

**REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT
OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30TH JUNE 2013 VOLUME II CENTRAL
GOVERNEMENT**

(ENTITIES WITH A QUALIFIED OPINION-VOLUME I)

- MINISTRY OF LOCAL GOVERNMENT
- MINISTRY OF FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT
- UGANDA LAW REFORM COMMISSION

MAY 2015

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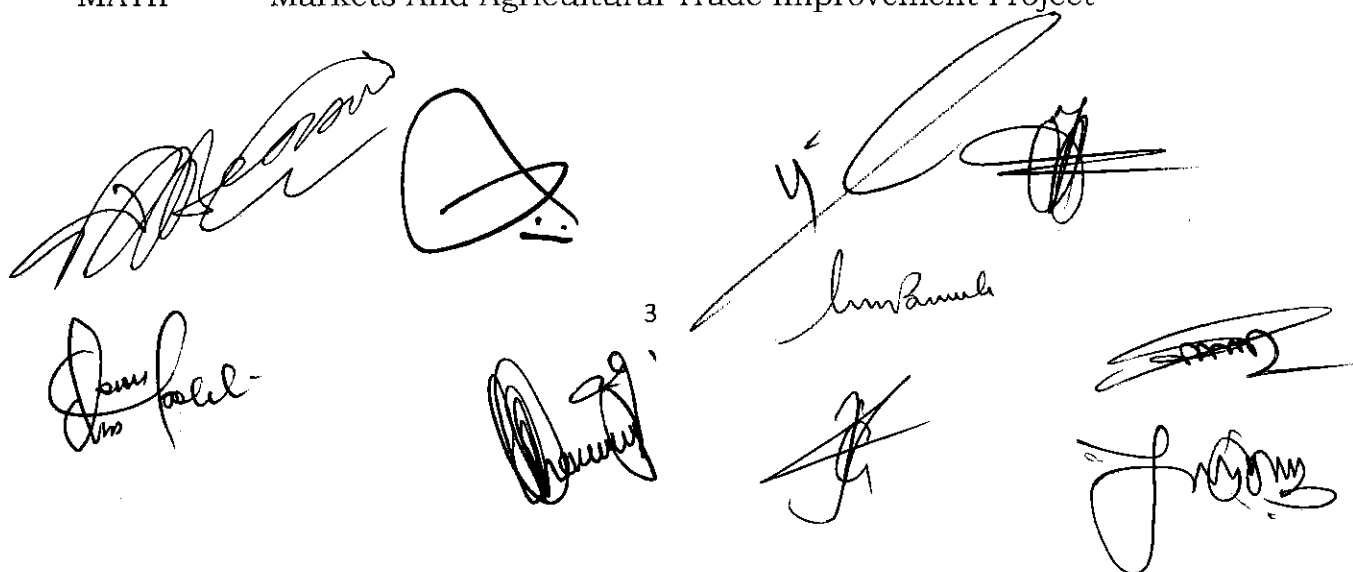
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ABBREVIATIONS

AO	Accounting Officer
MoFPED	Ministry of Finance, Planning and Economic Development
GoU	Government of Uganda
PAC	Public Accounts Committee
OAG	Office of the Auditor General
FY	Financial Year
PFAA	Public Finance and Accountability Act
PPDA	Public Procurement and Disposal of Public Assets Authority
IPSAS	International Public Sector Accounting Standards
IAS	International Accounting Standards
CAIIP	Community Agricultural Infrastructure Improvement Programme
MATIP	Markets And Agricultural Trade Improvement Project



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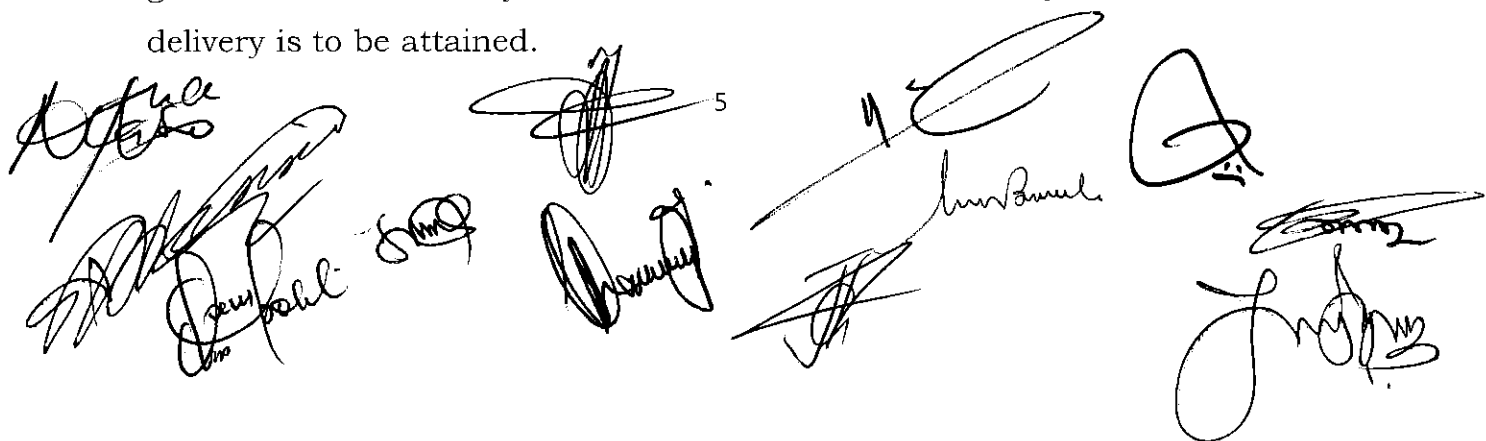
purview on 24th July 2014. This was followed with public hearings that commenced on 13th August 2014.

As a strategy for greater efficiency and effectiveness, PAC delineated the entities under its purview based on the peculiarity of audit opinion and the reports will be clustered based on opinion with this first batch containing those entities with Disclaimer of opinion tabled in the House in March 2015 and this being the second batch of those entities with qualified opinions.

A qualified opinion implies that A qualified opinion suggests that the information provided was limited in scope and/or the entity being audited has not adhered to established International Accounting Standards. Contrary to its connotation, a qualified opinion is not a good thing. Auditors that deem audits as qualified opinions are advising whomever is reading the document that the information within the audit is not complete or that the accounting methods used by the company do not follow International Accounting Standards.

2.0 Scope of the Report

This report is on the financial audit for the year ended 30th June 2013 and covers an in-depth analysis of the audit observations of those entities with qualified opinions. The thrust of the Committee is on the need for improvement of management systems and corporate governance. This in the view of the Committee is integral in plugging the debilitating reality of fragile institutions that have to be strengthened if governmental efficiency and effectiveness and ultimately better service delivery is to be attained.



1.0 Introduction

Article 163 (4) and (5) of the Constitution of the Republic of Uganda mandates the Auditor General to submit to Parliament annually a report of the accounts audited by him or her for the financial year immediately preceding and; that Parliament shall, within six months after the submission of the report referred to in clause (4) of this article, debate and consider the report and take appropriate action.

On Tuesday, 29th April 2014, the Annual Report of the Auditor General for the Year Ended 30th June 2013; Volume 2; Central Government was tabled in Parliament and referred to the Public Accounts Committee (PAC) for consideration.

Volume 2 comprises a total of 103 entities comprising Ministries, Agencies, Commissions, Departments, Uganda Missions abroad, Public Universities, Referral Hospitals and the Consolidated Government of Uganda Financial Statements.

In the FY 2012/13, out of the 103 entities audited, 60 entities had unqualified opinions, 39 had qualified opinions and 4 had disclaimed opinions. The basis upon which the audit opinion is premised forms the gist of the audit observations in the separate reports issued on individual entities, which PAC ultimately considered.

Pursuant to Article 90 of the 1995 Constitution and Rule 162 of the Rules of Procedure, PAC commenced the consideration of this report with an inaugural meeting with all Accounting Officers of entities under its

3.0 Methodology

In the consideration of the report of the Auditor General, the Committee;

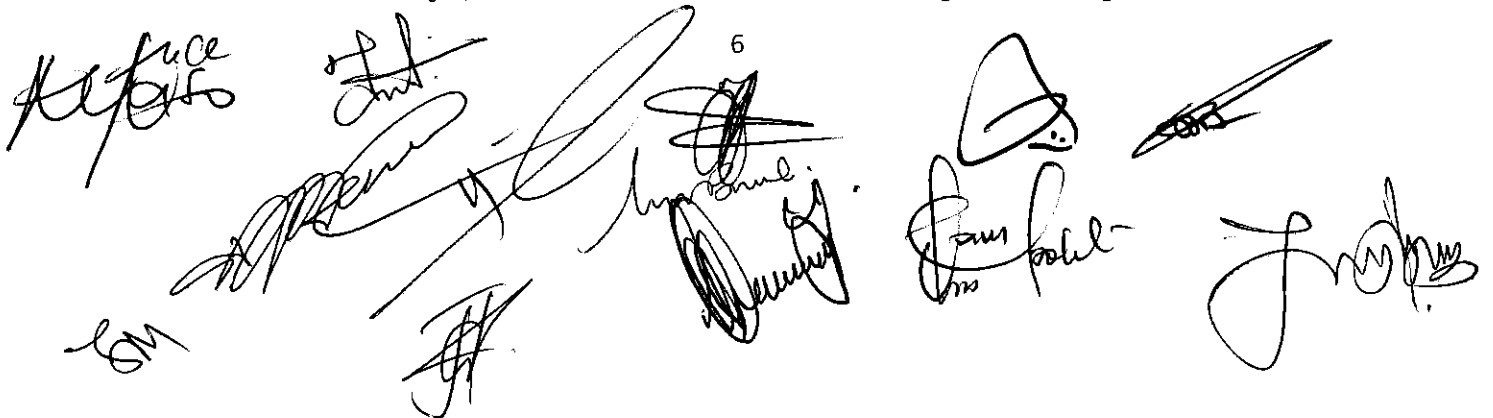
- i) Held meetings and in-depth deliberations with the Accounting Officers and representatives of the respective entities under its purview,
- ii) Reviewed documents namely; the report of the Auditor General for the year ended 30th June 2013, the financial statements of the entities for the year under review, relevant laws and regulations, submissions of witnesses, reports of the Public Accounts Committee for the previous years,

4.0 Synopsis of observations

The Committee notes that the most prevalent audit observations revolve around;

- i) **Mischarge of Expenditure:** The bulk of the entities with qualified opinions were found to have charged wrong expenditure codes for transactions undertaken. This not only distorts the rationale for budgeting but also implies mis-statement of financial statements
- ii) **Advances to individual accounts:** The entities considered here-in were found to have perpetuated the advances for activities to individual bank accounts contrary to a 2012 circular from the PSST barring the practice. This predisposes public resources to loss.
- iii) **Unaccounted for advances:** Whereas the Treasury Accounting Instructions require that administrative advances are accounted for within 60 days, most of the entities with qualified opinions were

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- iv) **Nugatory Expenditure:** Some entities with qualified opinions were found to have incurred wasteful expenditure often as a result of poor and costly decision making. Such budget leakages impede service delivery.
- v) **Lapses in procurement management:** The entities were found to have had severe lapses in procurement management characterized by the absence of relevant procurement files, wrong procurement methods which all point to a violation of the PPDA Act and the regulations there-under.
- vi) **Lapses in human resource management:** Considering that human resources are at the heart of organizational processes, lapses in Human resource management jeopardize the attainment of organizational goals. The lapses detected by audit in this regard include; absence of appraisals and irregular recruitment.

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5.0 MINISTRY OF LOCAL GOVERNMENT

1) Mischarge of Expenditure – Shs.4,178,737,274

Query: A review of the Ministry's expenditures revealed that contrary to the intentions of the appropriating authority, the entity charged wrong expenditure codes to a tune of Shs.4,178,737,274 – a practice that leads to misleading reporting.

Response: The AO agreed with the query. He attributed this to the dismal release of only 61% on recurrent expenditure inspite of the increasing scope of operation of new Local Governments. He particular cited the Commonwealth Local Government conference that was hosted in Uganda during the year under review. He argued that the process of leveraging resources to cater for those activities occasioned mischarging votes.

Observation and recommendation: The Committee notes that mischarge of expenditure distorts the very essence of budgeting and leads to misrepresentation of the financial statements.

The Committee further notes that whereas the mischarge is supposed to be reallocation of money within the same vote, the Committee notes that expenditure on the Commonwealth Local Government Conference was an intentional diversion of funds from planned activities to un-planned activities.

The Committee observes the laxity in supervision of Accounting Officers by the Office of the Accountant General.

The Committee recommends that:

The Committee recommends that;

Agree     

- i) *the Accounting Officer be reprimanded for mischarge and diversion of expenditure amounting to UGX. 4,178,737,274*
- ii) *the Accountant General should exercise greater responsiveness in the supervision of Accounting Officers*

2) Advances to Individual Personal Accounts

a) Non Compliance with Treasury Accounting Instructions

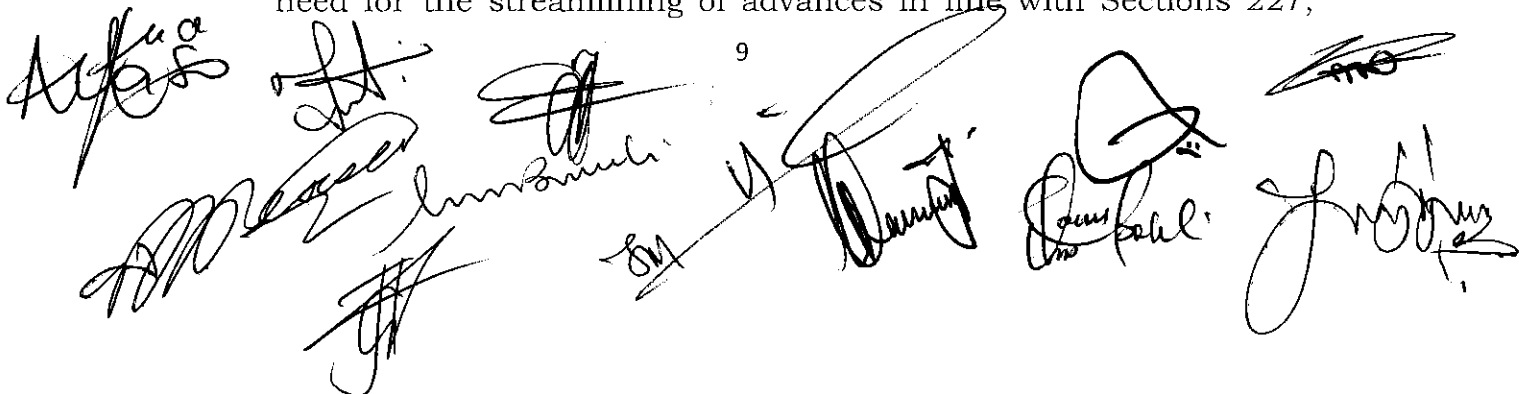
Query: Shs.1,840,727,530 was advanced to Ministry staff through their personal bank accounts to undertake direct procurements and other activities of the Ministry.

