



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**UGANDA EMBASSY IN ADDIS ABABA, ETHIOPIA**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

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## **LIST OF ACRONYMS**

<b>Acronym</b>	<b>Meaning</b>
<b>GOU</b>	Government of Uganda
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>PFMR</b>	Public Finance Management Regulations
<b>ISSA</b>	International Standards on Auditing
<b>MOFA</b>	Ministry of Foreign Affairs
<b>MOPS</b>	Ministry of Public Service
<b>MTEF</b>	Medium Term expenditure framework
<b>STI</b>	Science and Technology in Society
<b>ODA</b>	Official Development Assistance
<b>GOJ</b>	Government of Japan
<b>PFMA</b>	Public Finance Management Act, 2015
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>HQR</b>	Headquarter
<b>PSSO</b>	Public Service Standing Orders
<b>F/Y</b>	Financial Year

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Qualified Opinion**

I have audited the accompanying financial statements of the Uganda Embassy in Addis Ababa for the year ended 30<sup>th</sup> June 2018. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements of the Uganda Embassy in Addis Ababa for the year ended 30<sup>th</sup> June 2018, are prepared, in all material respects, in accordance with Section 51 of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2008

**Basis for Qualified Opinion**

- **Mischarges of expenditure**

Expenditure totalling to UGX.556,705,700 budgeted for capital development representing 17% of the total expenditure was inappropriately charged on budget lines to fund activities that were not planned for without authority. This is contrary to the Parliament of Uganda intention which appropriates funds in accordance with the needs of the country and this appropriation is implemented through the budget in which funds are tagged to particular activities and outputs using account codes and MTEF codes. 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

Management explained that the main cause of mischarges is the nature of the Permanent Mission's unique activities costed against a static ceiling over time. They further explained

that the rest of the mischarges were mandatory expenditures related with staff entitlements in accordance to the standing orders, but without a budget. The Mission has always requested for supplementary budget to cater for these mandatory expenditures but no response is given from HQs

I advised the Accounting Officer to adhere to expenditure allocations and seek for authority should the need to reallocate resources arise.

- **Excess Expenditure**

Regulation 18(2) and (3) of PFMR 2016 provides that the Accounting Officer shall not spend beyond the appropriated amounts without the Ministers approval where supplementary does not exceed 3% or parliamentary approval.

A review of the Embassy financial statements revealed that the embassy spent UGX.913,346,776 beyond its budget appropriations on employee costs and goods and services without appropriate authority as per details in table below;

<b>Details</b>	<b>Revised approved expenditure</b>	<b>Actual expenditure</b>	<b>Variance</b>
NTR	0	588,102,844	(588,102,844)
Transfers received from Treasury	2,341,001,990	2,314,001,990	27,199,998
<b>Total receipts</b>	<b>2,341,001,990</b>	<b>2,902,104,834</b>	<b>(560,902,846)</b>
<b>Expenditure by nature</b>			
Employee costs	1,298,780,452	1,970,198,503	(671,418,051)
Goods and services	1,015,221,536	1,257,150,261	(241,928,725)
Consumption of property plant and equipment	27,200,000	0	27,200,000
<b>Total expenditure</b>	<b>2,341,201,988</b>	<b>3,227,348,764</b>	<b>(886,146,778)</b>

Failure to spend according to appropriations undermines the importance of the budgeting process as well as the intentions of the appropriating authority.

Management explained that the main cause of excess expenditure as reported several times is the nature of the Permanent Mission's unique activities costed against a static ceiling over time. They stated that they had justification for an enhanced budget given the fact that the Mission had shortfalls on all budget lines except Foreign Service Allowance.

I advised the Accounting Officer to adhere to expenditure allocations and seek for authority to reallocate resources should the need arise.

- **Unaccounted for Cash at hand**

Because of the Ethiopian Government policy that restricts institutions from opening local accounts in the commercial banks, all cash collected was not banked but was held as cash in the embassy safe.

Details	Balance as at 30 <sup>th</sup> June 2017		Balance as at 30 <sup>th</sup> June 2018	
	BIRR	UGX	BIRR.	UGX.
Cash at hand	901,923.14	140,140,817	1,867,142.40	264,531,134

According to the Board of Survey report for the period ending 30<sup>th</sup> June 2018, UGX.264,531,134 was disclosed as funds held as cash. However, this balance was not recognised in the mission financial statements at the year end.

