Uganda Airlines probe:

GEOFREY SERUGO

To grasp the depth of mismanagement at Uganda Airlines, one must read the 33-page parliamentary investigation report released recently, which catalogues all the bad deals and decisions.

The inquiry into the under-fire, loss-making airline was done by the parliamentary committee on Commissions, Statutory Authorities and State Enterprises (COSASE) led by Joel Ssenyonyi

According to the report, the governance challenges are glaring, spurred by a blatant disregard for the law, a lack of transparency, and inefficiency.

"Although the government has capitalized the airline and provided sizeable financial support, the high cost of wages, disregard of procurement regulations, inefficiency in management, and lack of a staff structure have rendered no value for money to the taxpayer. Uganda Airlines has a poor marketing strategy. As a result, there are limited passengers on some routes despite the high operational costs of the airline," reads part of the report.

"Whereas the airline is still in its infancy and requires time to acquire new routes and break even, it is essential that the financial systems and human resources of this entity are sound in order to get the national airline to the next level of growth," the report found.

The government resurrected the national airline in 2018 to enhance the country's competitiveness by reducing the cost of air transport and easing connectivity to and from Uganda. And to support the faster harnessing of opportunities in the economy and establish air transport infrastructure to meet the growing demand for air travel.

The airline assumed the status of a national carrier following the grounding of Air Uganda in June 2014. Jointly owned by the ministries of Finance, Planning and Economic Development and Works and Transport, Uganda Airlines launched its commercial operations on August 27, 2019.

The airline began operations with six new planes, two of which were wide-body, long-range A330-800s and the other four were CRJ900s.

On July 27, 2019, the Uganda Civil Aviation Authority awarded Uganda National Airlines Company (UNACL) an Air Operator Certificate, finalizing a three-month, five-step certification process that cleared the airline to commence commercial operations.

During the re-establishment of the company, the business plan emphasized that the airline should be managed by a highly competent team, free of political interference.

The Auditor General, after due consideration of the financial statements of the UNACL for the financial year 2020-2021, issued a qualified opinion. The Public Accounts Committee—Commissions, Statutory Authorities and State Enterprises (PAC-COSASE)—considered the report and launched its investigations into the airline.

The Auditor General's report revealed that the company incurred a loss of Shs 164.5 billion in the 2020-21 financial year. The company's operations generated approximately Shs 46.9 billion. The financial analysis of UNACL's financial performance found that the company made a loss of

Joel Ssenyonyi

about Shs 102.4bn in the financial year 2019-2020.

The committee interviewed the accounting officer and management of UNACL, the board, General Katumba Wamala, minister of Works and Transport, Cornwell Muleya (former CEO, UNACL), and Ahabwe Pereza, former board chairman, UNACL.

PERFORMANCE OF INTERNAL REVENUE

The Auditor General reviewed the internal revenue estimates, revenue sources, and rates charged at the agency level for the financial year 2020-2021 and noted that out of the budgeted revenue of Shs 304.6 billion during the financial year 2020-2021, only Shs 48,605,410,000 was collected, translating into a performance of 16%.

The accounting officer said the effects of COVID-19 grossly affected performance. The airspace was closed for several months. Uganda Airlines had anticipated being operational on 18 routes. But this growth wasn't achieved. Besides this, the Airbus aircraft could not be deployed without the Approved Operators Certificate (AOC).

The management said it has put strategies in place to rationalize costs and improve revenue generation. Management is taking up self-handling and approved maintenance organization (AMO) projects to minimize costs and generate more revenue for the airline.

The committee noted that notwithstanding the explanation of the accounting officer and the justifiable reason for the revenue shortfall, general corporate governance inefficiencies like operating without approved staff structures, lack of board independence, and human resource incompetence have hampered the expansion of the revenue base.

The MPs recommended that management open up new routes, that are commercially viable to increase the revenue base and improve the airline's professional marketing.

LOSS FOR THE YEAR SHS 164.6 BILLION

The company incurred a loss of Shs 164.5 billion at the end of the trading year 2020-2021. It generated low revenue compared to its enormous costs.

The company generated about Shs46.9 billion from its operations. Direct costs, on the other hand, totaled Shs 163.5 billion. The company paid salaries and allowances amounting to Shs 27.9 billion, indirect overhead expenses swelled to Shs 19.8 billion, and finance costs amounted to Shs 230.5 million. The total costs (direct costs, employee expenses, indirect overheads, and finance costs) amounted to Shs 211.3 billion.

