



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
FARM INCOME ENHANCEMENT AND FORESTRY CONSERVATION PROGRAMME:  
PROJECT 2 (FIEFOC-2)  
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>IEC</b>	Information, Education and Communication
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>ISSA</b>	International Standards on Auditing
<b>EGI</b>	Electronic Government Information
<b>PFMA</b>	Public Finance Management Act, 2015
<b>TAI</b>	Treasury Accounting Instructions
<b>UGX</b>	Uganda Shillings
<b>FIEFOC</b>	Farm Income Enhancement and Forestry Conservation Programme
<b>F/Y</b>	Financial Year
<b>MDA</b>	Ministry, Department, and other Agencies

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

**Opinion**

I have audited the accompanying financial statements of the Farm Income Enhancement and Forestry Conservation Programme: Project 2 (FIEFOC-2) for the year ended 30<sup>th</sup> June 2018. These financial statements comprise of the Statement of Affairs, the Statement of Cash Receipts and Payments, and Statements of Comparison of Budget and Actual Amounts, notes and accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Farm Income Enhancement and Forestry Conservation Programme: Project 2 (FIEFOC 2) for the year ended 30<sup>th</sup> June 2018 and its financial performance and cash flows for the period then ended in accordance with Cash Basis IPSAS Financial Reporting under the Cash Basis of Accounting modified as per the provisions of the Loan Agreement with the African Development Bank (AfDB).

**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 Program 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**

Key audit matters are those matters that, in my professional judgment, were 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**

In addition to the matters raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Submission of an un-approved format of Financial Statements**

During the year, the Accountant General issued a new format for preparation of reports and financial statements for Central Government and projects on IFMS under modified cash basis.

However, comparison of the project financial statements on IFMS with the copies submitted for audit revealed that the issued format was not used in the preparation of the final accounts as the two versions of the financial statements were completely different and incomparable.

Failure to use the approved reporting format could lead to inadequate assessment of performance results and misinterpretation of the financial statements by the users.

Management explained that the financial statements submitted for audit were prepared in accordance with the requirements of the project funders (development partners).

I advised management to liaise with the Accountant General to ensure that the formats of the project financial statements are harmonized to take care of both GoU and development partner interests.

- **Revenue shortfall and low absorption of the GOU Counterpart funding**

From a review of the statement of receipts and payments I noted that, out of the project revenue budget under the GoU component of UGX 35.299bn only UGX.31.839bn was released leading to a revenue shortfall of UGX.3.36bn (10%). In addition, out of the released funds, only UGX.26.996bn was actually spent leaving UGX.4.843bn to be swept back.

Failure to realize all budgeted revenue as well as low absorption of funds may result in non- settlement of some obligations leading to accumulation of payables. The practice

also leads to delayed or non-implementation of planned activities and hence hampers service delivery. This was attributed to budget cuts by MoFPED and delayed procurement processes.

I advised management to:

- i. Liaise with MoFPED to ensure that all budgeted revenue under the GoU component is released to the project to facilitate full implementation of planned activities.
- ii. Review the project expenditure processes with a view to fast tracking activities and enhancing funds absorption.

- **Internal controls regarding GOU counterpart funds**

I noted that the National Project Coordinator (NPC) was not in charge of all payments under the GOU component. His responsibility was limited to only signing / approving loose minutes. Similarly, the Project Accountant has no IFMS access/ user responsibilities for the GOU component. Under the circumstances, it is difficult for the project Coordination unit to monitor, control and timely report on project activities under the GoU component. The practice poses a risk of effecting payments for non-project activities and this could lead to failure to attain project objectives. Management stated that they have put in place measures, such as vote books to avoid diversions. I have advised management to ensure involvement of the National project coordination unit before GOU funds are spent.

- **Slow progress of construction works**

Management entered into two - year contracts with different contractors for the construction of four out of five Irrigation schemes whose works were to commence on 08/08/2017 and end on 08/08/2019.

However, by the time of audit in October, 2018 (10 months to project contract closure) I noted that although the overall financial absorption of the projects funds was at 30%, the overall average physical completion of works was only 14%, with one scheme not yet started, as shown in the Table below:

S/No.	Irrigation scheme	Level of assessed performance
1	Ngenge	27%
2	Tochi	25%
3	Mubuku	13%
4	Doho	6%
5	Wadelai	0%

The apparent slow progress of works will lead to delayed completion of projects which may result in unnecessary project extensions and cost overruns. This may also negatively impacts on the achievement of project objectives and hence service delivery.

Management attributed the slow progress of works to unfavourable weather conditions characterized by heavy rains which sometimes sunk the contractors' equipment thereby causing delays. For the construction of Wadelai Irrigation Scheme, the procurement encountered longer periods than would ordinarily be expected as a result of failure to obtain a successful bidder that possessed capacity and qualifications to execute and numerous administrative reviews arising out of several complaints by the bidders.

I advised management to review the progress of the projects and put in place measures to fast track the activities.

- **Slow implementation of the Agribusiness Development component**

I noted from the project performance report for the F/Y 2017/18 that the Agribusiness Development component of the project was not being implemented in time. Whereas some work had been done in Mubuku under key performance indicator no.4 (Startup enterprises), none of the targeted outputs were achieved by the year end as shown in the table below:

<b>KPA No.</b>	<b>Key Performance Indicators/ Deliverable</b>	<b>Targeted output for the year</b>	<b>Achieved</b>
<b>1.</b>	Number of alternative livelihoods established and jobs created	300	0
<b>2.</b>	Number of business skills programs developed and farmers and entrepreneurs trained (Women and Youth)	400	0
<b>3.</b>	Number of actors accessing support from financial institutions	20	0
<b>4.</b>	Number of start-up enterprises (Women and Youth)	40	0

Slow implementation of the Agribusiness component undermines the overall objectives of the project and negatively impacts on the lives of the intended project communities (beneficiaries). This may also result in unnecessary project extensions. Failure to attain targeted outputs is attributed to the delayed procurement of a consultant to undertake the planned activities. Management has promised to achieve the deliverables in the subsequent years.

### **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 Farm Income Enhancement and Forestry Conservation Programme: Project 2 (FIEFOC-2).

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 related to affecting the delivery of the mandate of the Farm Income Enhancement and Forestry Conservation Programme: Project 2 (FIEFOC-2), 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 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 Program'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 Program'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 Farm Income Enhancement and Forestry Conservation Programme: Project 2 (FIEFOC-2) 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 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.



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John F.S. Muwanga

**AUDITOR GENERAL**

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

## **FINANCIAL STATEMENTS**