Additionally, the Board of Survey report indicated that a sum of UGX.140,140,817 was held as cash at the beginning of the year. However, the handover report dated 31<sup>st</sup> July 2017 indicated that only USD.200 and BIRR.76,594 (equivalent to UGX.723,176 and UGX.11,901,175 respectively) was handed over to the incoming Accounting Officer. The balance was not reconciled and therefore remains unaccounted for. There is a risk that the funds could have been lost.

Management explained that at the time of the board of survey, the Accounting Officer was out of the station for African Union summit and was not able to make the cash reconciliation. Since the year ended, cash balance and the handed over amount didn't match and it was not possible for the committee to reflect the cash balance on the Board of Survey report.

I advised the Accounting Officer to ensure that the funds are reconciled and have them appropriately recorded in the relevant financial reports.

### **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 Commission 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:

- **Use of NTR/unspent funds at source**

In accordance with the requirement of Section 30(1) of the Public Finance Management Act 2015, all revenues or other money raised or received for the purpose of Government, shall be paid into and shall form part of the Consolidated Fund. Section 17(2) also requires that a vote that does not expend money that was appropriated to the vote for the financial year shall at the close of the financial year repay the money to the Consolidated Fund.

The Embassy collects visa fees from visa applicants by the Visa clerk which collections are then deposited with the Accounting Officer and the funds kept in the embassy safe. The applications are processed/ approved by the Councilor Officer before visas are either issued

or denied. Examination of this process confirmed that during the year under review, a majority of funds were spent at source. It was observed that the embassy collected NTR totaling UGX.565,329,591 during the period under review however at the time of inspection, a sum of UGX.427,571,837 that had not been spent at the close of the year had not been remitted to the consolidated Fund as detailed below;

**Table showing funds retained and spent at source**

<b>Details</b>	<b>Amount in BIRR</b>	<b>Amount in UGX</b>
<b>Balance on expenditure account</b>	51,008.61	7,226,747
<b>NTR-Migration permits</b>	3,931,615.35	549,473,016
<b>Miscellaneous receipts/income-40% of EATV</b>	63,400.00	8,629,828
<b>Total balance due to the consolidated account</b>	<b>4,046,023.96</b>	<b>565,329,591</b>
<b>Total transferred</b>	972,336.79	***137,757,759
<b>Balance not transferred</b>	<b>3,073,687.17</b>	<b>427,571,837</b>

\*\*\*UGX.137,757,759 is included in UGX.280,883,514 that was transferred in 2016/2017

Failure to transfer the unspent funds violated the provisions of the PFMA and may result into utilization of unappropriated funds.

Management explained that apart from the East African Tourist Visa Fees, all NTR collection is made in local currency and the banking policy of Ethiopia doesn't allow Ethiopians in Ethiopia to be in possession of foreign currency unless they are from the diaspora. They stated that accordingly, the Mission can't ask for visa fees in foreign currency and the banking policy doesn't provide for purchase of foreign currency in the country thus the only option was to use the NTR paid for in Ethiopian Birr, and remit the equivalent USD from the release received. The mission tried to remit what it could from the expenditure account. However, the Mission effective from July, 2018 got authorization from Ministry of Finance to open a separate account for deposits of visa collections in private banks and by doing this, visa applicants will deposit visa fees to the bank account and get their visa upon presentation of a bank slip. Likewise the Mission continues to remit the equivalent dollar amount from its expenditure account.

The Accounting Officer's action on the way forward is awaited. The Accounting Officer is also advised to always transfer the unspent funds or its equivalent to the Consolidated Fund in line with PFMA.

- **Inspection of Government allocated land at Lebu**

As explained in the 2016/2017 final management letter, in 2005 Government of the Federal Democratic Republic of Ethiopia allocated a piece of land measuring approximately 2 acres to the Embassy of the Republic of Uganda in Ethiopia and Government was to pay USD.230,408.51 in return for the offer. The land was for purposes of constructing the Chancery offices with a view of minimizing the high rental fees.