Response: The Accounting Officer conceded the audit observation and added that the said advances were mainly related to activities and workshops undertaken upcountry jointly with staff from other ministries. For beneficiaries from other ministries, their allowances and other entitlements were advanced to the Team leaders from Ministry of Local Government, who would shoulder the responsibility for the activities to be undertaken and to account for the funds.

The Accounting Officer further referred to and tabled a letter dated April 3rd 2014 and signed off by Mr. Lawrence Semakula.- the Ag. Accountant General to Director Banking, Bank of Uganda dated that stated that the Accounting officer is mandated to use his/ her discretion on this matter and ensure accountability of funds.

Observation and recommendation: The Committee notes the need for the streamlining of advances in line with Sections 227,

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The Committee recommends that the Accounting Officer should immediately appoint imprest holders with the approval of the Accountant General to safeguard public resources from possible loss.

Query: A review of advances to personal accounts was carried out and the following issues were noted:

- i) Accountability of Shs.96,313,500 was doubted due to inadequacies in the accountability.
- ii) Photocopies of some accountability were availed without certification, making the accountability doubtful.
- iii) Payment sheets were in some cases blank and not signed by the beneficiaries as such the auditor was unable to confirm the payments.

observations and informed the Committee that; advances amounting to UGX 67,700,200 to respective officials have since been accounted for. He attributed the failure of the auditors to

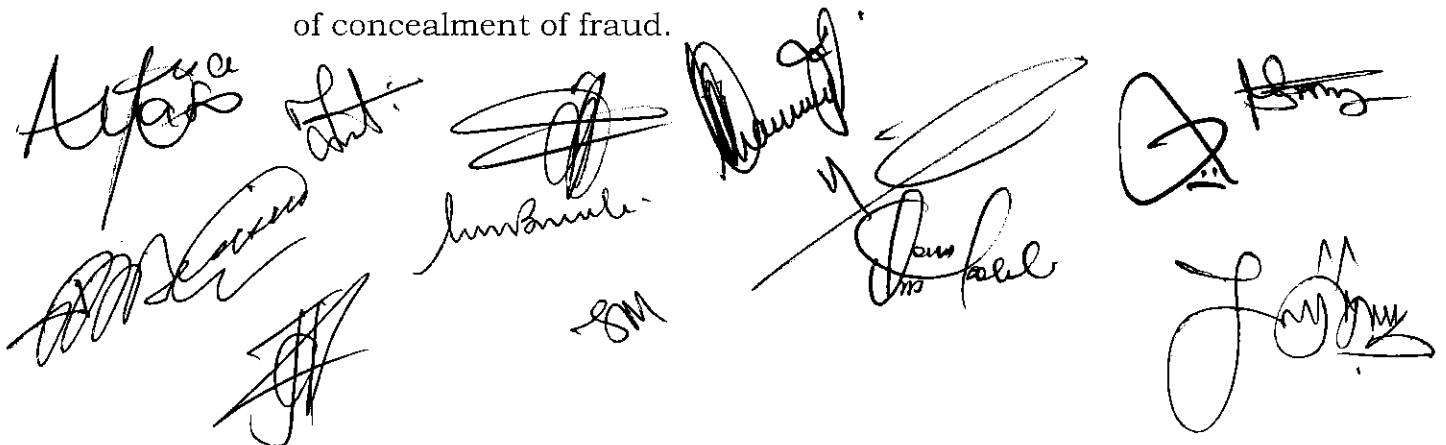
locate the documents at the time of audit to the parallel filing of accountabilities from payment vouchers which in effect impeded retrieval. He added that the officers who were advanced the funds have clarified the inadequacies in the accountabilities and that the Photocopies of the accountabilities have been certified and are available for verification.

Observation and recommendations: The Committee notes that the failure of the Accounting Officer to furnish auditors with the requisite accountabilities was a contravention of section 37 of the National Audit Act 2008. The Accounting Officer's attempted explanation of a parallel filing system is inconsequential.

The audit observations largely point to an inherent lapse in internal controls at the Ministry of Local Government, for which the Committee recommends the need for improvement of the internal audit function and other internal controls.

The Committee further notes that that the Accounting Officer failed in ensuring compliance with the 60-days threshold within which accountability for advances should be made as provided by the Treasury Accounting Instructions.

In addition, the Committee faults the Accounting Officer for reliance on uncertified photocopies and some incomplete sets of accountabilities. This in the view of the Committee smacks of concealment of fraud.



The Committee recommends that;

- i) the unaccounted for funds and doubtful expenditure amounting to UGX. 164,013,700 be recovered from the responsible officers***
- ii) the Accounting Officer should be held responsible for failure to avail documents for audit in accordance with the National Audit Act.***

3) Unaccounted for Cash Withdrawals

Query: A sum of Shs.376,248,891 was withdrawn in cash of which Shs.72,000,000 relates to imprest while Shs.304,248,891 relates to other activity cash withdrawals. It was noted that Shs.77,896,691 was unaccounted for at the time of audit (Shs.19,137,500 and Shs.58,759,191 for imprest and other cash withdrawals respectively) while Shs.15,160,000 was accounted for but the accountabilities were inconsistent and therefore considered doubtful.

Responses: The Accounting Officer conceded the audit observation and attributed it to the filing of accountabilities separately from payment vouchers.

Observation and recommendation: The Committee notes that the failure to furnish auditors with the requisite accountabilities is a violation of section 37 of the National Audit Act, 2008. The excuse of a parallel filing system by Accounting Officer does not suffice. Besides storage, the cardinal principle in filing of documentation is

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the ease of retrieval and the accounting Officer failed in this regard.

The Committee further observes the inability of the Accounting Officer to enforce timely accountability for advances in line with the TAIs. Failure to account for advances predisposes public funds to loss.

The Committee recommends that;

- i) the Accounting Officer immediately institutes recovery of the unaccounted for funds.***
- ii) The Accounting Officer be held liable for loss of public funds.***
- iii) The Accounting Officer streamlines the document filing system to ease retrieval without necessarily endangering the safety of the documents.***

4) Payments for Hotel Services

Query: During the year under review, Shs.647,265,371 was spent on workshops and conference services in four (4) hotels. Scrutiny of the transactions revealed that expenditure worth Shs.636,362,171 for retreats and workshops lacked attendance lists.

Further Shs.57,199,993 paid to Hotel Africana and Hotel paradise lacked expenditure vouchers and the relevant documentation to support the payments.

Response: The Accounting Officer attributed this audit observation to mis-filing which impeded timely retrieval of required documents. He assured the Committee that since then, his team had re-aligned the filing system at the Ministry of Local Government and that the requisite documents-the attendance lists and other payment documents are now easily retrievable in their right files.

Observation and recommendation: The Committee notes that the absence of attendance lists of workshops and conferences is a lapse in internal controls while the lack of expenditure vouchers is at odds with prudent financial management.

In addition, the alleged misfiling is an indictment of the records management function at the Ministry and the Accounting Officer's responsibility over it as bestowed by the TAIs.

Further the failure of the Accounting Officer to avail requisite documentation to the auditors is a contravention of section 37 of the National Audit Act.

The Committee recommends that;

- i) the Shs.647,265,371 be recovered from the Accounting Officer***
- ii) the Accounting Officer be held responsible for contravening section 37 of the National Audit Act,***
- iii) the Accounting Officer should strengthen his internal controls and ensure compliance with prudent financial management practices.***

5) Project Refunds

(a) Irregular borrowing from Project Accounts

Query: Contrary to section 42 (c) of the TAIs the Ministry borrowed a sum of Shs.916,601,532 from eight (8) project Accounts to fund Ministry's activities. At the time of the report, the borrowings had not been refunded. Details are as below:

Project	Amount (Shs.)
District Development Programme III	52,924,028
District Livelihoods Support Programme	56,751,967
District Transport Revolving Fund	328,688,331
Energy For Rural Transformation(ERT II)	62,074,970
Local Government Management and Service Delivery Programme	198,483,739
Local Government Sector Investment Plan	26,810,000
Strengthening Monitoring Capacities in Uganda Public Sector	61,080,000
Uganda Good Governance Programme	129,788,497
Total	916,601,532

Response: The Accounting Officer conceded the audit observation and attributed the inter-project borrowings to insufficient releases on some budget items. He informed the Committee that in the year under review, only 51% of the appropriated Budget, was released by Ministry of

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Finance, Planning and Economic Development. He added that all the borrowing of funds was duly authorized and the borrowed funds were refunded.

Observation and recommendation: The Committee notes that besides the irregularity of the said borrowings, such borrowings affected the planned and timely implementation of other Project activities. The admission of the Accounting Officer that some of the borrowed funds were meant for monitoring and evaluation of on-going projects implies that the integral activity of monitoring and evaluation could have been impeded.

The Committee also notes that such borrowing should ideally have been approved by the PSST and yet this was not done. The Accounting Officer took it upon himself to effect the borrowings.

The Committee further notes that such inter-project borrowings poses the risk of misrepresentation of accounts and is a violation of the Commitment Control System. Such inter-project borrowing is an indicator of a planning and budgeting malfunction at the Ministry.

The Committee observes that with 51% of budget releases, the claim that the borrowed funds were refunded is doubtful.

The Committee notes that funds were borrowed from projects which were financed by loans.

The Committee recommends that a forensic audit be conducted on the projects where funds were borrowed and the activities on which the borrowed funds were spent.

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The Committee further recommends that IGG investigates the said borrowings with a view of prosecution.

(b) Unaccounted for borrowings

Query: Examination of payments relating to the borrowing revealed that Shs.70,931,400 advanced in form of fuel and allowances to staff to carry out various activities remained unaccounted for by the time of audit contrary to section 120 of the TAIs.

Responses: The Accounting Officer agreed to the audit observation. He added that the funds borrowed were put to the intended purposes and all the accountabilities relating to borrowings are available for verification.

Observations and recommendations: The Committee notes an inherent weakness of the Accounting Officer in enforcing timely accountability from the staff. By so doing, the prescribed 60 days within which accountabilities are supposed to be filed as per the TAIs was violated. This laxity grossly predisposes public funds to loss.

The Committee observes that this query is related to the previous one and notes with disappointment the impunity of the conduct of the Accounting Officer.

The Committee further notes the admission of the Accounting Officer of writing to the responsible officers as a reactionary initiative in response to the audit observation.

The Committee recommends that:

The Committee recommends that;

- i) *the Accounting Officer should be relieved of his duties as an Accounting Officer.*
- ii) *Shs.70,931,400 being unaccounted for funds be recovered from the Accounting Officer.*

6) Improperly vouched air tickets expenditure

Query: A sum of Shs.33,578,776 was spent on air tickets for staff traveling abroad. However the funds were not properly accounted for as they lacked supporting documents contrary to section 120 and 181 of the Treasury Accounting Instructions. The highlights of the findings are as below:

- Accountabilities in form of ticket folios or e-ticket print-outs were not availed for authentication of payments.
- Boarding passes and passport copies were not availed to confirm exit and return dates.
- No back to office reports were on file to justify the travels undertaken.

Observation and recommendation:

The Committee observes that the Accounting Officer dismally failed to avail any evidence in regard to travel abroad.

The Committee therefore concludes that these journeys did not take place. This was fraudulent and recommends that the said officers be referred to the Public Service Commission for disciplinary action.

The Committee recommends that the Shs.33,578,776 be recovered from the Accounting Officer with interest at the current bankrate.

7) Irregular Inter-Account Transfers

Query: The Ministry operates Bank Account no.000110088000018 Local Government Sector Investment Plan with Bank of Uganda. It was noted that the Project closed some years back but the entity did not close the account. Audit review of the bank account revealed the following:

- a) A transfer of Shs.5,211,930,182 was made from the Treasury General Account in the last week of the financial year 2011/2012 (29th June 2012). No authority from Treasury for the transfer to the off-budget account was availed for review. This transfer could have been made to circumvent the controls which require unspent balances to be returned to Treasury at the close of the financial year.
- b) The amount was spent from the off budget project account in 2012/2013 financial year without appropriation authority of Parliament and approved workplans.
- c) The above transfer was utilised from this account as detailed below:

Expense category	Amount (Shs)
Cash	178,180,000
Personal advances to individuals	355,348,860
Ministry of works and Transport	1,268,658,000
Fuel	143,984,867
Clearing and Forwarding Ltd	994,545,548
URA tax	60,994,939

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Shipping Services	2,079,686,300
Tours and Travel Company	82,741,725
Tours and Travel Company	28,304,100
Others	81,059,040
Total	5,273,503,379

A review of the expenditure relating to the above transfer revealed the following:

- Shs.188,058,700 out of Shs.355,348,860 deposited on individual personal accounts was not accounted for. No cash book and advance ledger was maintained for this account.
- According to the MoU signed between the MoLG and Ministry of Works and Transport (MoWT), MoWT was meant to utilize the remitted funds (Shs.1,268,658,000) in strict compliance to the terms in the MoU and to submit accountabilities supported by bank statements and original copies of related documents within one month of completion of assignment. However this had not been done ten (10) months after expiry of the MoU.
- The Auditor was not provided with the policy cover by the contracted cleaning company implying that charges of Shs.262,920,000 were irregular. Without evidence of insurance cover certificates and receipts, posing the likelihood of inflated payment to the firm.

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the project, the Committee recommends that the Accounting Officer be held responsible for failing to adhere to the Treasury Accounting Instructions.

It was noted that the Project closed some years back but the entity did not close the account.

ii) Regarding the transfer of Shs.5,211,930,182 which was made from the Treasury General Account in the last week of the financial year 2011/2012 (29th June 2012) without authority from Treasury, the Committee recommends that the Accounting Officer who committed fraud be investigated by the IGG with a view to prosecution.

iii) Regarding the utilization of funds,

(a) The UGX 355,348,860 deposited on individual bank accounts be recovered from the individual officers and the said officers be referred to the Public Service Commission for disciplinary action.

(b) On the failure of the MoWT to submit accountabilities for the Shs.1,268,658,000 supported by bank statements and original copies of related documents within one month of completion of assignment as per the MoU, the Committee recommends that the IGG investigates both the MoWT and the MoLG on the usage of this money with a view of prosecution.

(c) On the failure of the Accounting Officer to provide the Auditor with the policy cover by the contracted cleaning company implying that charges of Shs.262,920,000 were irregular. Having no proof of insurance cover

(d) On the absence of the bank guarantee executed by the cleaning company Ltd for Shs.108,541,812, the Accounting Officer be held responsible for predisposing public funds to risk.

v) The Committee recommends that in regard to the outstanding balance of Shs.852,593,754 at the end of the financial year which was not disclosed in the financial statements (balance sheet) of the Ministry as at 30th June 2013; the Accounting Officer should refund the money.

