



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA EMBASSY IN TOKYO, JAPAN
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

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

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA EMBASSY IN TOKYO, JAPAN
FOR THE YEAR ENDED 30TH JUNE, 2018

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 Tokyo 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, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements of the Uganda Embassy in Tokyo 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, 2008

Basis for Qualified Opinion

- **Mischarges of expenditure**

Expenditure totalling to UGX.507,832,344 representing 10.6% 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 current Accounting Officer executed a budget that had already been approved and the current budget 2018/19 was prepared in accordance with

the budget process guidelines and where necessary prior reallocations permission will be sought before charging expenditure codes that may have funds to avoid mischarging.

I advised the Accounting Officer to streamline the budget process to ensure that sufficient funds are allocated to each account and budget controls are fully adhered to such as seeking authority for any reallocations.

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 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 Tokyo.

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 Tokyo, 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 Tokyo 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:

- **Payment of rent for the properties the mission is occupying**

Section (H - e) Paragraphs 5 of the Public Service Standing Orders (PSSO) 2010 requires that Government shall provide housing for Foreign Service Officers while on posting abroad.

Paragraph 4 requires the Head of Mission to assign, in writing, an officer who shall be responsible for the official residence.

I noted that a sum of UGX.1,528,639,809 was paid as rent for the properties the mission is occupying during the period under review. Included in the total rent is UGX.400,253,552 paid on behalf of 2 Foreign Service Officers whose contracts had not been committed by Government but by the individuals themselves. The practice amounts to a violation of the PSSO and could lead to loss of government funds.

The Accounting Officer explained that the two lease contracts were signed by the individual Foreign Service Officers and admitted that the peculiar circumstances that brought about this development could have been mitigated against by being properly documented by the Contracts Committee which was not the case. The Accounting Officer stated that the omission (not engaging the statutory committee) was brought to the attention of the two officials in a Finance Committee and consequently a letter addressed to the Permanent Secretary of the Ministry of Foreign Affairs explaining the unique circumstances and the Mission promised to in future comply with the Public Standing Orders.

I advised the Accounting Officer to ensure that in future, Public Service Standing Orders are fully complied with.

- **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 contracts committee was nominated and appointed by the Accounting Officer, there was no evidence that the committee

was approved by the Secretary to the Treasury as required by the law. There is a risk that all procurements made lacked proper authority.

Management explained that a letter addressed to the relevant authority i.e the Permanent Secretary/Secretary, ref UET/19/1 dated 19th September 2018 seeking approval of the nominees was sent but a reply is still awaited.

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. The practice is a violation of the Public Procurement and Disposal of Public Assets regulations.

Management explained that the Mission's approved structure is 1+3, two of whom are barred by the same law and cannot serve on the statutory committee in question. Management stated that engagement of locally recruited staff is therefore an improvisation to create a quorum for a functioning Contracts Committee.

I advised the Accounting Officer to bring this matter to the attention of the appointing authority for a waiver.

➤ **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 during evaluation as the committee performs its functions. It is also possible that the procurement decisions made could have exposed the entity to the risk of procuring items at inflated prices.

Management explained that they did not have an Evaluation Committee in place and a letter communicating the nomination of an Evaluation Committee had been sent to the relevant authority seeking approval of its membership.

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.

- **Irregular payment of Education Allowance**

Section (E - e) Paragraphs 19 and 20 of the Public Service Standing Orders 2010 state 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.49,155,000 in respect of educational allowances direct to its officials instead of their respective educational institutions or schools as guided by the PSSO. Also, no birth certificates were attached to confirm date of birth and parenthood.

Table showing payments of education allowance

| Posting Date | Document No. | Description | JPY | UGX |
|--------------|--------------|--------------------------------|---------|------------|
| 29/01/18 | PV-3446 | Education allowance 3 children | 900,000 | 29,493,000 |
| 29/01/18 | PV-3447 | Education allowance 2 children | 600,000 | 19,662,000 |
| | | | | 49,155,000 |

This practice amounts to a violation of the Public Service Standing Orders and may lead to loss of funds in case officers don't remit the funds intact.

Management explained that qualified beneficiary children of officers are outside Japan in Canada and Uganda respectively and it would not be cost effective to make remittances which may not adequately cover the school fees hence the decision to directly facilitate the officers.

I advised the Accounting Officer to seek administrative advice from the PS MOFA on the challenges experienced and way forward. This will provide a basis for justification with MOPS.

- **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, review of payments by the Embassy showed that, cash payments totalling UGX.32,559,739 were made and advanced to individuals instead of service providers contrary to the TAIs. Although the funds were properly accounted for, cash payments are prone to misuse and abuse.

Management explained that they will ensure that payments are be made electronically. They stated that safari day allowances (SDA) and per diem were obtained from imprest whenever available and paid to the Officers in cash and other providers enumerated were notified to send their bank details for future payments. The Mission is also looking towards to availing the online facility of the bank to ensure that cash payments are minimized.

I await Management action on the matter.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

24th December, 2018