During the financial years 2014/2015 and 2015/2016, MOFPED released USD.266,073 to the embassy to procure the land to pave way for the development of either a Chancery or residence or both. However, I observed that GOU delayed to fulfill the conditions of the offer resulting in part of this land being re-allocated to a private developer thus affecting the Embassy's construction plan. Interviews held with the Embassy staff revealed that the remaining land may not be enough for the intended development. The Embassy came up with the decision to spend/reallocate all the funds to cater for urgent expenses such as education allowance, climatic allowance, carriage of councilors goods/shipment of goods back to Kampala, posting allowance, cash withdrawal (USD.4,500), rent, furniture, renovation of official residence, painting of chancery, partitioning of chancery, network installation and furniture. **Details of the brake down of expenditure are as below.**

<b>S/n</b>	<b>Items spent on</b>	<b>Amount spent</b>
1	Education allowance	22,000.00
2	Climatic allowance	2,100.00
3	Carriage of councillors goods/shipment of goods back to Kampala,	21,078.22
4	Posting allowance	21,495.37
5	Cash withdrawal (USD.4,500),	7,500.00
6	Rent	40,137.49
7	Furniture	14,883.20
8	Renovation of official residence,	3,869.97
9	Painting of chancery	2,429.95
10	Partitioning of Chancery	7,739.94
11	Network installation	2,976.20
12	Transportation and fixing of generator and safes	1,269.57
13	Carpet for Chancery	2,982.00
	<b>Total amount spent</b>	<b>150,461.91</b>

There is a risk that the land offered to Government may be lost. I also observed that cash withdrawal amounting to USD.7,500 may have been misused.

Management explained that the Cash withdrawal made by the former Accounting Officer was referred as petty cash fund and since the cash handover amount to the incoming accounting officer did not match with that of the balance of the financial statement, these cash withdrawals were treated as personal advance.

I advised the Accounting Officer to ensure that USD.7,500 is accounted for, failure of which the funds are recoverable. The Accounting Officer should also follow up on the land and ensure that the land allocated is not lost.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of the Accounting Officer for the Financial Statements**

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the Uganda Embassy in Addis Ababa.

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 Mission's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda Embassy in Addis Ababa, 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 Mission'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 Mission'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 Mission'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 Uganda Embassy in Addis Ababa 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:

- **Irregular Medical Refunds**

Section (M - e) Paragraphs 9 of the Public Service Standing Orders 2010 requires a Foreign Service Officer, while serving in a mission abroad, to be covered by full medical insurance. This should cover both in-patient and out-patient treatment. Medical insurance should also be provided for the spouse and up to four children.

During the period under review, a sum of UGX.26,761,394 was re-reimbursed to the Embassy Home based staff for medical expenses. I found this against the PSSO. The Auditor General has over the past years queried refunds to Home based staff and their families and this action rendered these payments irregular.

Management explained that there is no Government Medical insurance policy for foreigners in Ethiopia and in that respect, the only alternative is to make controls.

I advised the Accounting Officer to consult the MOFA and MOPS to either have a waiver or alternatives improvised.

- **Irregular payment of Education Allowance**

Section (E - e) Paragraphs 19 and 20 of the Public Service Standing Orders 2010 provides that the Education allowance will be payable direct to the school and reimbursement from the officer for his or her personal share will be made at source. In addition, the Head of Mission should certify the correctness of the application details.

Contrary to the above, the embassy paid UGX.58,868,865 in respect of educational allowances direct to its officials instead of their respective educational institutions or schools as indicated in the table below. Also, no birth certificates were attached to confirm date of birth and parenthood.

**Table showing allowances paid to staff**

<b>Posting Date</b>	<b>Document No.</b>	<b>USD</b>	<b>Description</b>	<b>UGX</b>	<b>ITEM CHARGED</b>
7/3/2017	TT-1396	8,000.00	EDUC Allowances 4 children	29,351,195	211103
7/3/2017	TT-1397	4,000.00	EDUC Allowances 2 children	14,675,598	211103
7/3/2017	TT-1398	4,000.00	EDUC Allowances 2 children	14,675,598	211103
1/5/2018	TT-1576	6,000.00	EDUC Allowances 3 children	166,474.80	211103
			<b>TOTAL</b>	<b>58,868,865.8</b>	

The practice amounts to a violation of the Public Service Standing Orders and could lead to misuse of the Embassy's funds.

