



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MINISTRY OF FOREIGN AFFAIRS
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

GOU	Government of Uganda
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
PFMA	Public Finance Management Act, 2015
UGX	Uganda Shillings
GBP	Great British Pound
USD	United States Dollar
EURO	European currency
MOFA	Ministry of Foreign Affairs
F/Y	Financial Year
MDA	Ministry, Department, and other Agencies
FSO	Foreign Service Officer
US/FA	Under Secretary in charge Finance and Administration
OIC	Organization of the Islamic Conference
CHOGM	Commonwealth Heads Of Government Meeting

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FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Ministry of Foreign Affairs 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, the financial statements of the Ministry of Foreign Affairs 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, 2018.

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 Ministry 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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my

opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matters described below to be key audit matters communicated in my report.

- **Implementation of Budget Approved by Parliament**

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 retarding the development of the communities’ welfare.

In the overall office wide planning, I assessed risks like 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.

Based on the procedures performed, I noted that a Certificate of Compliance report issued by NPA for 2017/2018 had indicated that the Ministry scored 38% as regards alignment with the Public Investment Plans during the first half of the financial year. This was way below the average of 50% out of the total score of 62%. The report further indicated that the ministry was inappropriately classified. It was noted that whereas MOFA was budgeting through the Public Administration sector, the ministry did not contribute to the sector’s objectives and as a result this created challenges of the effective planning and budgeting within the sector wide approach. The report noted that the Ministry would plan and budget better under Tourism, Trade and Industry sector budgeting process.

It should be noted that inappropriate classification undermined the achievement of the Ministry’s desired outputs.

The Accounting Officer explained that the National Planning Authority was in the process of reclassifying all sectors to minimize duplication of roles and responsibilities. He indicated that the Ministry would engage NPA to agree on the appropriate sector where the Ministry should be placed.

The Accounting officer should follow up the matter to ensure that the Ministry is properly classified to achieve the desired performance.

- **Domestic Arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been persistent accumulation of domestic arrears to unmanageable levels which has led to settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears.

Consequently, domestic arrears were considered a key audit matter which needed to be examined to assess: the appropriateness of recording, recognition and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears.

During audit planning, I focused on examination of domestic arrears in regard to contributions to International Organizations and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness; ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me arrive at the audit conclusions.

Based on the procedures performed, I noted that the Ministry had accumulated payables amounting to UGX.67,230,639,091 by close of the financial year under review (2017/2018). I further noted that the arrears had increased by UGX.3,413,932,469 from the outstanding amount of UGX.63,816,706,622 reported at the prior year end. The outstanding amount is comprised of outstanding obligations to International organizations, UGX.64,334,324,977; outstanding amount in respect of Organization for Islamic Conference (OIC), UGX.366,356,590, CHOGM outstanding bills, UGX.2,431,967,857 and

outstanding amounts in respect of Carriage, Haulage and transport hire expenses for mission staff on recall, UGX.97,989,667. The arrears were attributed to inadequate budget allocation to the Ministry of only UGX.9.1 billion out of the required UGX.26 billion, which is 35% of annual contribution. The perpetual creation of arrears continues to pose a risk of impacting badly on the image of the ministry and the country at large. It could also result in deregistration in the case of contribution to international organization.

The Accounting officer should continue engaging Ministry of Finance Planning and Economic Development and Parliament to obtain sufficient budget allocation for settling the arrears in order of priority. A policy on membership to international organizations should also be reviewed.

Other Matter

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

- **Inadequate Staffing of Key Personnel**

Paragraph 3 (A-c) of the Public Service Standing Orders 2010 on Appointing Procedures stipulates that appointment in Public Service shall be subject to availability of a vacancy in the approved staff establishment and funds in the approved estimates.

A review of the new structure approved on 8th June 2016 for the Ministry revealed that out of approved posts of 413, only 333 (81%) were filled leaving 80 (19%) posts vacant. Some of the key vacant positions are; Director political affairs, Commissioner Social affairs, Principal regional Integration Officer, Commissioner political affairs, Principal economist, Senior Policy Analyst and Principal officer-monetary union.

Under staffing increases the workload on the existing staff and has negative impact on service delivery. Besides, segregation of duties may not be adequate given the current staffing gaps.

I advised the Accounting Officer to liaise with the concerned stakeholders to ensure that staffing gaps, especially of Foreign Service Officers(FSO) are addressed to enhance the Ministry's' performance.

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 Ministry of Foreign Affairs.

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 Ministry's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Ministry of Foreign Affairs, 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 Ministry'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 Ministry'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 Ministry'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 Ministry of Foreign Affairs 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.



John F.S. Muwanga

AUDITOR GENERAL

13th December, 2018