The committee noted that the airline suffered huge operational costs in its first year, which were exacerbated by the closure of the airspace in March 2020 at the onset of the COVID-19 epidemic.

The initial losses were brought on by the lack of functional management systems, including recruitment processes, financial management policies, and procurement processes.

The committee found that management contracted Mixjet, a Dubai-based company, to supply fuel to the airline. Mixjet, however, contracted a local company in Mogadishu to supply fuel to UNACL.

"However, the supplying company does not find merit in incurring the cost of a middleman, Mixjet, when they can supply directly to UNACL under similar terms offered to the agent, Mixjet," the report found.

The committee noted that local companies such as Shell and Total can supply the same fuel at a significantly lower price (approximately 20 percent), enabling UNACL to manage this cost line better.

"UNACL should carry out cost reduction strategies for example; self-handling to reduce costs of outsourcing, operating its own business lounge, increasing incentives for special charters, and negotiating for standard food prices with service providers, UNACL should eliminate the current exploitative middleman (Mixjet) in the procurement of fuel, and the responsible officers who were involved in the procurement of the insurance and fuel contracts should be held responsible for flouting procurement regulations," the report said.

LONG OUTSTANDING PAYABLES

MPs learned that the airline had about Shs 47 billion in debt. All the outstanding invoices were payable to UCAA. For more than six months, Shs 16 billion had been overdue.

The accounting officer said they are waiting for specific arrears disbursements from the ministry of Finance to pay outstanding passenger taxes to UCAA. At the point of setting up the airlines, government committed to help the airline settle the UCAA bills.

The accounting officer also indicated that at the time of the audit, the invoices had been submitted to the ministry of Works and Transport for inclusion in the schedule of arrears for onward submission to the ministry of Finance, Planning and Economic Development.

The legislators noted that the accumulation of long-standing payables is indicative of financial indiscipline by the accounting officer.

The MPs recommended that the accounting officer should be held responsible for the non-remittance of the dues.

FINANCIAL ANALYSIS AND ASSESSMENT

The auditor general carried out a financial analysis of UNACL's financial performance and observed that the company made losses for the years 2019-2020 and 2020-2021, amounting to Shs 102.442bn and Shs 164.573bn, respectively.

The auditor general observed that the costs, before considering interest and taxes, exceeded company revenues for the two years. He also observed that the company generated a negative return on assets of 12.2 percent for the year 2019-2020 and 13.1 percent for the year 2020-2021.

The company's revenue is still far below its assets. Management informed the committee that the loss for the financial year 2021-2022 is over Shs 232bn, which brings the total loss thus far to about Shs 500bn.

The company's losses and the ratios computed are an indication that Uganda National Airlines Company Limited is currently not performing well in terms of profitability and its ability to sustain the provision of services without further government funding and management strategies to improve revenue generation.

The accounting officer explained that a strategy session is scheduled to plan for revenue maximization and cost-cutting.

IMPLEMENTATION OF UNPLANNED PROCUREMENT ACTIVITIES

UNACL bought 25 items outside the approved procurement plan for FY 2020/21. The procurements were made in different currencies amounting to Euro 1,150,854.06 (Shs 4.3 billion), Kenya shillings 61,879.2 (Shs 1.9 million), USD 65,441.36 (Shs 251.3million), Tanzania Shillings 7,752,600 (Shs 12.7million) and Uganda Shs 346.7million.

The accounting officer argued that since UNACL had just started operations, several critical activities came up during execution that had not been included in the procurement plan. Additionally, the aviation industry has a strict regulatory regime where new vital criteria are introduced that sector players must comply with to remain compliant in the industry.

Management acknowledged that there was an oversight in updating the procurement plan in accordance with Section 58 (5)(7) of the PPDA Act, which was occasioned by the suspension of key staff in the procurement and disposal unit, PDU, and the remaining staff concentrated on completing the ongoing procurements to avert crises that would arise from delayed completion of such procurements.

The committee established that the management did not follow the procurement regulations envisaged by the Public Procurement and Disposal of Public Assets Act (PPDA) Act.

They recommended that the management team, which handled the above procurements should be held responsible for not following procurement guidelines.