Management explained that the anomaly was a historical practice and a circular had been issued to all beneficiaries of Education Allowances in line with the Standing Orders.

I advised the Accounting Officer to verify all application details of beneficiaries before advancing the funds to the education facilities. Meanwhile the results of circular are waited.

- **Expiry of contract of FSO**

According to a letter Ref: CP 37360 dated 3<sup>rd</sup> August, 2015 one of the home based staff working as Foreign Service Officer G.1/Ambassador was offered appointment on a contract basis effective 1<sup>st</sup> April 2015 for a period of 3 years.

I noted that at the time of writing this report, the officers' contract had expired and yet he was still performing his duties normally. All allowances paid to him in form of monthly FSA, out of pocket, rent and others related to travel inland and abroad are irregular.

I advised the Accounting Officer to ensure that the officers' contract is regularized in line with the PSSO otherwise all expenditure to him is considered irregular.

- **Irregular cash payments to service providers**

Paragraph 10.5.1 of Treasury Accounting Instruction, 2017 requires all Government payments to be processed through the GFMIS by electronic funds transfer to the beneficiary bank accounts.

However, a review of payments by the Embassy showed that, cash payments totalling UGX.443,018,372 were made and advanced to individuals instead of service providers contrary to the TAIs. Although the funds were accounted for, cash payments are prone to misuse and abuse and need to be minimised.

Management explained that effective 1st July,2018 all payments are made by Cheque through banks.

I advised the Accounting Officer to always make payments electronically or by use of crossed Cheque.

- **Procurement irregularities**

A review of the Embassy procurement activities revealed a number of irregularities as outlined below:

- **Appointment of the Contracts Committee Members**

Regulation 9 (1) and (2) of the PPDA (PDEs) Regulations, 2014 requires the Accounting officer to appoint a member of the Contracts Committee of the Procuring and Disposing Entity (PDE) and seek approval by the Secretary to the Treasury.

I noted that although there was evidence that the contract committee was nominated and appointed, there was no evidence that there was an approval of the appointed

members of the Contracts Committee as required by the law. There is a risk that all procurements made lacked proper authority.

Management explained that the Contracts Committee was appointed following approval by the Ministry of Finance, Planning and Economic Development. They stated that two Members of the Committee have returned to Headquarters in Kampala, and a new request for approval of new nominees has been submitted. The new Members exclude foreigners.

I advised the Accounting officer to follow up the matter and ensure that nominees are approved.

➤ **Composition of the Contracts Committee**

The Statutory Instrument 2014 No.12 of the Public Procurement and Disposal of Public Assets regulations Part II (4) requires that the contracts committee and the procurement and disposal unit of a procuring and disposing entity outside Uganda shall be made up of Ugandan nationals within the procuring and disposing entity.

I noted that the embassy contracts committee constituted of 1 Ugandan national and 2 non Ugandan nationals contrary to provisions of the PPDA. The practice is a violation of the Public Procurement and Disposal of Public Assets regulations.

Management explained that the Contracts Committee was appointed following approval by the Ministry of Finance, Planning and Economic Development. Two Members of the Committee have returned to Headquarters in Kampala, and a new request for approval of new nominees has been submitted. The new Members exclude foreigners.

I advised the Accounting Officer to constitute a contracts committee in line with the law.

➤ **Functioning of the Contracts Committee**

Regulation 3 (3) of the PPDA (Evaluation) Regulations, 2014 prohibits a member of the Contracts Committee from being a member of the Evaluation Committee.

I however noted that the Contracts Committee in place was at the same time performing the functions of the Evaluation Committee. There is a risk of conflict of interest. It is also possible that the procurement decisions made could have exposed the entity to the risk of procuring at inflated prices.

I advised the Accounting Officer to follow up the matter with the relevant authority and ensure that the Evaluation committee is approved with a view of streamlining the functions of Evaluation and Contracts Committee to avoid conflict of interest occurrences in the future.



John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

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