Query: During the year a total of Shs.84,000,000, was paid to the Ministry of Foreign Affairs (Shs.59,000,000)and State House (Shs.25,000,000) to facilitate protocol activities and hosting of a State banquet. However, the supporting documents to justify the transfers were lacking and neither were accountability documents for the expenditure provided for audit review.

Response: The Accounting Officer informed the Committee that the funds remitted to Ministry of Foreign Affairs and State House

were not for Presidential Pledges but support to sub committees for the hosting of the Commonwealth Local Government Conference. The funds to State House (Shs.25,000,0000) was for hosting of the State Banquet by H.E. The President and Shs.59,000,000 was for facilitation of protocol activities during the conference.

He however conceded that indeed at the time of audit the accountabilities in question were yet to be submitted to the Ministry.

Observation and recommendation:

The Committee notes the unclear manner of transfer of the said funds to State House and the potential risk of duplication by the Ministry for activities that are budgeted and financed by other line Ministries.

The Committee also notes the failure of the Accounting Officer to furnish the auditors with the requisite documents thereby breaching section 37 of the National Audit Act.

The Committee recommends that;

- i) The Accounting Officer be held responsible for breach of section 37 of the National Audit Act.***
- ii) In the absence of verified accountability by the Auditor General, the Committee recommends that the Accounting Officer be made to refund the Shs.84,000,000.***

9) Diversion of GOU Counterpart Funding

Scrutiny of expenditure documents revealed that a total of Shs.143,102,809 was diverted to fund non-project related activities. There was no evidence that the Accounting Officer sought for approval by way of a reallocation or virements warrant, as required under the Public Finance and Accountability Regulations 2003. Summary of diversion of counterpart funding is as below;

Project	Code	Release amount (Shs)	Diversion (Shs)
CAIP I	1068	157,057,145	6,154,298
CAIP II	1087	149,675,561	19,034,800
DLSP	1066	231,250,577	77,422,200
CAIP III	1236	60,015,512	40,491,511
TOTAL		597,998,795	143,102,809

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Response: The Accounting Officer agreed with the audit observation and informed the Committee that the diversions were as a result of cuts of releases to MOLG.

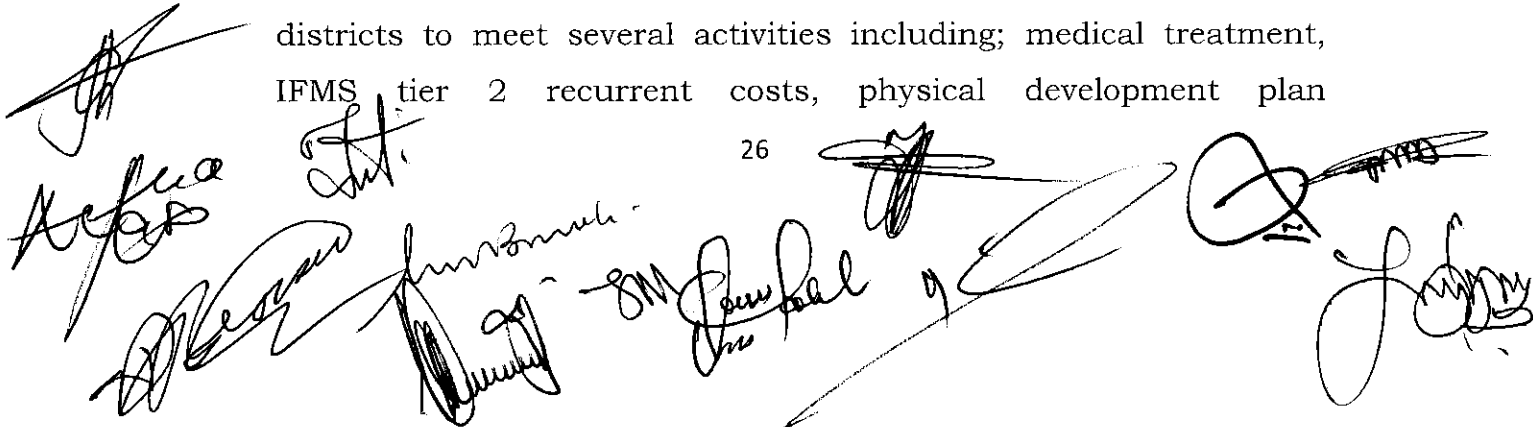
Observation and recommendation: The Committee notes that the diversion of GOU Counterpart funding undermines the essence of appropriation and with it the erosion of Parliamentary power over the purse and the jeopardy of national development objectives. The Committee further notes that such diversion results into under performance on the part of the project and leads to misstatement of financial statements.

The Committee recommends that;

- i) In future such diversion of funds should not occur. If indeed additional resources are required, the Accounting Officer should either seek a supplementary or virement through the legitimate channels.***
- ii) The Accounting Officer be held responsible for contravening the PFAA.***
- iii) The diverted funds that remain un-refunded should be immediately refunded to the project account.***

10) Transfers to Districts

Query: The Ministry transferred Shs.697,452,087 to various districts to meet several activities including; medical treatment, IFMS tier 2 recurrent costs, physical development plan

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implementation and road openings. Audit review of the payments revealed the following:

(a) Treatment abroad

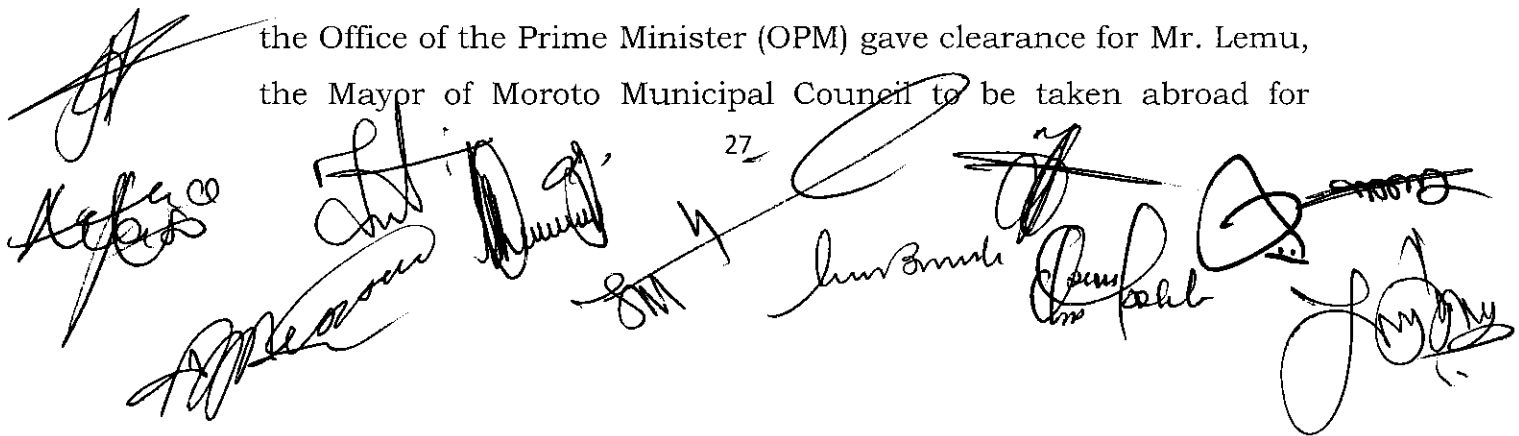
Public Service Standing Orders 2010 Medical Attention, section (M-f) 4(b) requires that night allowance should not be paid to patients except where an officer is required to convalesce in the country under specialist supervision. The maximum claim is limited to 21 days exclusive of hospital days which are charged on the hospital account. It is also provided that in case of any excess requirement, the officer may claim from the responsible Permanent Secretary and any authority thereon will be limited to half of the officer's night allowance.

Shs.120,872,000 was remitted to a Municipal Council for treatment of a mayor in India for a kidney transplant where he was to spend 38 days with the kidney donor and attendant. The referral was properly authorised by the medical board. Included in Shs.120,872,000 was US \$ 17,900 to cater for hospital costs during observation, operation and after operation while in India for the 38 days.

However, contrary to the standing orders the ministry of health recommended payment of per-diem for 38 days to the mayor and subsequently US \$ 13,680 (Shs.35,636,400) was paid for all the days he spent in the Indian hospital. The officer was therefore not entitled to any per-diem.

Response: The Accounting Officer informed the Committee that the Office of the Prime Minister (OPM) gave clearance for Mr. Lemu, the Mayor of Moroto Municipal Council to be taken abroad for

27



treatment at a cost of US \$ 46,000. In the clearance, the OPM had indicated that Ministry of Local Government would meet the Medical expenses. However, because the Ministry does not budget for treatment of political leaders in Local Governments, the Accounting Officer proposed to MoFPED to provide a special release to Moroto Municipal Council payable directly to the Council and to be executed by the Municipal Accounting Officer following the standing Guidelines. However the PS/ST proceeded to authorize the Ministry to spend from the Ministry budget instead. The Accounting Officer tabled a copy of the authorization from PSST.

Observation and recommendation: The Committee notes that much as authorization for the expenditure was sought from PSST, the manner of expenditure violated the Standing Orders in as far as the US \$ 13,680 (Shs.35,636,400) perdiem payment was concerned. This authorization therefore does not in anyway sanitize the Accounting Officer from culpability in contravening the Standing Orders since as the originator of the request for authorization, the Accounting Officer should have known better that such a request was at odds with the Standing Orders. His failure to point this out to the PSST exposes him to culpability.

The Committee therefore recommends that;

- i) the Accounting Officer be held liable for contravening the Standing Orders.***
- ii) the Committee recommends that the over payment in perdiem of US \$ 13,680 (Shs.35,636,400) be recovered from the Accounting Officer and the Mayor.***

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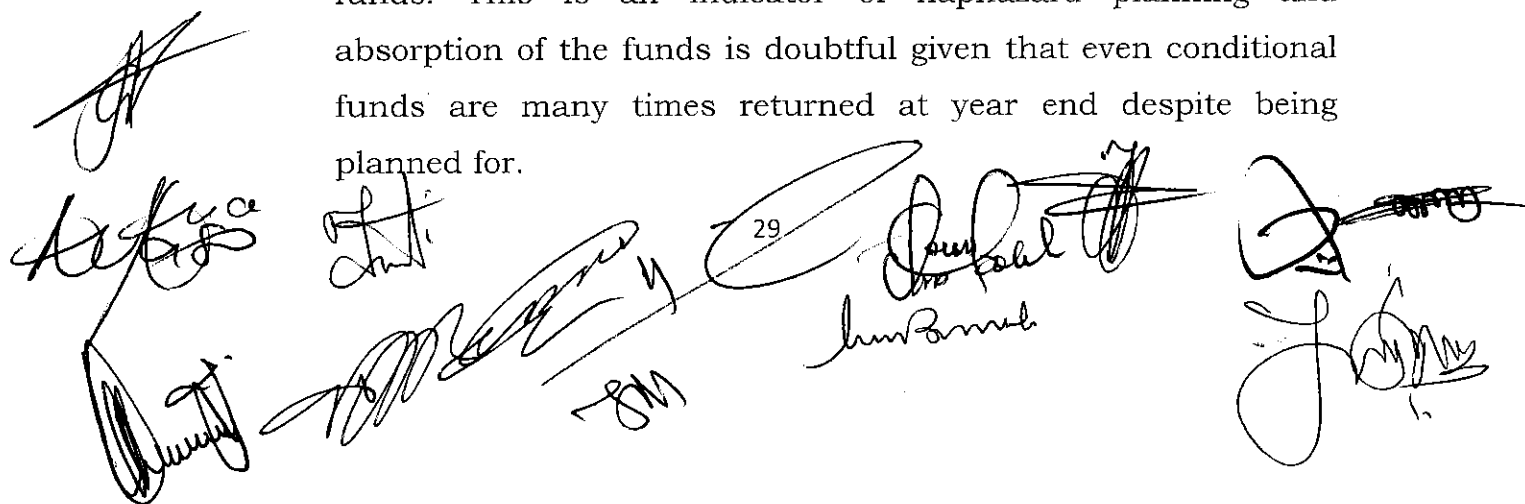
(b) Support to Town Councils

Query: The Decentralization policy provides an anchor for advancement of Governments overall political and social –economic agenda. It promotes popular participation and empowers local people to make decisions on issues that affect their lives and this is done by Government support through funding the decentralized services.

This funding is through unconditional grants, conditional grants and equalization grants which are budgeted for and released directly to Local Governments.

Contrary to the above Government funding frame work, it was noted that the Ministry transferred Shs.60,000,000 to 5 Town Councils to open and grade urban roads. Several issues were noted as below:

- i) Local Government's road funding interventions are budgeted and released by Uganda Road Fund as conditional grants after approval of work plans and IPFs are provided and passed by the Councils in their budgets for implementation. The Ministry documentation stated that funding had been secured for these transfers however the auditor was not availed with the source. This pointed to a diversion of Ministry funds.
- ii) There were no approved work plans and supplementary budgets by the Councils provided for review to confirm absorption of funds. This is an indicator of haphazard planning and absorption of the funds is doubtful given that even conditional funds are many times returned at year end despite being planned for.



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- iii) The criterion used by the Ministry in allocating the secured funds to the chosen Town Councils was not availed.
- iv) No accountability was availed by the districts upon utilization of the funds by the time of the report.

Response: The Accounting Officer informed the Committee that; support to the selected Town Councils was provided for in the budget estimates, the respective Councils prepared supplementary budgets and that the Ministry provided sufficient supervision to ensure adequate absorption. He added that the criteria used by the Ministry in the allocation of funds to Town Councils included:

- i) Availability of physical development plans: Those Councils which had been supported to develop physical development plans.
- ii) Capacity to demonstrate implementation plans: Those Councils which had already embarked on the implementation of physical development plans as demonstration of capacity.

On the guidelines governing the utilization of funds, the Accounting Officer stated that the Guidelines were issued in the circular dated 20th February 2013. All the relevant district and Town Council officials were informed. They acknowledged receipt of money and that the reports were available.

Observation and recommendation: The Committee notes that while the Accounting Officer enumerates several actions in

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The Committee recommends that:

- ### 11) Non-deduction of Withholding Tax from Local Suppliers

Summary of payments are in table below;

Item	Amount (Shs)	WHT tax due
Stationery and computer supplies	347,761,191	18,501,211
Silver springs	26,626,699	1,353,900
Kembabazi Catering Centre Ltd	49,200,000	2,952,000

Silver springs	26,626,699	1,353,900
Kembabazi Catering Centre Ltd	49,200,000	2,952,000

Vehicle hire	135,086,201	8,105,172
Total	210,912,900	26,606,383

Response: The Accounting Officer conceded to and regretted the non deduction of WHT as an act of omission.