PROCUREMENT WITHOUT CONTRACTS COMMITTEE APPROVAL

Regulation 12(2) of the Regulations, 2014, requires that the Procurement and Disposal Unit (PDU) shall make a submission to the Contracts Committee in respect of procurement under the direct procurement method.

However, it was noted that a Purchase Order no. 0021 dated 14th December 2020 was made to Collins Aerospace for the supply of in-flight equipment at a price of USD 25,694.46 (Shs 96.7million) VAT exclusive without the approval of the Contracts Committee.

Failure to obtain Contract Committee approval is unacceptable, it negatively affects the transparency of the procurement process and could result in the procurement of items in a manner that is uneconomical, the MPs noted.

"The Accounting Officer violated Section 26(2) of the PPDA Act by signing a contract without the approval of the Contracts Committee. The then Accounting Officer should be prosecuted for committing an offence under Section 95 (1b) (a) of the PPDA Act...," MPs said.

PURCHASE OF VEHICLE FOR SOUTHERN SUDAN OFFICE

Shs 103.5 million (USD 28,000) was paid to the supplier vide payment voucher No. PV09/20/025 dated 04/09/2020. The vehicle was purchased through direct procurement without proper justification.

Management responded that this was highlighted during the investigation that was conducted by State House and the procurement officers involved had their contracts terminated in February 2022.

Management's stance at the time was to purchase all vehicles from Toyota franchises; however, there was no Toyota franchise in South Sudan. That is how management got an alternative supplier for South Sudan.

The MPs observed that the purchase of the vehicle for the Southern Sudan Office through direct procurement poses a risk. The vehicle was procured at a high price and may not be of the required quality and this is contrary to Section6 of the PPDA Act.

"IGG should expedite the investigations and prosecute the culpable officers.

SUPPLY OF CRITICAL SPARE PARTS FOR BUSINESS CLASS

Bad deals listed in 33 pages

SEATS FOR A330-800 NEO

The company issued a purchase order on 27/01/2021 to M/s Stelia Aerospace for the supply of critical spare parts for business class seats for A330-800 NEO at a price of USD 146,230.72 (Shs 550.3 million). The Auditor General was however not provided with the contract for the supply.

Management responded that the purchase of seats was already predetermined at the contract signing between UNACL and Airbus whereby Stelia was the recommended supplier of the Airbus seats.

The MPs asked that the Auditor General conducts a special audit to establish all the facts regarding this transaction.

LACK OF A STAFF STRUCTURE

The company did not have a board-approved staff structure and establishment to assess staff recruitment needs and staffing status and did not have approved staff salary grades. As a result, some staff earn very high salaries, while others earn very low salaries.

This affected proper planning and budgeting for staff costs. As a consequence, the company incurred an excess expenditure of Shs 4.9 billion (USD 1,333,008) on salaries and staff expenses.

The committee observed that the salaries paid to some categories of staff were exorbitant at a time when the airline was making losses. In the financial year under review, the total wage bill was Shs 14.3 billion compared to the previous year where the wage bill was Shs 7.2 billion. The wage bill of the unapproved staff structure is one of the costs causing a financial burden to UNACL.

There were disparities in salaries of staff holding the same positions for example, the director of maintenance earns Shs 80 million, director flight operations earns Shs 47 million and director of commercial, Shs 40 million. Some cabin crew staff earn Shs 4 million while others earn Shs 2 million. There was no justification for the differences in these amounts.

On examination of the curriculum vitae of senior staff, the committee noted that some top officials lacked the minimum qualifications. For example, Regina Tebasiima, Ag commercial director, had an Advanced Level Certificate as her highest qualification.

The CEO, Jennifer Bamuturaki does not possess the required academic qualifications stipulated in the Human Resource manual. The requirement for the CEO is a bachelor's degree, and a postgraduate Diploma/Masters. She only possesses a bachelor's degree in Social Work and Social Administration (SWASA).

There was undue influence and interference by shareholders in the recruitment process of the CEO, without regard to the powers of the board as enshrined in the Companies Act under Article 80 of Table A. The board hired Price Waterhouse Coopers at Shs 98.1 million to recruit a CEO and an advert was published inviting interested individuals to apply.

The board informed the committee that 40 people had applied, but two days before the closure of the deadline for application, they got a letter from the minister of Works Gen Katumba Wamala instructing them to appoint Jennifer Bamuturaki as the substantive CEO following a presidential directive.

