



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**ALBERTINE REGION SUSTAINABILITY DEVELOPMENT PROJECT (ARSDP)**  
**MINISTRY OF EDUCATION AND SPORTS (MOES)**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

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## **LIST OF ACRONYMS**

<b>GOU</b>	Government of Uganda
<b>F/Y</b>	Financial Year
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>ISA</b>	International Standards on Auditing
<b>ISSAIs</b>	International Standards for Supreme Audit Institutions
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>MOES</b>	Ministry of Education and Sports
<b>UTC</b>	Uganda Technical College
<b>NAA</b>	National Audit Act, 2008
<b>PFMA</b>	Public Finance Management Act, 2015
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>ARSDP</b>	Albertine Region Sustainability Development Project

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MINISTRY OF EDUCATION AND SPORTS (MOES)  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

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

**Qualified Opinion**

I have audited the accompanying financial statements of the Albertine Region Sustainability Development Project under Ministry of Education and Sports (ARSDP-MOES) for the year ended 30<sup>th</sup> June 2018. These financial statements comprise of the statement of financial position, Cash flow, Special accounts statement, and other accompanying statements, notes and accounting policies, .

In my opinion, except for the possible effect of the matter described in the basis of Qualified Opinion section of my report, the financial statements present fairly in all material respect the financial position of the Albertine Region Sustainability Development project under Ministry of Education and Sports as at 30<sup>th</sup> June 2018 and of its receipts and expenditure for the year then ended, in accordance with the basis of accounting set out in note 2.0 to the financial statements and in conformity with donor reporting guidelines and terms and conditions.

**Basis of Qualified Opinion**

• **Un-vouched Expenditure**

I noted that UGX.1,876,679,037 debited in the bank statements and indicated as paid in the cash book lacked payment vouchers and UGX.1,330,977,514 of the amount above lacked supporting documents.

In the absence of supporting documents, I could not confirm that the funds were authorized and utilized for the intended purposes.

The Accounting Officer explained that although some project payments were filed without payment vouchers, the rest of the supporting documents were verified and approved as per the established Ministry policies and procedures.

However, supporting documents were not provided for audit verification. I advised the Accounting Officer to strengthen controls over safe and organized custody of accounting records.

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement's section of my report. I am independent of the project in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Key Audit Matters**

- **Budget Implementation and performance**

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.

- **Absorption of Project Funds**

A review of the loan disbursement schedules revealed that a sum of only USD.3,423,530 (14%) out of USD.25,000,000 had been disbursed despite having completed 80% project life duration. Audit further noted that only USD.1,207,762 (35%) out of the total grants received by the Ministry had been absorbed.

This will lead to the government incurring excessive commitment charges and may lead to hurried implementation of the remaining activities leading to poor quality works.

The Accounting Officer explained that the delays were due to challenges faced by procurement of twinning institutions and yet twinning institutions defines the curriculum that informs Equipment specifications and designs for Civil Works. Therefore procurement could not commence.

I advised the accounting officer to streamline its planning and procurement processes so as to reduce the inefficiencies which are affecting the project implementation

**Other Matter**

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

- **Delayed Implementation of the Project**

Review of the project Financing Agreement indicated that the project was approved on 26<sup>th</sup> March 2014 with the expected effective date of 1st July 2014. However, the actual effective date was 7<sup>th</sup> December 2015. It was further noted that the Financing Agreement between the World Bank and the Government of Uganda was signed on 24<sup>th</sup> August 2015, a period of thirteen months from the expected effective date.

Due to the above delays procurement of key project consultancies namely; (i) international accreditation, curriculum adaptation and training, (ii) Preparation of designs for and supervision of refurbishment of UPIK-Kigumba, and UTC-Kichwamba (iii) Management Agency for administration of the Bursary scheme (iv) Institutional and Human Resource Development Plan for Nwoya Institute, which were supposed to be completed by the financial year 2016/2017 by the current financial year-end were just being concluded.