Observation and recommendation: The Committee notes that the failure to deduct WHT deprived the Government of revenue.

The Committee recommends that the Accounting Officer be held responsible for failure to ensure deduction of the said WHT and the Accounting Officer makes good the loss and pays back the UGX. 26m

12) Wasteful Expenditure – Parking fees for Grounded Vehicles

Query: It was noted that Shs.35,607,680 was paid to a company as parking fees for 16 Ministry motor vehicles parked in the basement of Uganda House for more than a year. However, an inspection of the parked vehicles in the basement revealed that these vehicles were grounded. Management's failure to adhere to the TAIs chapter 7, paragraph 705 led to wastage of funds.

Among the vehicles were 4 Mitshubishi Pajeros (2 white and 2 Grey), One Blue Nissan Hard body, three Nissan Patrols grey in colour and one Toyota Land cruiser white with the inscription "UN" whose number plates had been removed. Five of the grounded Motor vehicles were not recorded in the Motor Vehicle register

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namely UG 2214R Mitshubishi Pajero, UG 1090 R Nissan Hard body.

Response: The Accounting Officer informed the Committee that, after the audit, all the vehicles in question were boarded off and the proceeds transferred to the Consolidated Fund Account.

Observation and recommendation: The Committee notes that this was a case of nurgatory expenditure. Even though the Accounting Officer stated that the said vehicles had been boarded off, the long spell the vehicles spent in the parking inevitably reduced the disposal value at the time of disposal.

In addition, the delay in boarding off the said vehicles is testimony of the potential absence of a Board of Survey in the year under review, which in itself is a violation of the TAIs.

The Committee recommends that the Accounting Officer be held responsible for nurgatory expenditure and violation of the TAIs.

13) Staff Welfare-Irregular Allowances

Query: It was noted that Shs.624,920,000 was paid to Ministry staff as automatic monthly allowances. The auditor observed that this allowance paid in form of night subsistence was paid irregularly because it was not supported with any administrative

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circulars/standing order instructions from Ministry of Public Service. Further, no taxes were deducted in form of PAYE.

Response: The Accounting Officer agreed to the audit observation and stated that the payment of this allowance was an attempt to motivate staff and boost their productivity.

Observation and recommendation: Whereas staff motivation is key to bolstering productivity, the Committee notes that this should not be a justification for the payment of allowances that contravene the circular standing instructions. Such payments inevitably affect the Ministry's cash flows hence impeding the performance and implementation of planned activities.

The Committee recommends that;

- i) the Accounting Officer be held responsible for payment of irregular allowances and by so doing contravening the Circular standing instructions;**
- ii) the Ministry regularizes the payment of any such allowance in consultation with the Ministry of Public Service.**
- iii) The said allowance be recovered from the said staff within a one year period.**

14) Budget Performance

Query: A Review of the budget performance for the year revealed that some targets were not achieved despite release of funds to the various vote functions.

Management Response

The Accounting Officer referred to the Ministerial Policy Statement for Financial year 2013/14 and stated that the Ministry performed at an average of 61% and 85 % for Non wage recurrent and development respectively. He added that the Ministry therefore, prioritized the expenditures to be met in light of the 61% releases for the year under review.

He further explained that the total budget allocated for the output does contain other cross cutting expenditure items which support the activity to be carried out and in such a case, even though the activity may not have been wholly carried out, the attendant services are usually provided.

Observations and recommendations:

The Committee observes that of the budgeted UGX. 14.556 for the stated activities, a total release of UGX. 2.687 was diverted as the intended activities were not undertaken.

The Committee recommends that the UGX. 2.687 released and diverted be recovered from the Accounting Officer.

15) Audit Committee

Query: Regulation 29 and 30 of the Public Finance and Accountability Regulations 2003 and section 8 of the Public Finance and Accountability Act 2003 requires the Minister in charge of Finance to establish and appoint Audit Committees whose functions are advisory to the Accounting Officer.

During the year ended 30th June 2013 the Ministry of Local Government had an Audit Committee composed of five members. However, the committee did not carry out its functions relating to approval of annual audit work plans, discussion of audit reports, and review of the Ministry's financial statement:

Response: The Accounting Officer conceded to the audit observation.

Observation and recommendation: The Committee notes that the non-functionality of the audit Committee deprives the Ministry of correctional advice that would go a long way in bolstering internal controls and informing managerial decisions. This anomaly may have been the precipitator of the myriad of lapses cited by the Auditor General.

The Committee recommends that the Accounting Officer be held responsible for failure to operationalize the audit committee.

PROJECTS:

5.1 COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME – PROJECT 1 (CAIP 1)

It was noted that management had complied in all material aspects of the financing and GoU financial regulations except for the matters below;

a) Un-remitted Pay-As-You-Earn (PAYE)

Query: It was observed that a total of Shs.147,392,099 was deducted and withheld as PAYE from salaries of Programme staff as required by the regulations, however, these funds were not remitted to URA.

Response: The Accounting Officer conceded the audit observation and attributed the non-remittance of PAYE to limited counterpart funding from Government.

Observation and recommendation: The Committee notes that the non remittance of PAYE is a violation of the tax law which may lead to penalties. Considering that PAYE is deducted at the time of paying wages, the Accounting Officer's excuse of the unavailability of counterpart funding is suspect. The audit observation is an indictment of the compliance function at the Ministry.

The Committee recommends that the Accounting Officer be held liable for non-remittance of Shs.147,392,099 deducted in PAYE

b) Failure to deduct 6% Withholding tax (WHT) from Service providers

Query: It was observed that Management did not withhold tax amounting to Shs.2,469,004,410 on payments for services provided on non-exempt companies contrary to the requirements of the tax laws under Section 120(1).

Response: The Accounting Officer conceded the audit observation and attributed the non-deduction of WHT to the limitations of the ADB loan agreement which prohibits the use of the loan funds for the payment of taxes relating to the goods and services required for the execution of the Project.

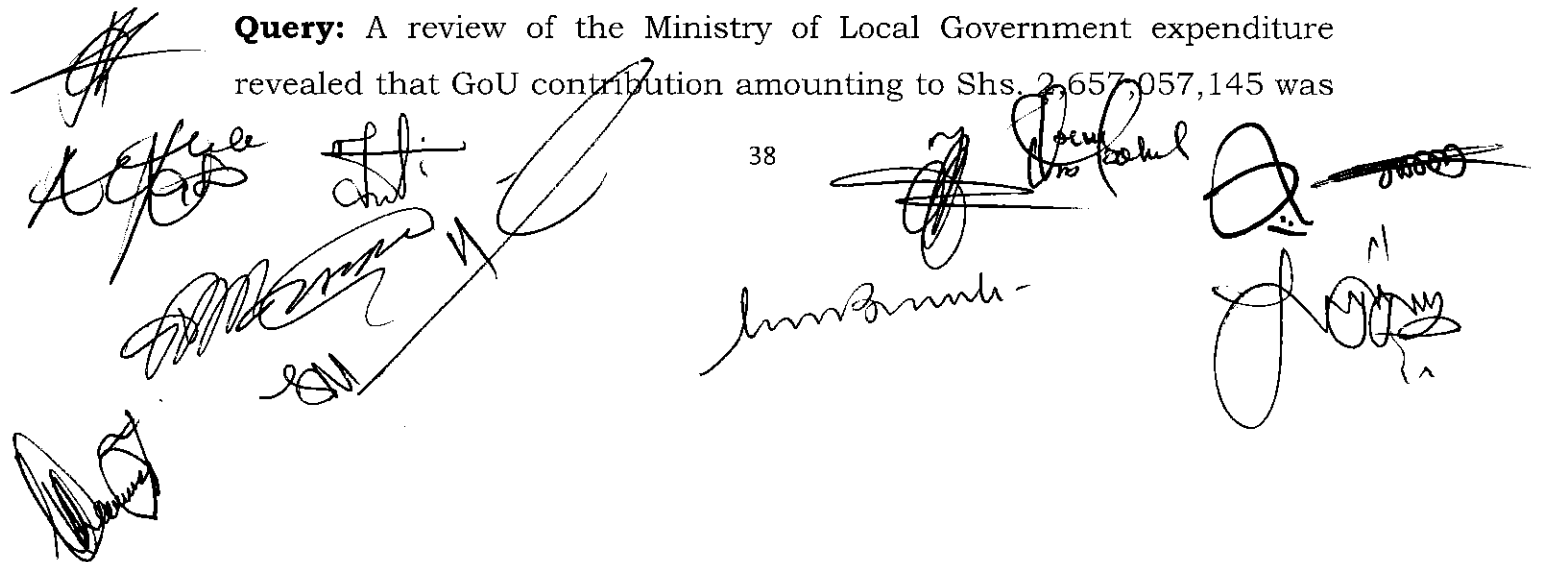
Observation and recommendation: The Committee notes that the non-deduction of withholding tax deprives Government of revenue.

The Committee recommends that the WHT be recovered from the respective companies and the Accounting Officer be held liable for causing financial loss.

General Standards of Accounting and Internal Controls

c) Spending project funds at source

Query: A review of the Ministry of Local Government expenditure revealed that GoU contribution amounting to Shs. 2,657,057,145 was

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released by Ministry of Finance, Planning and Economic Development (MOFPED) to the project through the Ministry of Local Government Treasury General Account where funds were spent on behalf of the Project which was contrary to the Project's operations manual.

Response: The Accounting Officer conceded to the audit observation.

Observation and recommendation: The Committee notes that such a breach of the project operations manual may jeopardize GoU relations with development partners.

Besides, expending Project funds by the Ministry does not only deny the Project Management control over the funds but also poses a risk of diverting the funds to activities outside the Project.

The Committee was dismayed by the gross incompetence of the Accounting Officer in regard to proper stewardship of public resources and ***recommends that the Accounting Officer be relieved of his duties.***

That subsequently the Ministry ensures compliance with the project operations manual by ensuring that project funds are transferred from the line Ministry to the project account for proper monitoring and control.

d) Field Inspections

Field inspections were undertaken with a view of establishing among others, Physical progress of civil works on district feeder roads and

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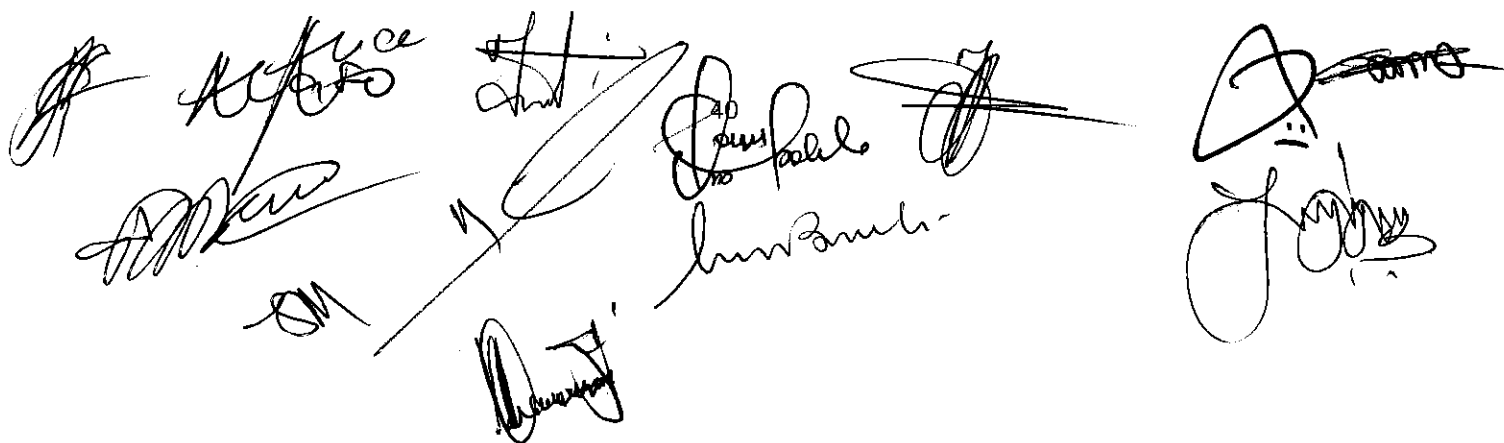
community access roads; construction of rural markets and agro processing shelters. The extent of supervision and monitoring by the respective District Local Governments were considered. The following matters were observed during inspections:-

Rehabilitation of Community and Access Roads (CARs)

e) Lack of routine maintenance of roads by the Districts

Query: Most of the roads in the Districts under CAIIP 1 (Batch A and B) Project were completed. However, the districts are not maintaining these roads and as a result some roads have narrowed due to lack of maintenance. The roads had become bushy with drainages. Specifically during inspection of Masaka, Mbale, Tororo, Butaleja and Rakai districts, the auditor noted that the carriage width of some roads had reduced to 2.5m from the 4.5m standard meter set for the murrum roads. It was also noted that in some instances, there was poor workmanship exhibited by contractors. The auditor specifically cited the Watakakhuna- Bukaya-Nanaaloko, Buwalasi- Namwalye Bridge in Mbale, Siwa Lwala Nimwanga Pobwok 17.7km Road in Nabuyoga Sub County, Tororo District, Mpologoma- Nabiganda-Bugalo, Kanghalaba- Hisala- Kamenya, Butaleja district and the 12.3km Kabingo-Nsimbo- Kyabalemera-Ddwaniro & Lumbugu-Nsozibiri Road, Rakai district

Response: The Accounting Officer attributed this to the insufficient funds allocated to the districts for the maintenance of the said roads.

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Observation and recommendation: The Committee notes that adequate operation and maintenance of infrastructure is a precondition for their longevity.

While there may not be adequate resources for maintaining such Community roads, it is imperative that the project designs for such Community roads includes a component for community involvement so as to elicit community participation in for example trimming roadside vegetation and desilting drainages. This will guarantee greater local level ownership of such projects.

