



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
AFRICAN DEVELOPMENT BANK (ADB) V-SUPPORT TO HIGHER EDUCATION
SCIENCE AND TECHNOLOGY (HEST) PROJECT
MINISTRY OF EDUCATION AND SPORTS (MOES)
FOR THE YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

COEs	Centers Of Excellence
GOU	Government of Uganda
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
ISSAIs	International Standards for Supreme Audit Institutions
IESBA	International Ethics Standards Board for Accountants
MOES	Ministry of Education and Sports
NAA	National Audit Act, 2008
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
ADB	African Development Bank
HEST	Higher Education Science and Technology
BIs	Beneficiary Institutions

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FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of African Development Bank (ADB) V-Support to Higher Education, Science and Technology Project under Ministry of Education and Sports for the year ended 30th June 2018. These financial statements comprise the statement of funding by source, statement of financial position, consolidated statement of income and expenditure by component, consolidated statement of Income and Expenditure by source and category together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements present fairly in all material respect the financial position of the African Development Bank (ADB) V-Support to Higher Education, Science and Technology Project under Ministry of Education and Sports as at 30th June 2018 and of its receipts and expenditure for the year then ended, in accordance with the basis of accounting set out in notes 1-4 to the financial statements and in conformity with donor reporting guidelines and terms and conditions.

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 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

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.

In addition to the matter described in the Basis for Qualified Opinion section, I have determined the matter described below to be the key audit matter 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 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.

Based on the procedures performed, I observed that a total of UGX. 55,347,170,000 was budgeted to cater for the African Development Bank (ADB) V-Support to Higher Education Science and Technology Project activities from external funding. However, during the year, the project realised UGX.75,422,926,670.25 from external funding which resulted into extra revenue of UGX.20,075,756,670.25 (36.3%).

Management explained that the project work plans were revised during the year to cater for the lost time during project implementation. The funds were already available in the African Development Bank hence certified work was cleared for payment. This led to improvement in funds disbursement from 34.5% in June 2017 to 64.2% in June 2018 and Physical implementation from 57% in June 2017 to 82.1% in June 2018

I advised the Accounting Officer to always seek for supplementary budget approvals from parliament in case revenue received exceeds the approved budget.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter disclosed in the financial statements that, in my judgement, is of such importance and fundamental to users' understanding of the financial statements.

- **Funds not accounted for by Project Beneficiary Institutions**

A review of project payment file and a Schedule of disbursements and accountabilities by Beneficiary Institutions (BIs) revealed that Ugx. 13,140,973,553 out of UGX.14,472,085,116 disbursed to beneficiary institutions was accounted for leaving UGX.1,331,111,563 unaccounted for.

As a result, there has been low disbursement rate of funds to BIs with only UGX.14,472,085,116 (57%) out of the budgeted UGX.25,407,040,000 disbursed.

This will lead to failure to implement planned activities within the project timelines, notably among those is staff training.

Management explained that it has drawn up strategies to address the issue of unaccounted for funds such as; tagging releases to satisfactory accountabilities from the Institutions, Financial Management team of the Project has been tasked to travel to BIs and collect accountabilities and Sending reminder letters & emails on a monthly basis.

I await the results of management's strategies.

Other Matter

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

- **Low disbursement of project funds**

Review of the summary loan ledger dated 30-06-2017 revealed that only UA 35,804,422.4 (53.44 %) out of an approved amount of UA 67,000,000 had been disbursed with 83.3% of the project duration elapsed. This is also below the target disbursement rate of 62.4% agreed during the African Development Bank (ADB) supervision mission (Aide-Memoire) of 14th to 25th May 2018.

Failure to utilise the loan funds timely may result into payment of commitment charges of 0.5% per annum on the undisbursed portion of the loan as indicated in section 3.03 of the loan agreement.

In response, management explained that the low disbursement of the loan is partly historic and partly systemic. By the end of the financial year under review, the project had effectively been operational for 3 years out of the five years of its existence due to delays in constituting the project coordination unit. Without a fully constituted and staffed Project Coordination Unit, most activities could not take off. However, the project has since taken off with 90% of loan resources committed into signed contracts and a disbursement rate of 64.5%.

I advised management to work with relevant authorities to complete the project activities in time as this would prevent unnecessary commitment charges and lead to attainment of the project goals.

- **Lack of policy on development of E-Content**

Component 1 (c) of the project is support of ICT broadband backbone and networks with relevant equipment to widen learning methods through e-learning options.

A review of the project records noted that the project budgeted and spent UGX.1,600,000,000 on e-content development. However, the Beneficiary institutions have not developed a policy on development and teaching of curriculum based on e-content.

Use of e-content without a policy exposes the Beneficiary Institutions and students to cyber related risks. It may also lead to non-achievement of project objectives due to un-guided/uncoordinated content development.

