uganda. Funds reallocated to other commodity areas. - Distribution of AI kits delayed pending training of AI technicians to utilise the equipment. Funds utilised to procure tags and other diagnostic materials. Reallocations also made to other areas.
0154475	Purchase of Motor vehicle and other transport equipment	<ul style="list-style-type: none"> • Procure 2 station wagons 	-0 station wagons	1,869	1,869	0	<ul style="list-style-type: none"> • 2 station wagons 	<ul style="list-style-type: none"> • Less funds utilised due to price variations in procurement cost estimates & contract value. Funds used to purchase 2 double cabins
154476	Purchase of office and ICT equipment,	<ul style="list-style-type: none"> • 20 desktop computers • 10 laptops 	-15 desktop computers - 3 laptops -0 camera	146	146	0	<ul style="list-style-type: none"> • 5 desktop computers • 7 laptops 	<ul style="list-style-type: none"> • More funds utilised due to price variations in procurement cost

	including software	<ul style="list-style-type: none"> • 8 cameras 					<ul style="list-style-type: none"> • 8 security cameras 	<p>estimates & contract values.</p> <ul style="list-style-type: none"> • funds reallocated to procurement of desktop computers • funds reallocated to procurement of desktop computers
015418	support agricultural value chain development	<ul style="list-style-type: none"> • 29 fruit processing equipment • 35 milling equipment: Maize, rice, cassava, oil and feed mills • 18 milk coolers and generators • 20 community/ household cocoa fermentation structures 	<ul style="list-style-type: none"> • 1 fruit processing equipment • 20 milling equipment: Maize, rice, cassava, oil and feed mills • 0 milk coolers and generators • 0 community/ household cocoa fermentation structures 	13,037	13,037	0	<ul style="list-style-type: none"> • 28 fruit processing equipment • 15 milling equipment • 18 milk coolers and generators • 20 community/ household cocoa fermentation structures 	<ul style="list-style-type: none"> • Delayed procurement process (fruit processing). Funds reallocated to support other areas. • Funds (milling equipment) reallocated to support other areas • Delayed procurement process (milk coolers) • Funds reallocated to support milkcoolers

APPENDIX 2

FINANCIAL STATEMENTS