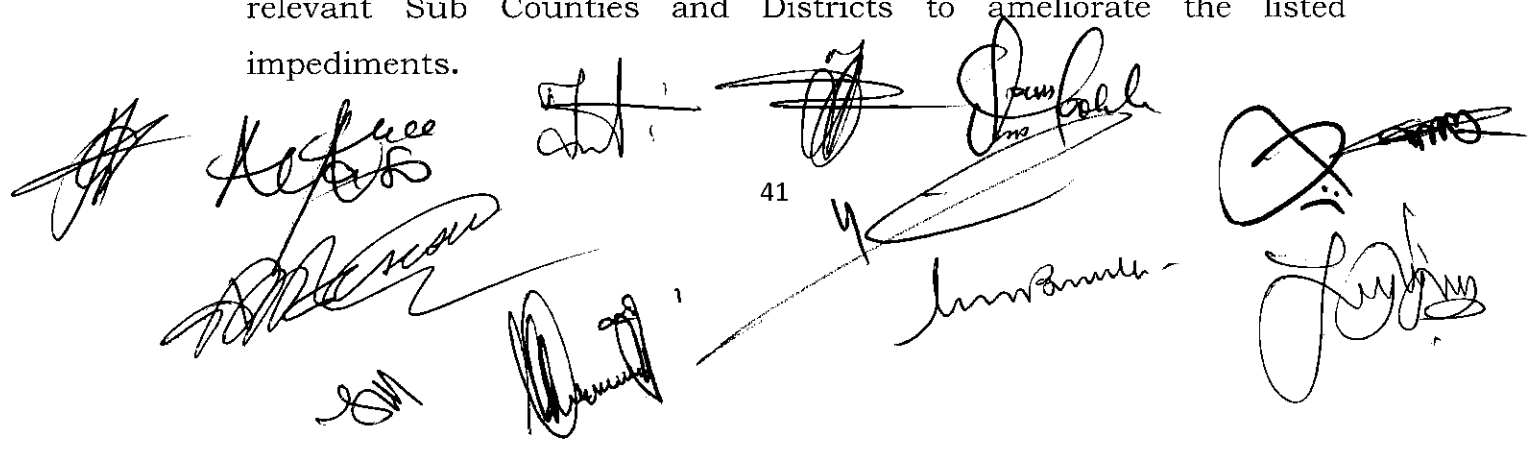
The Committee recommends that the Accounting Officer liaises with the Uganda Road Fund with a view of securing resources for the maintenance of community access roads.

Agro processing facilities

f) Delayed commissioning of Agro processing Facilities

Query: A number of agro processing facilities in Mbale district were completed but had not yet been commissioned. For example, a maize mill at Kimwanga market were not commissioned. Some of the facilities had already developed cracks before becoming operational most likely due to poor workmanship.

Response: The Accounting Officer undertook to liaise with the relevant Sub Counties and Districts to ameliorate the listed impediments.



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Observation and recommendation: The Committee notes that the non-commissioning of completed facilities implies that they are non-operational and therefore local communities can not benefit from them.

The cases of poor workmanship poses questions of project management and supervision, for which the Accounting Officer is culpable.

The Committee recommends that the completed yet un-commissioned facilities be commissioned immediately to enable the intended beneficiaries benefit from them.

The Committee further recommends that the Accounting Officer improves project monitoring and supervision as a quality assurance strategy to guard against bad workmanship by contractors.

g) Lack of capacity by a contractor

Query: During the previous year, it was noted that in Tororo District a construction company was awarded a contract with a contract sum of Shs.227,594,063 to construct agro processing facilities in all the three sub counties of Nagongera (2 rice hullers); Merikit (2 rice hullers) and Nabuyoga (1 maize mill and 2 rice hullers) all to be completed at the same time. At the time of audit, only 25% of the contracted sum had been paid. It was revealed that the contractor lacked capacity to execute the contracted works in accordance with the contract period as the projects are still incomplete to date.

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Response:

...up the matter
and ensure that the Project activities are fully implemented.

Observation and recommendation: The Committee notes that the non-completion of works leads to wastage of public resources.

The engagement of a contractor without the requisite capacity to execute the works is an indictment of the procurement function of the Ministry. The failure of the contracts Committee to adequately evaluate the efficacy of the bid of the particular contractor renders all the Members of the contracts committee culpable.

The Committee recommends that;

- i) **The Company in question be blacklisted**
- ii) **The 25% of the money advanced be recovered with interest**
- iii) **The Accounting Officer be held responsible for the botched procurement.**

h) Non-Operational markets

Query: It was noted that some markets that had been completed in Mbale District were not operational. For instance Busiu Sub County market was complete but not operational and yet some lockers had already been removed from the stalls.

Response: The Committee was informed that the markets in question were handed over to the Sub County and therefore it was the responsibility of the Sub-county to operationalise them including allocation of the stalls to the vendors. The Accounting Officer attributed the non-operational markets to poor location, lack of enforcement of the Market Act, political interference, reluctance by vendors to pay market dues and inadequate commodities to sell during off- season, however, he added that these issues were being addressed.

Observation and recommendation: The Committee notes that the non operationalisation of the said markets impedes their utilization by the intended beneficiaries.

The Committee further notes the need for enforcement of the market Act so as to compel vendors to operate within designated markets.



The Committee observes the need for stakeholder involvement before, during and after the project.

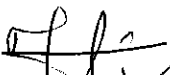
The Committee recommends a Value for Money Audit of all the markets under CAAIP I with a view of ascertaining their utilization.

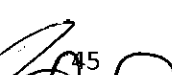
i) Project performance under rural infrastructure improvement component


Query: According to the project five year implementation plan and quarterly progress reports, the Project had not achieved the following targets despite the fact that its closure date was set for 30th September 2013:



Activity	Targets	Progress as at 30th June 2013
Rehabilitation of Community Access Roads	4,680km	3868.2km completed and handed over. 343.5km ongoing physical progress 80%
Rehabilitation/Construction of	78 Markets	74 Markets completed and


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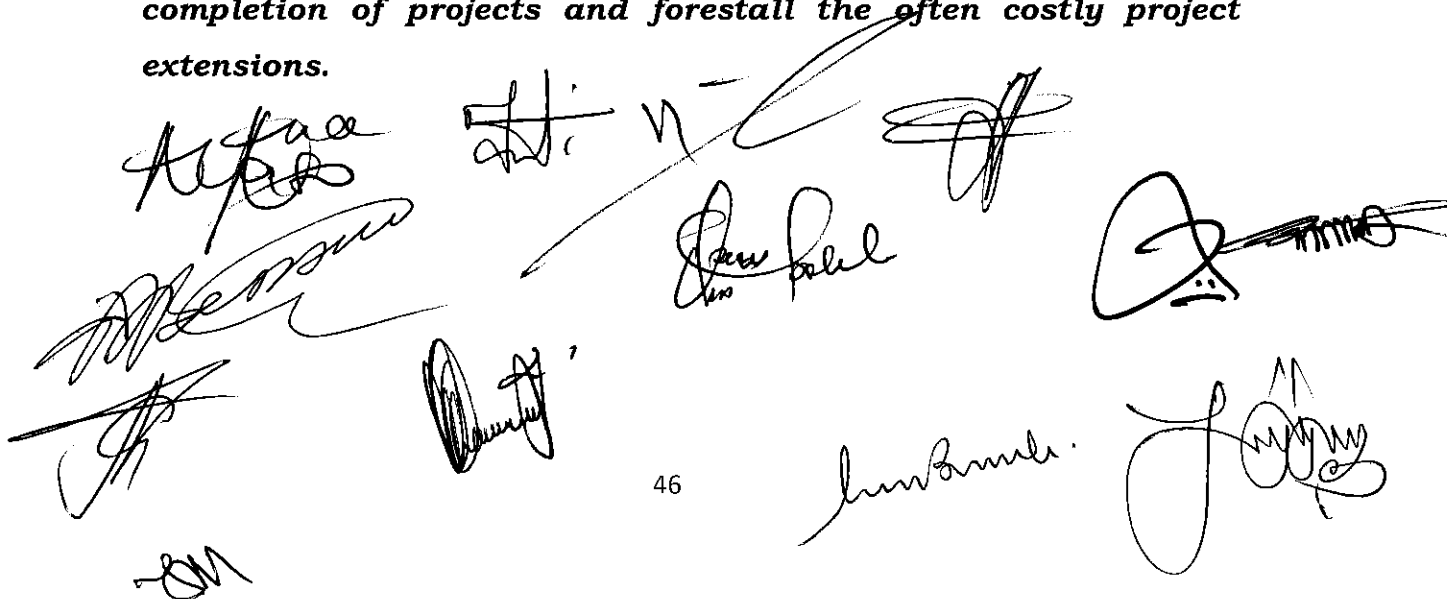
Markets		handed over Four markets not completed.
Supply and installation of Agro-processing Facilities	123 Assorted APFs	106 of 123 assorted agro processing facilities have been installed. 17 facilities pending.

Response: The Accounting Officer conceded the audit observation.

Observation and recommendation: The Committee notes that unless there is an extension of the closure date, some of the projects will not be able to achieve targets in the loan agreements. This may attract additional costs associated with project extension.

The Committee further notes that with more prudent project planning and design, the project should have been designed with realistic targets to forestall the possibility of project extensions.

The Committee recommends that the Accounting Officer should improve his project management practices so as to ensure timely completion of projects and forestall the often costly project extensions.



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**5.2 COMMUNITY AGRICULTURAL INFRASTRUCTURE
IMPROVEMENT PROGRAMME – PROJECT I1 (CAIP I1)**

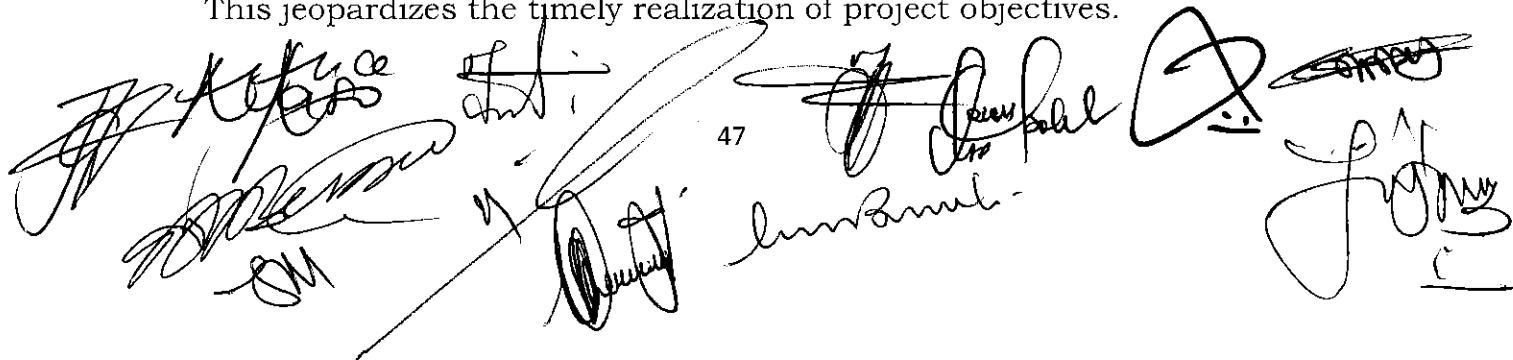
**(a) Compliance with financing agreement and Government of
Uganda financial regulations**

i) Budget Performance-Low Absorption Capacity

Query: The approved Project expenditure estimates for the financial year amounted to Shs.80,197,862,398. However, only Shs.30,133,948,428 was spent during the year, reflecting an absorption capacity of only 37.6%.

Response: The Accounting Officer conceded the audit observation and attributed the dismal absorption to the slow procurement process.

Observation and recommendation: The Committee notes that low absorption capacity is an indicator of an inadequate project conceptualization, design and management and denies the beneficiary communities services which were meant to improve their livelihood. This jeopardizes the timely realization of project objectives.

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The Committee recommends strict adherence to project timelines and that the Accounting Officer improves the monitoring of contracts to ensure that the activities are on schedule.

ii) Shortfalls in Counterpart funding

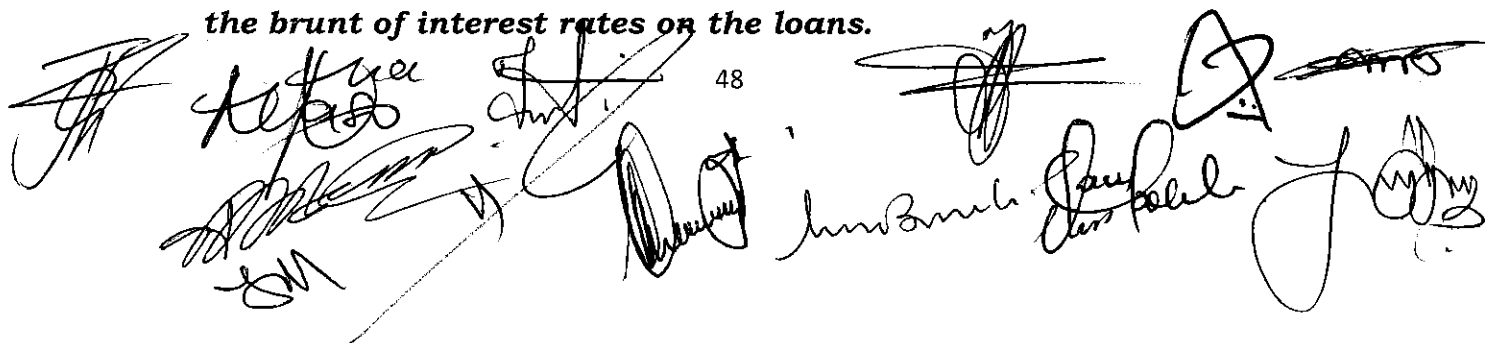
Query: According to the Provisions of the Loan Agreement, GOU is required to fully commit and contribute funds towards the implementation of Programme activities. Shs.200,000,000 was accordingly budgeted as GOU counterpart funding, however only Shs.149,675,561 was released for Project activities resulting into a shortfall of Shs.50,324,439.

Response: The Accounting Officer conceded the audit observation and attributed it to insufficient releases by the MoFPED. He added that this matter was addressed to the Ministry of Finance, Planning and Economic Development with a view of ensuring that sufficient releases are made in the financial year 2013/14 and subsequent years.

Observation and recommendation: The Committee notes that failure to provide counterpart funding as budgeted for is a violation of the Project Financing Agreement and jeopardizes loan effectiveness. Besides, underfunding hinders the smooth implementation of the planned Project activities.

The Committee recommends that the Executive prioritize its commitment of counterpart funding as such delays impede project implementation and yet the taxpayers continue to bear the brunt of interest rates on the loans.

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iv) Failure to deduct 6% Withholding tax (WHT) from Service providers

Query: It was observed that Management did not withhold tax amounting to Shs.1,455,131,824 on payments for services provided contrary to the requirements of the Income Tax Act under S.120(1).

Response: The Accounting Officer informed the Committee that the ADB loan agreement prohibits the use of the loan funds for the payment of taxes relating to the goods and services required for the execution of the Project.

Observation and recommendation: The Committee notes that the non-deduction of withholding tax deprives Government of revenue.