Jennifer Bamuturaki (R) during a cosase meeting

The board immediately stopped the recruitment process and appointed Jennifer Bamuturaki as CEO in total disregard of the laid-down procedure. The minister appeared before the committee and admitted all these facts.

Against that, the committee observed that Shs 98.1 million paid to Price Water House Coopers, which was a wasteful expenditure should be recovered from the individual board members.

They said Uganda Airlines should prioritise the establishment of a formal staff structure and salary structure approved by the board within one month of the adoption of this report.

"The Board should be given space to conduct its affairs without interference from anyone or any entity. The shareholders should uphold the independence of the Board as provided for in the Companies Act and regulations," MPs said.

DELAYED CONCLUSION ON SUSPENSION CASES

The MPs learnt that management has taken too long to resolve suspension cases. On April 21, 2021, some heads of departments were suspended for three months (effective 29th April 2021) to enable the appointed committee to investigate and report on stated allegations.

A review of the staff files revealed that there were no committee resolutions on the cases and as a result management extended the suspension from August 20, 2021, for another three months. Since the affected staff remained on the same terms of the contract, the officers appointed to act in their positions kept receiving extra pay, implying double payment for the same position. As a consequence, the company lost Shs 2.3 billion in seven months (May to November 2021).

Management said the process was concluded, and decisions were circulated to the various staff concerned in February 2022. Some of the affected staff had their contracts terminated and others were reinstated to their former positions, automatically ending the acting contracts of the staff who had been serving in those positions and formal communication was made by the Human Resource team to that effect.

The management claimed that the cases have been closed. The payment to the suspended staff was guided by the opinion of the Attorney General while the payment to the staff in acting roles was guided by the Human Resource manual.

The committee observed that delayed conclusion on suspension cases and failure to respond to interdicted staff may lead to unnecessary court cases and thus wasteful expenditure through court costs and compensations contrary to paragraph 16.13 of the Uganda National Airlines Company Limited Human Resource Policies and Procedures Manual 2019.

The MPs recommended that the board and management should expedite the process of investigation and communicate the conclusions to any remaining affected staff and urged the shareholders to avoid redefining UNACL objectives in a non-transparent manner and respect the independence of the board allowing it to exercise its responsibilities.

FAILURE TO REFUND TRAVEL FUNDS

The Committee learnt that in June 2021, the CEO Ms Jennifer Bamuturaki requested to be facilitated to travel to 10 destinations with different stations of Uganda Airlines and USD 12,750 (Shs 50m) was released to her for facilitation. The destinations included; Nairobi, Dar- es Salaam, Johannesburg, Kinshasa, Zanzibar, Mombasa, Mogadishu, Juba, Burundi and Kilimanjaro.

Bamuturaki informed the Committee that she only travelled to Dar-es-Salaam and Kilimanjaro, but declined to respond during the inquiry if she had refunded the unspent funds.

The Committee observed that no refund has been made to date for the funds allocated for the destinations that the CEO did not visit. It is criminal for a public official to receive funds for a certain activity and the activity doesn't happen, and the funds don't get refunded.

"The committee recommends that Jennifer Bamuturaki should be held personally liable for this offence and immediately refund the unaccounted-for funds," the committee recommended.

AWARD OF PUBLIC RELATIONS CONTRACT TO ABBAVATER GROUP LTD

At the function of receiving the first aircraft in April 2019, Uganda Airlines spent Shs 778.7 billion to host 600 guests, an average cost of Shs 1.3m per guest. This function was run by Abbavater Ltd, which was recommended to the then CEO Ephraim Bagenda by Ms Jennifer Bamuturaki who was the Commercial Director at the time. Management admitted that this cost was excessive and unwarranted.

A few months later, Abbavater Ltd was hired again to do PR and advertising for Uganda Airlines, and eventually paid a total of USD 897,285 (Shs 3.48 billion). The company was handpicked and hired in total contravention of the Public Procurement and Disposal of Public Assets (PPDA) and regulations that call for an open and competitive bidding process.

The airlines irregularly and selectively handpicked three advertising firms without pre-qualification and without a competitive bidding process and subsequently, awarded the contract to the firm with the highest quotation.