In response, management explained that policy development & implementation is a responsibility of the Institutions. However on realizing that some Institutions under HEST did not have clear policies relating to E learning the Project is planning to support this process by organizing a workshop on development of policies relating to the use and management of ICT facilities and streamlining e learning in the HEST beneficiary Institutions. The outcome of the workshop will be policy frameworks and draft policies for each Institution.

I advised management to expedite the process of organising a policy development workshop to ensure that the all Beneficiary Institutions have e-learning policies in place.

- **Lack of e-learning facilities, maintenance and usage plans and policies**

Component 1(a) of the project aims at expanding equitable access to science and technology training and research through rehabilitation and expansion of STI learning facilities totaling to 80,000M2 in two universities and two degree awarding institutions. A review of the project records noted that it spent UGX 71,574,737,471.14 on this item during the year; however, the Beneficiary institutions have not developed facilities usage and maintenance plans and policies. Audit further noted that rural universities such as Muni and Mbarara have not put in place measures in place to attract students to utilise their current facilities.

Relatedly, audit noted that although most contracts for construction of facilities are complete or almost complete, the procurements for furniture, business incubation centers and laboratory equipment are not yet complete.

Failure to utilise and maintain facilities exposes them to the risk of quick deterioration and vandalism, while lack of furniture and equipment makes it impossible to utilise the building increasing their exposure to the same risk.

In response, management explained that through the Mission of May 2018, the project agreed to review the maintenance policies in the Beneficiary Institutions (BIs) where they are existent and to facilitate the BIs to develop the policies where they are non-existent in order to prevent fast degeneration of the facilities. Further, the project has extended the Memorandums of understanding (MOUs) for the BIs to cater for the funds in the development of the facilities maintenance policies.

I advised management to expedite the process of facilitating the BIs to develop facility maintenance policies. Furthermore, management was advised to expedite procurements for furniture and equipment in order to make the building usable.

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 auditor's 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 African Development Bank (ADB) V-Support to Higher Education Science and Technology (HEST) Project

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 African Development Bank (ADB) V-Support to Higher Education Science and Technology (HEST) Project 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 Uganda Skills 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 Other Matter paragraph, 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

Introduction and Scope

In accordance with sections 13 of the NAA, 2008, I have a responsibility to report material findings on the compliance of the ADB V-HEST project under MOES with specific matters in key legislations. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Un-deducted Withholding Tax**

Section 119 of the Income Tax Act 1997 as amended provides that where a Government institution or any person designated in a notice issued by the Minister, pays an amount in aggregate exceeding one million shillings to any person in Uganda—for a supply of goods or materials of any kind; or for a supply of any services, the payer shall withhold tax (WHT) on the gross amount of the payment at the rate prescribed in this Act, and the payer shall issue a receipt to the payee. Further, section 124(1) of the Act requires a withholding tax agent to remit the tax within fifteen days after month end.

A review of the direct payments from the Bank noted that withholding tax worth USD.657,578.14 (UGX.2, 450,004,629.17) was not withheld on payments made during the year contrary to the above requirement.

This led to a financial loss to government and overpayment to the providers by the same amount.

Management explained that according to the provision of the Loan Agreement and “the General conditions applicable to the African Development Fund Loan Agreement and Guarantee Agreements (Sovereign Entities)” the proceeds of the loan cannot be used to pay “any taxes imposts, levies, fees and duties of any nature.” The Bank makes the payments directly to the beneficiary suppliers /contractors. The Project Special Account is only used for payment of staff salaries, which do not attract Withholding tax.

I advised management to liaise with Ministry of Finance Planning and Economic Development to provide for payment of withholding tax in accordance with the Income Tax Act.

- **Un-Implemented Procurements**

Regulation 1.16 of ADB rules and procedures for procurement of goods and works require the borrower to implement the procurement plan in the manner in which it has been approved by the Bank.

A review of the project procurement plan for the Financial Year 2017/2018 noted that some planned procurements were not completed during the year. The table below refers.

	Subject of procurement	Budgeted Amount	Status today
1	Supply and delivery of Furniture at 7 Beneficiary Institutions	USD.9,000,000	On award stage, awaiting composition of a MCC
2	Supply and delivery of equipment and accessories for Business incubation centres at Kyambogo, Gulu, Makerere, Muni and Busitema Universities.	USD.3,013,591.61	On award stage, awaiting composition of a MCC
3	Addendum for extra civil works at Busitema, Muni, MUBS, Kyambogo, Gulu and Makerere Universities.	USD. 710,645.05 Ugx. 341,743,709	Bid document stage, awaiting composition of a MCC

It was further noted that the completed procurements such as construction of facilities are unusable due to the delayed procurements of furniture and Equipment.

As a result, there is low disbursement and implementation rate of the project which will lead to extra project management costs.

In response, management attributed the anomaly to the disbandment of the Ministry Contracts Committee (MCC) which resulted into halting of the Ministry procurements. However, the MCC had been reconstituted and tasked to prioritize all pending procurements.

I advised management to liaise with all relevant stakeholders to ensure that the project procurements are completed without further delay.



John F.S. Muwanga
AUDITOR GENERAL

12 December 2019