Management attributed the low absorption of project funds to the following: -

- Lack of synchronisation of timing for approval between World Bank and the Government of Uganda. World Bank board approved the loan on 26 March 2014; while the financing agreement was only signed on 24th August 2015 (15 months lag). Effectiveness was declared on 7th December 2015 (4 months). Hence losing 19 months out of the project life of 5 years.
- Difficulties in securing Twinning Institutions. Project design and the financing agreement required that the Institutions to Twin with the proposed Centres of Excellence should be those that are nationally and internationally accredited. These Institutions, when procured, are expected to undertake Curriculum review and adaptation develop workshop and equipment specifications, advise engineering firms on workshops designs and train faculties.

I advised the Accounting Officer to develop strategies to expedite project implementation to avoid project extension and its related costs.

- **Staffing gap in the Project coordinating unit;**

I noted that ARSDP Project was being managed by the same technical team that was managing Uganda Skills Development Project. In addition to this, the different specialists namely; Monitoring & Evaluation, Finance, Civil Engineer & Quantity Surveyor and Communication were all managed by one officer. Consequently, the said officers work for long hours and even on weekends including public holidays in order to try to meet the timelines.

This has affected the adequate implementation of the two projects as evidenced by delays of preparations and submission of the required performance and financial reports.

The accounting Officer acknowledged the audit recommendation and explained that recruitment process is ongoing.

I advised the Accounting officer to liaise with the relevant authorities to have more staff recruited.

- **Variance between Procurements estimates and contract prices**

Review of the procurement files revealed that during the year the project awarded contracts worth USD.5,777,534 for the procurements initially budgeted to cost USD.4,600,000 resulting into a variance of USD.1,177,534.00.

Consequently the project instead opted to reduce the scope of requirements to fit within the budget or in other cases sourced for more funds without re-assessing the market hence affecting the achievement of the overall project objectives.

Management explained that it is inevitable to have out comes with variances especially for specialized and non-commonly used services whose prices are controlled and at times affected by inflation as a result of time lag between the time of market survey and confirmation of bids. The project takes the issue of market assessment seriously and will continue to ensure compliance.

I advised the Accounting Officer to ensure that proper market analysis is always undertaken to guide user departments in arriving at realistic budgets.

### **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 Albertine Region Sustainability Development Project under the Ministry of Education and Sports (ARSDP-MOES).

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 project's ability to continue delivering its mandate, disclosing, as applicable, matters affecting the delivery of the mandate of the Albertine Region Sustainability Development project under MOES, 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 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 my 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 Albertine Region Sustainability Development Project under MOES 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 matter are as follows;

- **Procurement for consultancy for international twinning of Uganda Petroleum Institute at Kigumba (UPIK)**

Ministry of Education and Sports under Albertine Region Sustainable Development Project entered into a contract with M/s IFP Training in association with SFERE and MAMZA consulting at for Consultancy services for an international twinning institution to conduct international accreditation, curriculum adaptation and training facilities for Uganda Petroleum Institute at Kigumba (UPIK) in petroleum related trades at a total contract price of EUR.2,492,520.

Review of the Technical evaluation report revealed that quality based selection (QBS) method was used for evaluation of the technical responsiveness of the bidders. Two bidders were evaluated namely M/s IFP Training in association with SFERE and MAMZA consulting and Northern Albert Institute of Technology (NAIT) in association with AH consulting. The firms scored 74% and 84% respectively from the technical evaluation.

The financial proposal for NAIT was opened on 28th February 2017 with a quotation of CAD\$.15,473,000 which was adjusted to CAD\$.8,517,148 after correcting the errors. The evaluation committee recommended for the award of the contract to the firm subject to negotiations based on Technical approach methodology, work plan, Team composition and qualifications.