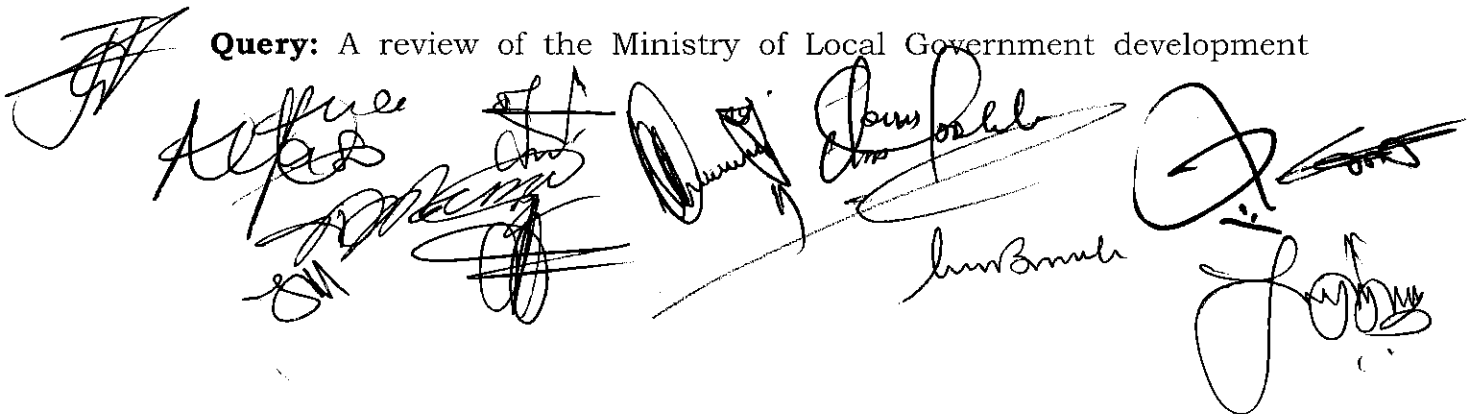
The Committee recommends that the WHT be recovered from the respective companies and the Accounting Officer be held liable for causing financial loss.

The Committee further recommends that the said Companies be blacklisted.

General Standards of Accounting and internal control

i) Spending at source

Query: A review of the Ministry of Local Government development



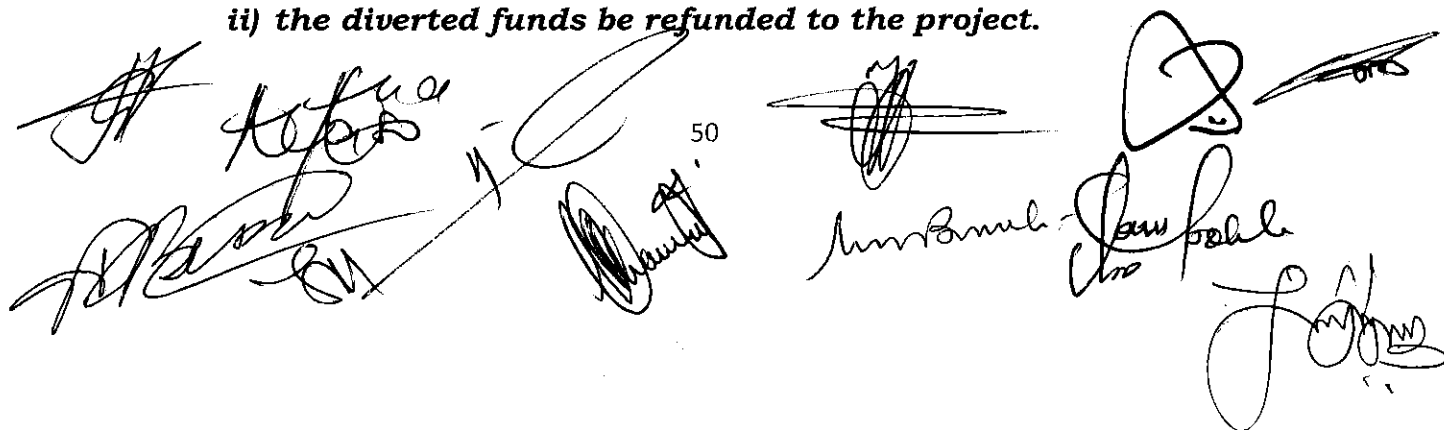
expenditure revealed that GoU contribution amounting to Shs 149,675,561 was released by Ministry of Finance, Planning and Economic Development to the Project through the Ministry of Local Government Treasury General Account where funds were spent on behalf of the Project. This was contrary to the Project's operations manual.

Response: The Accounting Officer conceded the audit observation and added that the GOU funds under CAIP II are currently controlled and managed on the Government IFMS system. The Project was given the responsibilities of committing funds on the system by the Accountant General.

Observation and recommendation: The Committee notes that violation of the projects operations manual through diversion of project funds is an indictment of the compliance function at the MoLG and may potentially place the Government of Uganda at odds with Development partners. In addition, spending Project funds by the Ministry does not only deny Project Management control over the funds but also poses a risk of diverting the funds to non-project activities thereby impeding the realization of project objectives.

The Committee recommends that;

- i) the Accounting Officer should institute adequate internal controls to forestall any possible diversions of project funds.**
- ii) the diverted funds be refunded to the project.**



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iii) The Accounting Officer be held responsible for diversion of funds

(c) Field Inspections

An inspection was carried out in September 2013 and the following issues relating to the implementation of the Project were noted;

i) Abandonment of Community access road works under Batch A

Query: It was noted that some road works had not been completed in time while other sites had been abandoned. During inspections in Lira district, it was observed that Ageni Lela-Te Cwao road in Aloii Sub County in Aleptong District constructed by a construction company had been abandoned after undertaking works of 3.2kms out of the contracted 17.2kms. This road had been contracted at a sum of Shs.335,692,169 out of which Shs.127,602,100 had been paid to the contractor.

Response: The Accounting Officer informed the Committee that they had contacted the District Contracts Committee who explained that the contract had been extended to allow the contractor to complete the works and undertook that no extra costs will be incurred.

Observation and recommendation:

- i) The Committee notes that inspite of the assurance from the district contracts committee on the no-cost extension of the project, the delayed execution and completion of the said works poses the risk of extra administrative costs which will inevitably eat into the project implementation funds.

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- ii) The Committee was extremely concerned how a Company got paid 50% of the contract sum for only a sixth of the work in the contract.

The Committee recommends that;

- i) ***The Accounting Officer be held responsible for mismanaging the contract and paying out half of the contract sum disproportionate to the works.***
- ii) ***the Accounting Officer improves project monitoring and supervision beyond reliance on the district contracts committee.***

Delayed completion of projects

a). Delayed completion of Community access roads under Batch B

Query: According to the contract documents for community access roads under batch B, all road works ought to have been completed and handed over by December 2010. However, inspections carried out in beneficiary districts revealed that some of these roads had not been completed. The completion was below 50% as indicated in the table below;

District	Sub County	Contract sum (Shs)	Amount paid (Shs)	Outstanding (Shs)	%age of completion
Soroti	Pingire S/C	489,870,150	126,402,250	356,815,150	26%
Kumi	Atutur S/C	484,593,900	150,475,250	326,198,900	31%

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Amuria	Kapelebyong S/C	638,641,500	246,392,000	379,281,500	39%
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Response: The Accounting Officer conceded the audit observation and explained that the contracts had delayed due to factors beyond the contractors' control such as weather patterns, limited availability of gravel material and the difficult terrain in some districts. Cognizant of the above challenges, a lot of effort had been put in place to ensure that contracts are completed albeit late.

Observation and recommendation: The Committee notes that delay in contract performance increases administration costs and while at the same time denying the community access to good roads which are meant to improve people's livelihoods.

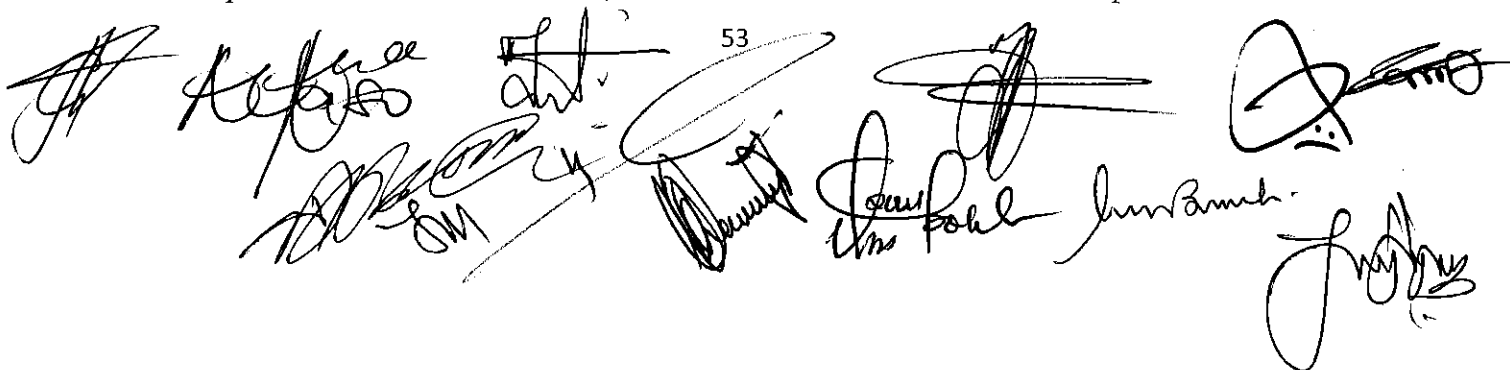
The Committee recommends that;

- i) the Accounting Officer bolsters the monitoring of these roads with a view of ensuring quality and timely completion of road works.*
- ii) The Accounting Officer immediately evokes the penalty clauses within the contract agreements for delayed completion of works.*
- iii) Given the sluggishness of the contractor and his demonstrated lack of capacity, the contractor should be blacklisted.*

b). Delayed completion of Agro Processing Facilities

Query: It was noted that many Projects were at varying stages of completion in Kaberamaido, Soroti and Kumi districts despite the fact

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that contracts completion was due on 30th September 2013. While some projects were at roofing stage, others were at slab and foundation levels as evidenced in an incomplete grain mill in Otuboi and Ocheri Sub Counties in Kaberamaido district, a maize mill in Arapai, Atiira and Kateta Sub Counties in Soroti district and a milk cooler and generator house in Kobwin Kumi district.

Response: The Accounting Officer conceded the audit observation and attributed the delay in project completion mainly to the escalation of prices of major building materials at the time of contract execution which led to reduced enthusiasm of the contractors to complete the works as the projects were no longer profitable.

Observation and recommendation: The Committee notes that the delay in project completion denies the community the intended benefits of the Project.

The Committee observes that the Accounting Officer's explanation of the diminished profitability of the project due to the escalation of the cost of building materials is neither here nor there because the contractors were bound by the contract and hence had contractual obligations to honour. Their failure to honour the contractual obligations necessitated recourse to penalty clauses on delayed works which unfortunately the Accounting Officer did not. The Committee therefore notes inaction on the part of the Accounting Officer.

The Committee recommends that the Accounting Officer be held responsible for failure to enforce the contracts.

c). Lack of bill boards

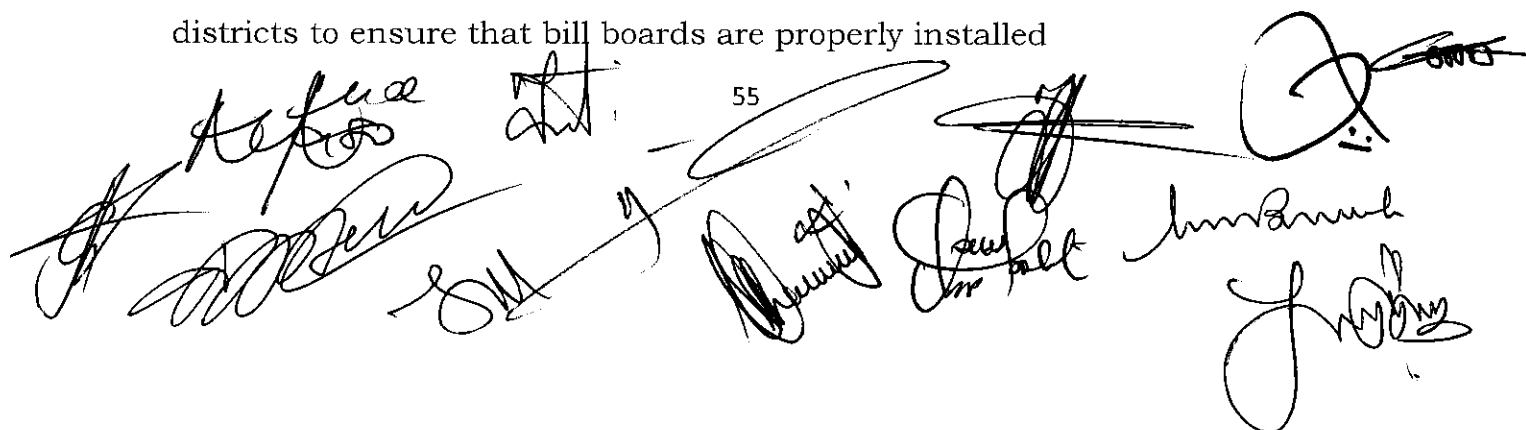
Query: Under Item one of Bill of Quantities, bill boards are provided for and costed to enable identification of the Community Access Road projects. The bill boards clearly specify the Ministry, the project, the community access road, Sub County, District and contract number of the contractor for proper identification.

During inspections it was noted that some of the contracted road works undertaken lacked bill boards yet the cost of Billboards was provided for in the BOQs. Refer to the table below for roads without billboards:

District	Sub County	Road Name
DOKOLO	Agwata	Agwata Atidi-Kachung
		Awerowot PS-Alyecjuk PS
	Dokolo	Alwitmac- Cr. Asalim
		Igar-Awialem PS
	Kangai	Chwagere-Barayom-Amodo
		Acungapenyi-Batta Ebwol
LIRA	Adwari	Adwari TC - Ober
		Okwongo TC - Okume PS
	Aloi	Aloi corner-Orum border
	Amach	Corner Abic-Atanga
		Acan pii-Owo-Abongorwot

Response: The Accounting Officer conceded the audit observation and informed the Committee that he had communicated to all beneficiary districts to ensure that bill boards are properly installed

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Observation and recommendation: The Committee notes that the absence of the billboards, complicates the delineation of the the Community Access roads under CAIP-2 Batch B from those of other projects. This impedes monitoring and supervision.

The Committee recommends that the Accounting Officer expeditiously recovers the cost of each of the Billboards from each of the contractors.

