



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
THE SECOND TRADE CAPACITY ENHANCEMENT PROJECT (TRACE II)  
FOR THE 5 MONTHS PERIOD ENDED 31<sup>ST</sup> MAY 2017**

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

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## LIST OF ACRONYMS

<b>GOU</b>	Government of Uganda
<b>TRACE</b>	Trade Capacity Enhancement 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
<b>AfT</b>	Aid for Trade
<b>DCO</b>	District Commercial Officer
<b>DTIS</b>	Diagnostic Trade Integration Study
<b>EITF</b>	Enhanced Integrated Framework Trust Fund
<b>FGDs</b>	Focus Group Discussions
<b>ASSP</b>	Agricultural Sector Strategic Plan
<b>MDAs</b>	Ministries, Departments and Agencies

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SECOND TRADE CAPACITY ENHANCEMENT PROJECT  
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 Second Trade Capacity Enhancement Project for the 5 months period ended 31<sup>st</sup> May 2017. The financial statements set out on pages 1 to 9 comprise of;

- Statement of receipts and payments
- Statement of Detailed expenditure
- Statement of Accounts
- 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 financial performance of the Second Trade Capacity Enhancement 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 described under note 1.3 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 matters other than those presented or disclosed in the financial statements:

- **Inadequate utilization of the consultancy reports - UGX.123,166,490**

The project management spent UGX.123,166,490 on consultancy services to develop a framework to guide Uganda's engagement with third parties in investment negotiations, development of crafts and souvenir sector in Uganda, and carry out analysis of exports and export destinations of women exporters in Uganda.

Despite the availability of the consultancy reports, the recommendations contained in the report, have not been fully implemented.

Because of failure to use the consultancy report there is a risk that the funds spent on consultancy may not have achieved the intended objectives.

Management takes note of the Auditor General's concern. The handicrafts and souvenir study has been used to develop a handicrafts and souvenir project proposal in partnership with Ministry of Tourism, Wildlife and Antiquities. We are at the stage of developing the budget for the proposed project. The project activities are geared towards promoting and increasing Uganda's handicrafts and souvenir exports not only to the regional markets but also to the international markets.

The framework to guide Uganda's engagement with 3<sup>rd</sup> parties in investment negotiations has not been used by the External Trade Development to review and develop new trade and investment treaties. In addition, the Ministry is currently reviewing the Trade Policy and one of the requirements is that the policy must be gender inclusive. The Ministry is making use of the study on the nature of exports and export destinations of women exporters in Uganda to incorporate gender issues.

Considering that the project has closed, I advised the Accounting Officer to ensure that the contents of the report are used to achieve the objective for which the funds were spent.

### **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 Second Trade Capacity Enhancement 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, EIF Fund guidelines and the basis of accounting described in note 1.3 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 Second Trade Capacity Enhancement Project, and using the EIF 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 Second Trade Capacity Enhancement 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 and funding requirements 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 AUDIT OF COMPLIANCE WITH LEGISLATION AND FUNDING**

### **AGREEMENTS**

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

- **Delayed implementation of the Project**

According to the Project implementation plan, the project was implemented in 7 years instead of the original period of 5 years. The project management requested for a no cost extension which was provide by the donors.

Further, according to the Enhanced Integrated Framework Fund Trust (the donor) report dated June 2017, the project had achieved almost 100% of the planned activities as indicated in **appendix 1**.

A review of the expenditure for the period has however revealed the following:

- **Lack of inspection reports for motor vehicle repairs – UGX.17,508,676**

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 2017 to May 2017 the project spent UGX.17,508,676 on repairs and service of Motor vehicle No. UAJ 548Z.

It was observed that there were no pre and post repair inspection reports as evidence that the vehicle repairs were undertaken. Details in the table below;

<b>Doc. No.</b>	<b>Payee</b>	<b>Description, Opening Balance</b>	<b>Amount (UGX)</b>
TL/08/MAR17	Wamuco Motors(U) Ltd	Maintenance of UAJ 566Z	1,473,920
TL/19/JAN17	Toyota Uganda Limited	Repair of MV UAJ566Z	2,025,600
TL/18/JAN17	Toyota Uganda Limited	Repair of MV UAJ 548Z	2,118,600
TL/14/JAN17	Toyota Uganda Limited	Repair of MV UAJ 566Z	2,500,700
TL/17/MAR17	Wamuco Motors(U) Ltd	Service and repair of motor vehicle UAJ 548Z	2,830,428
TL/05/MAY17	Wamuco Motors (U) Ltd	Repair of MV UAJ 548Z	3,056,068
TL/03/MAR17	Wamuco Motors(U) Ltd	Repair of MV UAJ548Z	3,503,360
	<b>Total</b>		<b>17,508,676</b>

In the absence of inspection reports, the expenditure remains doubtful.

Management notes the Auditor General's concern. The technical officer carried out the inspections but did not file reports. He has however, been directed to ensure that the reports are filed and made available for review.

Pre and post repair inspection reports were not availed for verification.

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



John F.S. Muwanga

**AUDITOR GENERAL**

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

## Appendix 1

### Delayed implementation of the Project

<b>Narrative Summary</b>	<b>Key Performance Indicators</b>	<b>Status as at 30<sup>th</sup> May 2017</b>	<b>% achievement</b>	<b>Management Response</b>
<b>Output 1:</b> Sufficient institution capacity built to formulate and implement trade related strategies and implementation plans.	The project maintained a secretariat to facilitate the implementation of the TRACE project. The project management committee through the NIU supervised the implementation of the project by holding regular quarterly meetings to receive project implementation reports, work plans and budgets.	The Ministry appointed 4 of its staff to complete the project implemented activities	100	All activities were implemented by the end of the project. A final evaluation report provides details on the implementation of project activities.
<b>Output 2:</b> Trade mainstreamed into the NDP, other plans and strategies of the Government and in developing Partners' program	The project supported by DTIS updated mainstreaming of trade in the National Development Plan (NDP) I and II and the development of the Sector Development Plan 2015/16 – 2020/21. Trade sector is now placed as an enabler of the primary growth sectors in the NDP giving it more leverage.	A Sector Working Group (SWG) was established to facilitate effective coordination within the sector and with a range of external stakeholders.	95	Apart from strengthening SWG, all activities were implemented. The sustainability and Exit Phase that commenced December 2018 will further strengthen the SWG.
<b>Output 3:</b> Coordinated delivery of AFT	The project designated an officer to develop a matrix with a view of having it regularly updated.	Developed a matrix with a view of having it regularly updated.	100	A database on Aid For Trade was developed with the assistance of MFPED – Aid Coordination Office. It is available for viewing.
<b>Output 4:</b> Implementing DTIS Action Matrix Priorities	The project is currently assessing the implementation of the DTIS action matrix and the addendum		100	A template of DTIS action and the addendum implementation was developed.