The shortlisted firms were; Abbavater Group Ltd, Star Leo and WMC Africa. The contract was awarded to Abbavater Group Ltd at a cost of Shs 174.6 million per month yet the other media firms - Star Leo and WMC Africa had quoted lower prices of Shs 36.8 million and Shs 35.2 million per month respectively.

The Uganda Airlines Chief Executive Officer, Jennifer Bamuturaki, who was then Director - Commercial, said she was not part of the contracts and evaluation committee that decided to hire Abbavater Group Ltd. However, company records showed that she was a member of the evaluation committee. She was also the Contracts Manager and she drafted the terms of reference for Abbavater Group Limited.

Bamuturaki admitted to the committee that she recommended Abbavater to the then CEO, saying Abbavater Ltd had handled other airlines and was, therefore, able to execute the task with Uganda Airlines.

Ms Bamuturaki told the committee that she was friends with the CEO of Abbavater Ltd, a one Mark Arnold Odeke Lenkai.

The committee found evidence of a contract between Abbavater and another company that Bamuturaki signed as a witness on behalf of Abbavater ltd. She admitted this fact before the committee.

On 6th March 2019, Ms Bamuturaki swore a deed poll changing her name from Jennifer Bamuturaki Musiime to Jennifer Arnold Lenkai, adopting the name of the CEO Abbavater Ltd Mark Odeke Arnold Lenkai.

The committee also got possession of an audio recording, where Ms Bamuturaki was admitting to someone her involvement in the hiring of Abbavater and how she would not want to repeat a similar incident.

The Finance Director, Paul Turacayisenga told the committee how he had realised over-invoicing by Abbavater Ltd to Uganda Airlines. The invoice was meant to be USD 172,000 (Shs 647.3 million) but Abbavater indicated USD 404,000 (Shs 1.5 billion), something which he said he reported to the Board and it was intercepted.

The Former Board Chairperson, Pereza Ahabwe informed the committee that in October 2019, the Board terminated the services of Ms Jenniffer Bamuturaki as Director Commercials for poor performance, and influence peddling in the case of Abbavater, among other reasons.

In its observation, the committee cited a clear conflict of interest and influence peddling from Bamuturaki in the award of the contract to Abbavater Ltd contrary to Sections 8 and 9 of the Anti-Corruption Act.

"It was erroneous for the Airline to enter into a contractual agreement with Abbavater without following the requisite procurement procedures outlined in the PPDA Act,"

In its recommendations, the MPs said all officials of UNACL involved in the procurement of Abbavater should be held liable for flouting procurement regulations.

HIRING ONLINE BLOGGERS

The committee learnt that the Airline CEO Ms Jennifer Bamuturaki hired a group of online bloggers at a cost of Shs 13 million per month. The group refers to itself as the Independent Online Journalists Association (INDOJA), headed by one Andrew Irumba, the head of an online publication called Spy-Uganda. On 24th December 2021, the contract was signed only by the CEO, without a witness and without the knowledge of the Corporation Secretary.

Further, the CEO sanctioned the payment of the online bloggers' Shs 117 million upfront backdated from April to December 2021, even though the contract was entered into in December 2021.

The Corporation Secretary informed the committee that as the company lawyer, he is supposed to participate in drafting all contracts entered into by the airline, and is meant to sign off as a witness. However, he was not aware of the contract and saw it for the first time during the committee proceeding. His name was written on the contract at the end with space for him to sign off as a witness, but his signature was missing since he was kept in the dark regarding the whole transaction.

The MPs observed that the management never discussed the need for online bloggers, it was a unilateral decision by the CEO to hire them, No wonder they focused more on fighting personal battles for the CEO, including disparaging Parliament.

"Jennifer Bamuturaki should be held responsible for this irregular contract, and she should refund the Shs 156 million that was spent on these online bloggers," MPs recommended.

VOID TICKETS

The committee learnt that there were 908 passengers with ticket values of USD 253,189 (Shs 982 million) that were not included in the reported revenues and passenger uplifts. Of the total figure above, 71.6 percent relates to open tickets, which if not closed can be voided, cancelled, or even exchanged leading to revenue loss.

The committee observed that there was an internal syndicate among staff members to defraud the airline.

The committee recommended a forensic audit of this issue, with the intention of prosecuting and recovering the lost funds from all those involved in this scam.

geofreyserugo1992@gmail.com