Further review of the procurement documents revealed the following;

- Review of report of negotiation report between the Ministry and M/s IFP Training in association with SFERE and MAMZA consulting noted that there was a substantial change in technical of scope of work. These included reducing the man hours by 69 months, removal of key elements of the contracts exchange visits of UPIK staff in United Kingdom among others. This contravenes paragraph 2.27 of the World Bank guidelines for selection and employment of consultants 2011 which prohibits substantial reduction in the scope of services.
- Negotiations report indicated that the Ministry and the consultant firms agreed to reduce the scope of work and the bid price to Euro.2,436,441 but review of the signed contract noted that the contract was awarded at Euro. 2,492,520 hence a variance of Euro.56,079.
- The Ministry signed Lump sum contract with the consultant hence disregarding of the guidelines. Furthermore, the payment structure under lump sum contract is not appropriate for contracts that have reimbursable costs that are not definite.

Consequently, the project objectives may not be achieved due to significant reduction in the project scope and use of an inappropriate contract type. In addition, failure to negotiate with the best evaluated bidder as recommended by the evaluation committee contravenes the procurement procedures.

Management acknowledged reduction in technical scope but noted that it was reduced by 49 man months. However, a review of the modified technical and financial proposal by IFP after negotiation noted that the overall project man-months had been reduced by 79.7 months and program duration by 69 man-months.

Audit team noted that the total cost should have been Euro. 2,436,441 however management insisted it should have been 2,492,250. Audit verification noted that the difference of Euro.56,079 is caused by Management miscalculation of 15% WHT on Euro. 2,118,642 as Euro. 373,878 instead of Euro. 317,716.3.

Management responded that a lump sum contract was appropriate since management could clearly define the outputs and payments were linked to specific deliverables and reports. However, audit noted that training/twinning assignments are not clearly defined as institutions are meant to work together and outputs can be affected by the twin (local institutions) hence not easy to define the scope.

I advised the Accounting Officer to always comply with the World Bank procurement guidelines and to desist from reducing the scope significantly which may affect project implementation.

- **Procurement of Consultancy Services for an International Twinning of Kichwamba Technical College.**

The Ministry awarded the above mentioned contract under contract number MOES/Srvcs/2014-15/0001 to M/s Coventry University in Association with Victoria University Uganda at a contract price of GBP.1,889,620. Review of the procurement file identified a number of irregularities as explained below:

- The charges for the experts were exorbitantly increased at negotiations stage with justification that the rates should match those of the Coventry University although only one expert appeared on the University staff list.
- The consultants also submitted a financial proposal to procure vehicles at a cost of GBP 40,000 but according to the TOR of this consultancy vehicles were supposed to be provided by the MOES.
- Review of the documents on file noted that the Head of the faculty of Engineering Coventry University gave powers of attorney to Dr. Drake Kyalimpa of Breek Consult Limited however; audit noted that the powers were not authenticated. Furthermore no evidence was on file to confirm that the head of Engineering had powers to act on behalf of Coventry University.
- Review of the documents noted that copies of academic transcripts attached to the experts CV's submitted and were not signed by individual staff to confirm their availability during the project period.

Misuse of contract negotiations stage negates the rationale and purpose of the prior technical and financial evaluations and can lead to inflation of contract prices and award of contracts to incapable firms.

Management explained that:

- The consultant increased the key experts' remuneration to comply with Coventry University's rate. The experts have full time responsibilities either at Coventry or in their places of work.
- Although vehicles were supposed to be provided by MoES the consultant proposed to buy the 02 vehicles themselves. However, during negotiations, both parties agreed that Coventry University will buy vehicles of their choice.

- This anomaly is noted, however, the spirit of submitting this document was to introduce Dr. Drake Kyarimpa a non-key Breek consultant with Coventry) to MoES.
- Although the experts had not signed their individual CV's to confirm their availability during the project period, this was later confirmed during negotiations.

I advised the accounting officer to ensure that the contracts committee should ensure that the negotiations stage is not misused by evaluations committees and contractors for their own ulterior motives

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**

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

## **FINANCIAL STATEMENTS**