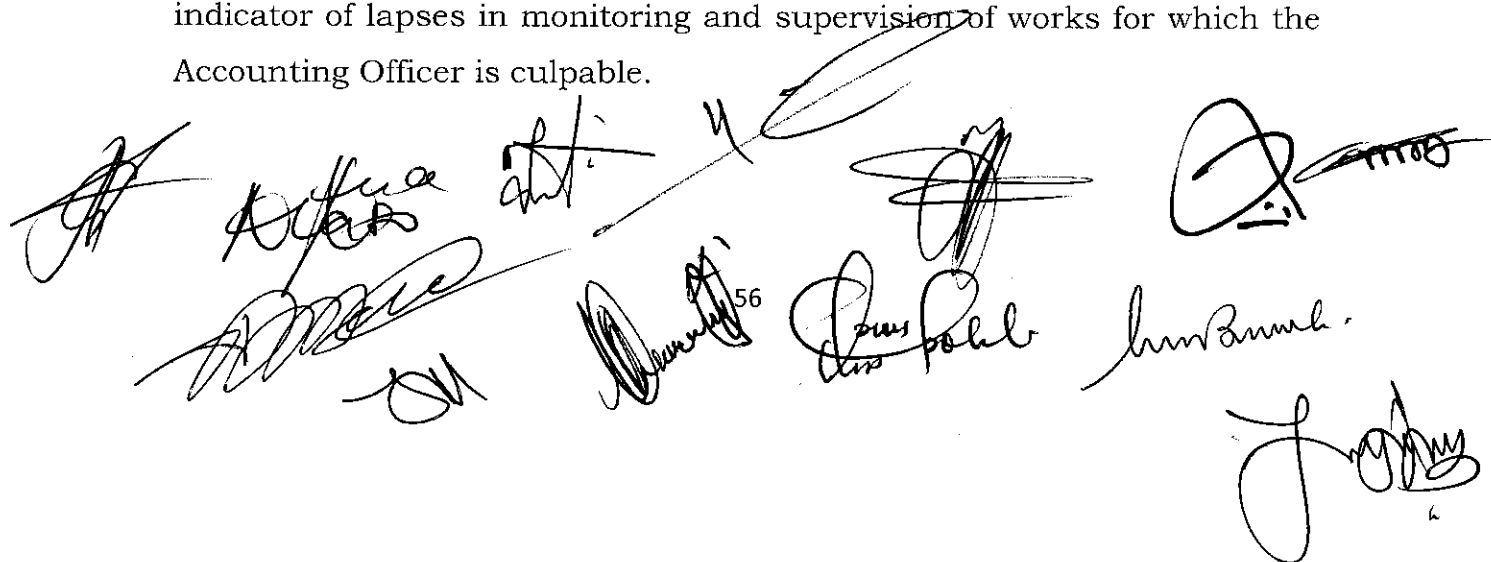
The Committee further recommends that the respective Contract managers be held responsible for failure to ensure that there are billboards erected for each project.

d). Failure to re-grade the road

Query: Before graveling there is need to carry out grading of the road. It was observed that a contractor of Aromi-Anyangoga road in Amolotar District took long before spreading the murram resulting into growth of grass which required to be re- graded before graveling is done. However, the contractor decided to gravel before re-grading the road.

Response: The Accounting Officer conceded the audit observation

Observation and recommendation: The Committee notes that this is an indicator of lapses in monitoring and supervision of works for which the Accounting Officer is culpable.



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The Committee recommends that the Accounting Officer and Contracts manager be held responsible for lapses in supervision and monitoring of the project.

e). Environmental degradation

Query: Best practice requires that measures to mitigate environment damage are put in place before and after construction work is undertaken. It was however observed that most borrow pits used to excavate gravel for road works were not restored. This was the case in Ocaapa-Orupe P/s-Mukalu Rd, Kateta Sub County in Serere District

Response: The Accounting Officer conceded the audit observation and explained that the borrow pits had been restored, however selected pits were maintained for mining of construction materials for other roads as well as correcting defects during the defects liability period.

Observation and recommendation: The Committee notes that the un-restored excavated grounds are a danger to the community as these provide places for breeding mosquitoes and other disease vectors.

The Accounting Officer should always ensure compliance with environmental best practices so as to conserve the environment.

The Committee recommends that the Accounting Officer calls upon the contractor to do restoration work on the borrow pits.

**f). Non-rehabilitation of Onyakedi-Ayac-Banya-Dokolo Boarder Road,
Lira District**

Query: One of the Project activities inspected in the prior year 2011/2012 was a 21.8 km Onyakedi-Ayac-Banya-Dokolo boarder road under Lot 74 in Lira district, Amac sub County; where under-scope of work was noted in Adip swamp and about 100m of road works had sunk in the swamp thus hindering the community's access to a nearby market. It was noted that Management had not made any interventions to repair the road since 2011/2012.

Response: The Accounting Officer conceded the audit observation and added that funds had since been secured to extend the road to connect to a market at Bata Sub-county in Dokolo district and the works were advertised and the procurement process was ongoing.

Observation and recommendation: The Committee notes that failure to rehabilitate the road hinders farmers' access to markets thus limiting income generating opportunities.

The Committee further notes that the submersion of some parts of the said road was an indicator of poor workmanship and the attendant absence of adequate monitoring and supervision.

The Committee recommends that the while additional works are in progress, there is need for stronger monitoring and supervision of the contractor as a quality assurance strategy.

g). Non-adherence to Road Specifications

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Query: Shs.457,680,300 was paid to Grant Engineering Ltd to construct three roads totaling to 13.5kms in Amolatar district. According to the specifications in the contract agreement for the construction of Aromi-Anyangoga Road at Aromi Swamp, the carriage length was specified as 4.5 Kms with the overall road width of 6 meters. It was however noted that the road width had varying measures ranging from 3 meters to 4 meters at certain points.

Observation and recommendations: The Committee notes that non-adherence to road width specifications is a breach of contract, denies communities access to good roads and impedes the realization of value for money.

The Committee further notes that reducing the width of the road by 2-3 meters cumulatively leads to substantial financial loss.

The Committee recommends that;

i) ***The Accounting Officer and the Contracts manager be held liable for causing financial loss by paying for unexecuted works.***

ii) ***The Accounting Officer should recover the sums paid in unexecuted works.***

iii) ***Grant Engineering Ltd-the Contractor be blacklisted for facilitating fraud***

h). Closure/blockage of roads


Query: Best practice requires that traffic must be managed and the roads remain accessible despite the on-going works. This involves the creation of diversions or working on half of the road while the other half is being used. During the audit inspection it was noted that several roads were closed and had been inaccessible for over three months. In one instance the community took initiative to spread the murram themselves in order to access the nearest market. Some of the blocked roads included; Acan pii-Owo-Abongorwot road in Amach Corner Nyeni road in Lira District, Aloï corner-Orum border Road in Aloï -Lira District, Okidi TC Sambwa Road in Soroti District Alwitmac- Cr. Asalim in Dokolo District

Response: The Accounting Officer conceded the audit observation and added that plans were underway to contact and give guidance to the Project Managers and the community in planning and implementing such works to ensure that deviations and alternative access are provided.

Observation and recommendation: The Committee notes that matters of alternative access routes during road construction are part and parcel of the overall project design, absence of which at construction smacks of fraud.

With prudent monitoring and supervision, this anomaly would have been ameliorated in time.

The Committee recommends that;



- i) the Accounting Officer and the Project Manager be held liable for failure to ensure creation of alternative access routes during road construction and payment for unexecuted works.*
- ii) the money meant for alternative access roads be recovered from the Contractors.*

i). Lack of routine maintenance of roads by the Districts

Query: During audit field inspections in Kaberamaido and Soroti districts, it was noted that most of the roads were not maintained. In many instances, head walls were broken, drainages were blocked and grass had narrowed the road width.

Response: The Accounting Officer conceded the audit observation. He undertook to liaise with Uganda Road Fund and beneficiary districts to ensure rehabilitated roads are properly maintained.

Observation and recommendation: The Committee notes that the absence of maintenance of roads will significantly shorten their lifespan and impede the realization of value for money.

The Committee recommends that routine maintenance should be prioritized by both the Local Governments and at project formulation.

j). Inadequate workmanship

Query: Section vii sub section 1.23.1 of the general conditions of the Project civil works contracts specifies that the contractor shall construct and install the works in accordance with specifications and drawings.

During inspection of the rehabilitation of 15kms of Lwala Amukurat-Ousia Rd, contracted to Ficah Enterprises (U) at a contract price of Shs.442,448,843, it was noted that work was inadequately done as there were no headwalls at the culvert ends, the drainage was blocked, offshoots were not in good condition, a thin layer of murrum was spread and poor quality of culverts was used many of which were found broken.

Response: The Accounting Officer informed the Committee that the contractor had partially de-mobilized due to adverse weather conditions and at the time the road was being used hence exposing the culverts to direct axel loading resulting into the damages.

Observation and recommendation: The Committee dispels the explanation of the Accounting Officer and notes that audit observation is on the poor workmanship.

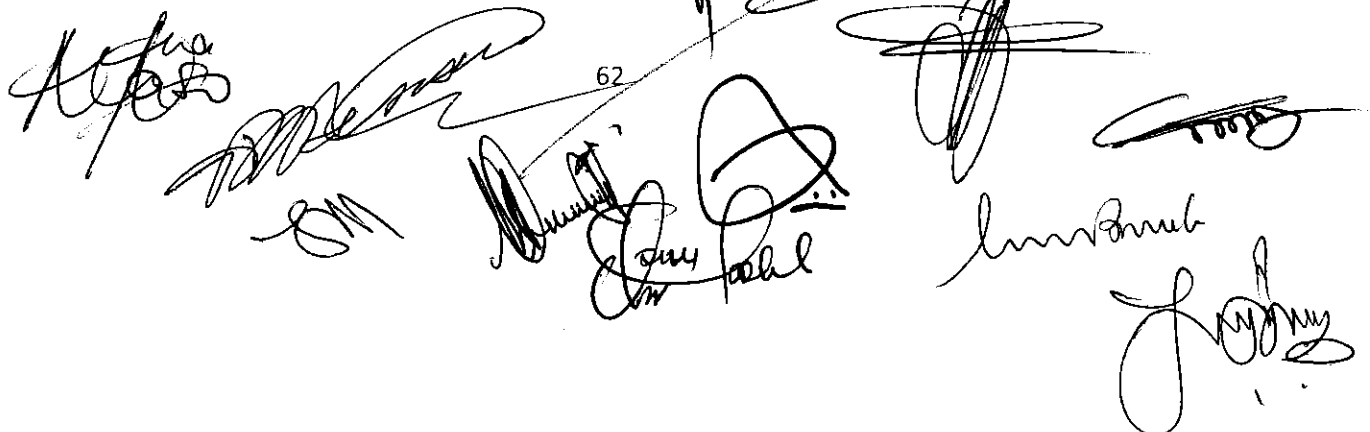
The Committee recommends that;

- i) the Accounting Officer and the Project Manager be held responsible for causing financial loss.***
- ii) Ficah Enterprises (U) Ltd be blacklisted having done a shoddy job.***

Status of project implementation

k). 21.30 Project performance under Rural Infrastructure Improvement Component

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Query: According to the Project five year implementation plan and progress reports accessed from management, the project had not achieved the following targets despite the fact that the project closure date was set for 30th July 2014:

Activity	Targets	Progress as at 30 th June 2013
Rehabilitation of Community Access Roads	4,365kms	1454.1km Batch A CARs completed and handed over leaving 362km under construction.
		1198.2km of Batch B community access Roads were still on going at physical progress of 40%.
Recurrent maintenance	8,515kms of community access roads and 439 kms of district roads;	There was no routine maintenance carried out in districts due to lack of funds.
Supply and installation of Agro-processing Facilities	97 Assorted APFs	Contracts for 77 shelters for assorted agro processing facilities (36 maize mills, 14 rice hullers, 37 multipurpose Grain Mills and 5 milk coolers) were signed; however, supplies and equipment that were expected by September 2013 had not been installed.

Observation and recommendation: The Committee notes that delay in project implementation leads to unnecessary extra administrative costs in form of monitoring and supervision.

The Committee recommends that the Accounting Officer bolsters project monitoring and supervision so as to enhance timely completion of activities and avert additional costs accruing to project delays.

The Committee further recommends that the project design be reviewed with a view of plugging inherent gaps and minimizing losses.

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Alps

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5.3 COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME – PROJECT I1 (CAIIP III)

(a) Status of Project implementation

Delayed implementation of works

Query: The Project was expected to commence in 2011 and run for 5 years, however, operations began 9 months late in April 2012. According to the annual work plan the activities below should have been undertaken and completed by the end of the year under review, however, by the time of reporting, the works were still ongoing. See table below for progress.

Progress of works so far

Activities for the year	Targets for the year	Amount (Shs)	Progress during the year
Rehabilitation of Batch A Community Access Roads	40% of the total road works of	10,645,944,000	Works have not taken off. Procurements process still on going
Provision for Procurement of Consultant to carry out a baseline study	a study report	150,000,000	Contract was awarded and the work is in progress
Provision for Procurement of	a study report	150,000,000	Contract was awarded and the

consultant to carry out a post- harvest losses baseline study			work is in progress
Hire and remuneration of PFT staff for Mbarara regional office	1 M&E Officer, 1 CDO,1 Infrastructure Engineer	379,320,000	Not yet done
TOTAL		11,478,264,000	

During inspection of beneficiary districts, audit observed that although some operational funds had been received to cater for agro based activities, training and construction of community access roads among others. These activities had not yet commenced due to delays in the procurement process.

Response: The Accounting Officer attributed the delay to the elaborate evaluation process for the procurement of contractors. He added that the procurement of consultancies are complete and the studies were in advanced stages of completion.

Observation and recommendation: The Committee notes that delay in implementation of works denies beneficiaries the intended benefits of the Project.

The Committee further observes that the various layers of approvals in the procurement chain is laborious and characterized by red tape. This breeds delay in implementation of planned activities.

The Committee recommends that;

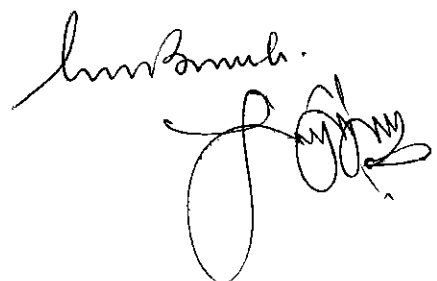
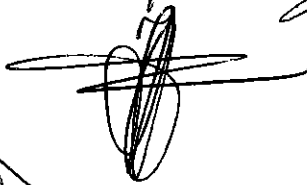
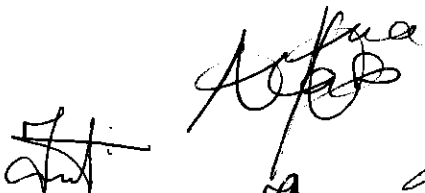
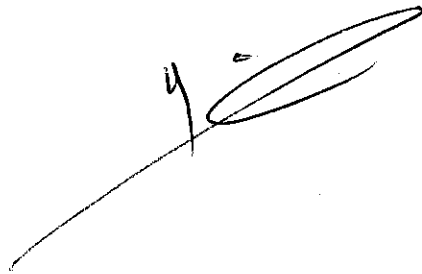
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i) *the Accounting Officer be held responsible for delays in implementation of project activities.*

ii) *The procurement chain should be reviewed with the intention of reducing the bureaucratic approval levels and vesting ultimate powers over contracting to the districts.*

(b) General Standards of Accounting and Internal Controls

No reportable internal control weaknesses were observed during the period under review.



