



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF EXPANDING SOCIAL PROTECTION
PROGRAMME FOR THE PERIOD 1ST SEPTEMBER 2016 TO 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL

UGANDA

LIST OF ACRONYMS

£	Pound Sterling
BoU	Bank of Uganda
DFID	Department for International Development
DRP	Disaster Recovery Plan
ESP	Expanding Social Protection
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants
ISAs	International Standards on Auditing
LC	Local Council
MoFPED	Ministry of Finance, Planning and Economic Development
MoGLSD	Ministry of Gender, Labour & Social Development
MSP	Maxwell Stamp PLC
PBU	Post Bank Uganda
PPDA	Public Procurement and Disposal of Public Assets
PSP	Payment Service Provider
SAGE	Social Assistance Grants for Empowerment
SCG	Senior Citizens Grant
UGX	Uganda Shillings
URA	Uganda Revenue Authority

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF EXPANDING SOCIAL PROTECTION PROGRAMME FOR THE PERIOD
1ST SEPTEMBER 2016 TO 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the Financial Statements of Expanding Social Protection Programme component managed by Maxwell Stamp PLC for the period 1st September 2016 to 30 June 2017 and notes to the fund accountability statement including a summary of significant accounting policies and other explanatory information as set out on pages 8 to 11.

In my opinion, the project financial report presents fairly, in all material respects, the actual expenditure incurred and the revenue received for the Project for the period from 1st September 2016 to 30 June 2017 in conformity with the applicable Contractual Conditions and other laws and regulations.

Basis of Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements 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) 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, are of most significance in my audit of the financial statements of the current period. I have determined that there are no key audit matters to communicate in my report.

Other Matter

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

- **Untimely reconciliation of the Post Bank Uganda General Account**

I noted that there was no evidence of bank reconciliations prepared for the Post Bank Uganda General Account from 2016 when it was opened to March 2017. This may result into misstatement of the financial statements if these errors are not detected and corrected on a timely basis.

In response, management stated that the weakness was identified and resolved by April 2017 and since then reconciliations are prepared on monthly basis by the Accountant and reviewed by the Coordinator.

I advised that bank reconciliations should be prepared on a monthly basis as soon as possible after month end, and should be reviewed by a person independent of the reconciliation process.

- **Advances carried forward from ESP I and late accountability of staff, fuel and district advances**

Review of the advance accounts showed instances where accountabilities and expense reports were submitted after the specified time and there were not accounted for. These mainly related to advances that were carried forward from ESP I to ESP II.

This may result into advance amounts which may not be recoverable thus resulting into the misstatement of financial statements.

Management stated that they have introduced steps to account for these advances by end of December 2018.

Management should ensure that advanced amounts are accounted for within the specified time period and that more advances are only issued after accountabilities for the previous advances have been received.

- **Late remittance of PAYE and NSSF during the period under review**

I noted that PAYE and NSSF for the months indicated in the tables below were remitted late.

Late remittance of statutory deductions could expose the organisation to fines and penalties from the National Social Security Fund and URA

Management stated that late remittance were due to online payment registration failures on the URA and NSSF web portals, which are now done well ahead of the deadline date to avoid deadline traffic congestion that may result in on-line registration failure except for incidences where such delays happen due to insufficient cash resources.

I advised that management should ensure that all statutory deductions are remitted on a timely manner.

- **Untimely reconciliation of the transaction listings as per the programme accounting system maintained in Uganda and the one maintained in London**

I noted from my review that this reconciliation is not carried out on a regular basis.

Untimely reconciliation of the transaction listings of the two accounting systems may result into incorrect billing of amounts to DFID and misstatement of the programme financial statements.

Management stated that reconciliation is performed at MSP financial year end, but will endeavour to complete these reconciliations on quarterly basis and reviewed by a person independent of the reconciliation process.

I advised that reconciliations of the transaction listings between the two accounting systems be carried out on a monthly basis and that these reconciliations are reviewed by a person independent of the reconciliation process.

- **Beneficiary complaints**

A review of the complaints log noted that there were complaints from beneficiaries relating to wrong payment amounts, incomplete enrolment, biometric failure and others whose status showed that there was no action that had been taken by the time of the audit which occurred more than 30 days after the complaints were received.

Failure to timely address the inefficiencies in the Post Bank payment system may affect the efficient operation of the programme activities resulting in a negative impact on the achievement of the overall objective of the programme.

In response, management stated that after PBU failed to implement the contractual obligation of resolving financial complaints within thirty days, a new Service Level Agreement (SLA) was drawn to strengthen the process of resolving complaints. SLA has been agreed by the PBU and now management is working with PBU to operationalise the SLA.

I advised that management works with Post Bank to ensure that all the matters raised through the SCG complaints system are resolved on a timely basis.

- **Inadequate verification of the Pension Status of potential beneficiaries**

Interaction with the SAGE team at the Secretariat revealed that during the period under review, a register of targeted beneficiaries was provided to the regional staff and District officials to confirm whether the potential beneficiaries are pensionable or not. The pension status for potential beneficiaries is identified from the communities or voluntarily by the beneficiaries themselves.

There is a risk that unqualifying pensioners may be enrolled onto the programme and subsequently get paid leading to financial loss to the programme due to payment of ineligible beneficiaries.

In response, management stated that the Permanent Secretary (PS) MGLSD had written to PS Public Service to grant access rights on pensioner data to ESP to enable regular verification of potential beneficiaries. Ministry of Public Service has

requested a soft copy of SAGE beneficiary list to check against their pensioner's database.

Management should formally follow up on the written request made to the Permanent Secretary of Ministry of Public Service requesting for records of pensioners so that they can verify it with the records of senior citizens received from NIRA to enable a cleanup before verification registers are created.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the project's financial statements in accordance with Generally Accepted Accounting Principles and the requirements of the funders. The management's responsibilities include designing, implementing and maintaining internal controls relevant to the preparation and fair representation of the project financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibilities for the audit of the Financial Statements

My objectives as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008, 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 ISAs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 ISAs, I exercise professional judgement and maintain professional scepticism 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 the 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 project to cease to continue as a going concern.
- 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.
- Communicate with those charged with governance 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.

Report on non-financial issues

The terms of reference required that in carrying out my audit I consider and report to you on the following matters. I report as follows;

- I reviewed the procedures adopted by the management consultant - Maxwell Stamp PLC (MSP) in incurring expenditure and undertaking procurements. I found the procedures adequate and consistent to good accounting and procurement practices required to ensure value for money of the development partners' funds;
- I reviewed the project completion report (1 September 2016 to 30 June 2017) and noted that it is a true and fair representation of the project achievements as at 30 June 2017;
- I reviewed the project's business processes and report that; overall, the risk management framework, including systems risk mitigation at Post Bank is effective, there is efficiency in the Social Assistance Grants for Empowerment (SAGE) operations.

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

John F.S. Muwanga
AUDITOR GENERAL

14th December 2018