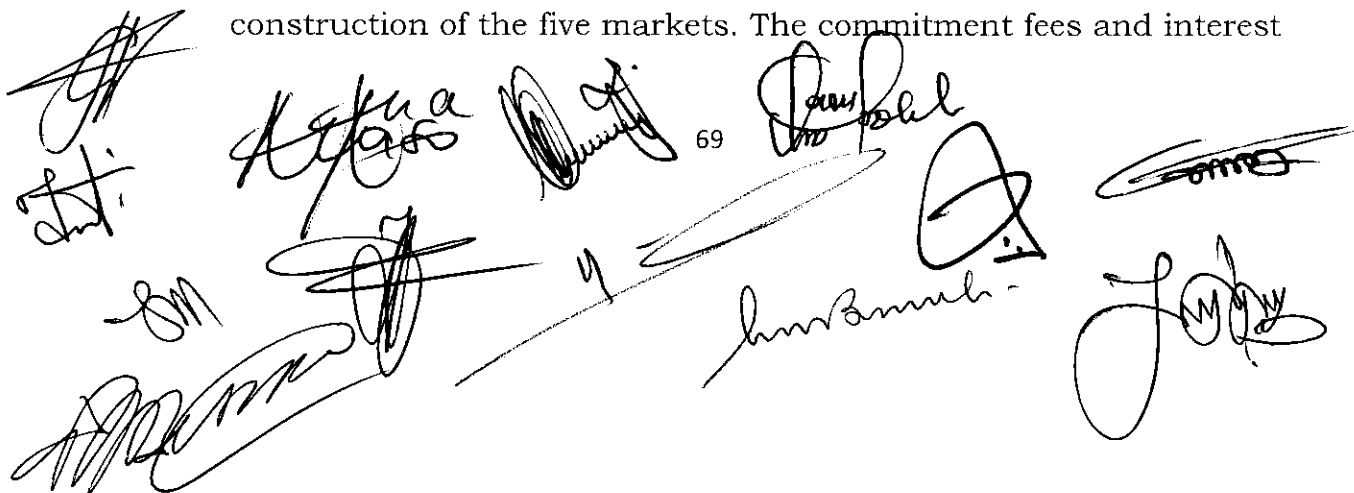
5.4 MARKETS AND AGRICULTURAL TRADE IMPROVEMENT

PROJECT 1 (MATIP 1)

(a) Non-Performing Loan from Arab Bank for Economic Development in Africa (BADEA) - US\$ 10,000,000

Query: Two funding agreements were signed between the GoU as Borrower and two banks; African Development Bank (ADB/F - UA 38 Million) and the Arab Bank for Economic Development in Africa (BADEA - USD 10Million). The following were noted on the performance of the loans;

- Only the ADB/F loan is performing. This was evidenced through the first tranche disbursement in 2011. The last disbursement is due on 30th September 2015.
- BADEA loan agreement was signed on 16th July 2009 to necessitate the acquisition of land and construction of five markets at Kasubi, Busega, Kansanga (Kampala City), Kimaka (Jinja District) and Nyendo (Masaka District). The loan was declared effective on 21st January 2010 and last disbursement expected on 30th March 2013. The agreement indicated that the borrower shall pay interest at the rate of one per cent (1%) per annum on the principal amount of the loan withdrawn and outstanding from time to time. It was observed that no disbursements have been made since then, despite the fact that the consultants were procured and were paid to draw up architectural designs and supervise the construction of the five markets. The commitment fees and interest



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ii) The Accounting Officer be held responsible for advising Government to commit the Country to borrow without adequate plans for its utilization.

iii) The Committee on Government Assurances reviews the performance of all loans contracted in the last 5 years since the borrowing is a commitment by Government to the people of Uganda.

(b) Un-remitted statutory deductions

Query: Shs.22, 486,512 was deducted and withheld from staff salaries in respect of Pay As you Earn (PAYE). However, the funds were not remitted to Uganda Revenue Authority (URA).

Response: The Accounting Officer conceded the audit observation and attributed the non-remittance of PAYE to limited counterpart funding from Government.

Observation and recommendation: The Committee notes that the Accounting Officer's explanations are inadequate since the query is about non-remittance after deduction. The Committee observes that the Accounting Officer had effected PAYE deductions and failed to remit the deductions.

The Committee further notes that non-remittance of statutory deductions is a violation of the law which may lead to penalties. There is also a risk that the retained deductions could be diverted.

The Committee recommends that;



that have accrued on this loan account since its effective date has been estimated at US\$400,000.

- The period for the construction of the above five markets has since elapsed. The agreed disbursement date of 30th March 2013 has passed yet no construction works had started.

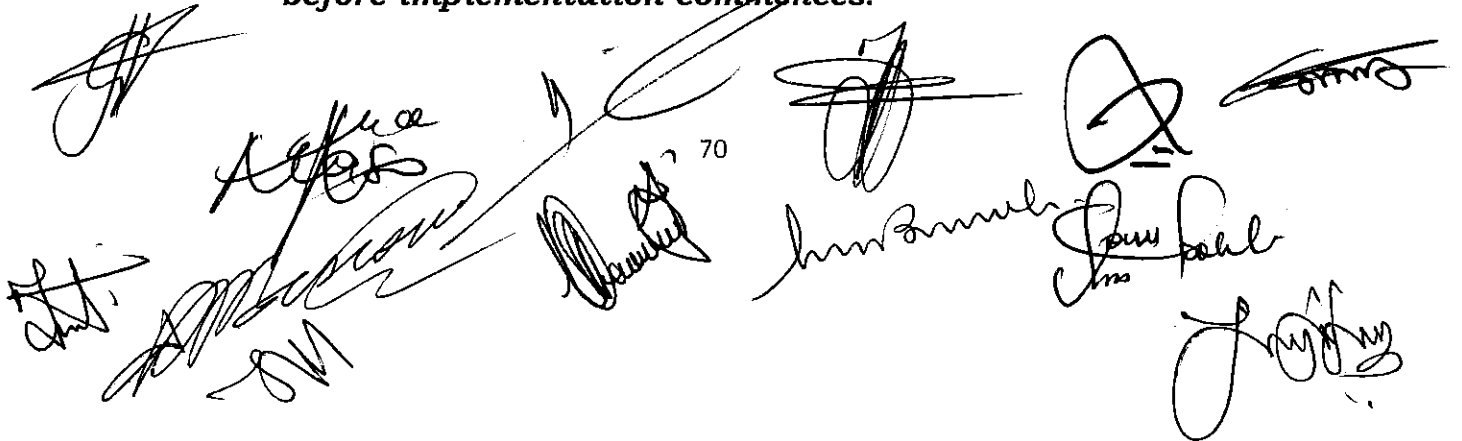
Response: The Accounting Officer informed the Committee that the designs for the 2 (two) markets of Nyendo and Busega were submitted to BADEA for approval and the Project is expected to receive funds upon approval of the designs.

Observation and recommendation: The Committee notes that incessant borrowing by Government without proper planning is a wasteful means of funding development and worsens the already appalling external debt position and encumbers future generations.

In addition, the failure to disburse funds for the intended projects 3 years after signing the loan agreement and the resultant US\$ 400,000 accruing to interest and commitment fees is in effect a loss. In addition, the delayed disbursement of the requisite funds impedes service delivery and ultimately the attainment of development targets.

The Committee recommends that;

- the Executive should streamline project implementation to forestall accrual of commitment and interest charges even before implementation commences.***



- i) **that the Accounting Officer be held liable for failure to deduct WHT thereby causing financial loss to Government.**
- ii) **that the Accounting Officer should recover the outstanding WHT within 3 months of the adoption of this report failure of which the money be recovered from the Accounting Officer and the non-cooperative companies be blacklisted.**

(d) Outstanding VAT on certified works and consultancy

Query: The contract agreements signed between the Ministry and the contractors for works and consultancy for the construction of markets quoted the prices inclusive of Value Added Tax (VAT). It was however observed that payments to consultancy firms were exclusive of VAT. This amounted to Shs.157,014,922 and USD.264,623. It was also noted that there was an outstanding balance of VAT amounting to Shs.1,135,189,149 due to contractors.

Response: The Accounting Officer informed the Committee that VAT was not paid to a number of service providers due to insufficient Government of Uganda counterpart funding.

Observation and recommendations: The Committee notes that this query is as a result of the failure of the MoFPED to release GoU counterpart funds.

The Committee recommends that the MoFPED respects funding agreements and ensure that counterpart funding is always provided to the respective MDAs.

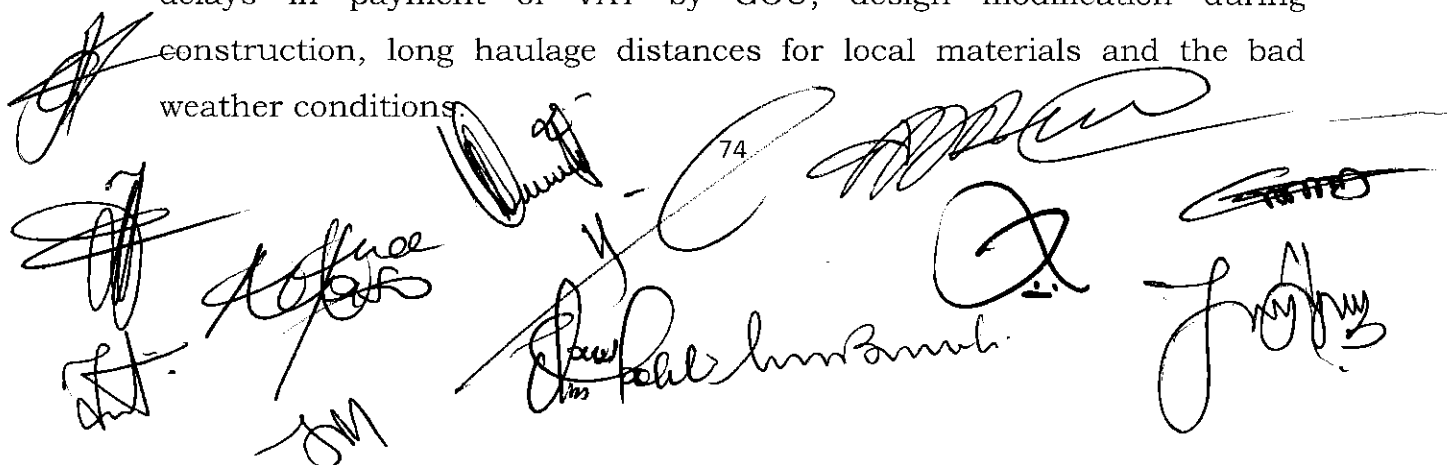
(f) Field inspections

Field inspections were undertaken with a view of establishing among others, physical progress of civil works on markets and the quality of works. By the time of inspection, Wandegeya, Mbale and Fort Portal markets were substantially completed, however, the construction of Lira, Gulu, Hoima and Jinja markets were behind schedule. While the proceeding matters were observed during inspections, the Committee notes that generally all the markets in this category suffered delayed completion mainly due to the failure by the Government of Uganda to meet VAT obligations. The Committee therefore emphasises the need for Government to respect and honour contractual obligations.

i) Lira Central Market

Query: The contract for the construction of this market was awarded at a contract price of Shs.26,515,762,350. By the time of inspection, works were ongoing; but behind schedule. The site engineer indicated that works would be completed in June 2014, eight months after the agreed completion date of 30th October 2013.

Response: The Accounting Officer conceded the audit observation and added that the contractor had requested for an extension based on delays in payment of VAT by GOU, design modification during construction, long haulage distances for local materials and the bad weather conditions.



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Observation and recommendation: The Committee notes that in the bidding process, contractors factor in the cost and distance of haulage of materials. This therefore cannot be a justification for delayed completions of works and deviation from the contract.

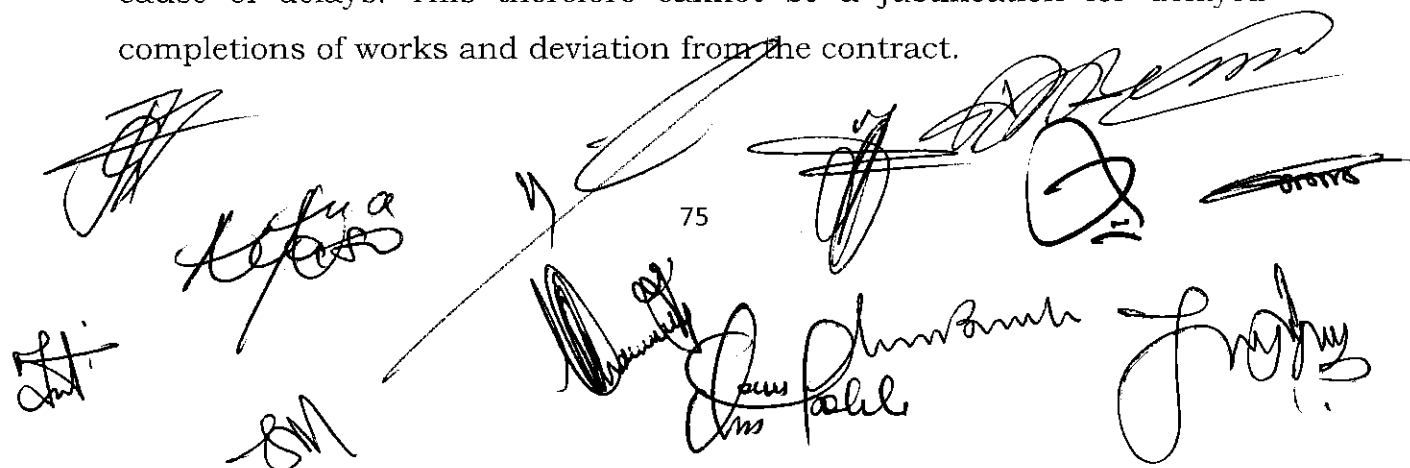
The Committee recommends that the Accounting Officer be held responsible for failure to enforce the contract.

ii) Jinja Central Market

Query: The construction works for this market were awarded at a contract price of Shs.28,679,485,336. It was established that the works were also behind schedule.

Response: The Accounting Officer conceded the audit observation and added that the progress of works was at about 75% against a time progress of 98% meaning that the works were behind schedule. This he attributed to delayed payments of VAT, variation of the foundation to reduce on the backfill, creating extra storage for bulk goods and additional drainage works to cater for the increased storm water from the built area of the market.

Observation and recommendation: The Committee notes that in the bidding process, contractors factor in the scenarios enumerated as the cause of delays. This therefore cannot be a justification for delayed completions of works and deviation from the contract.

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75

The Committee recommends that the Accounting Officer be held responsible for failure to enforce the contract.

iii) Gulu Main Market

Query: The construction of this market was awarded at a contract sum of Shs.15,057,709,217. By the time of audit inspection, the works were ongoing, but behind schedule.

Response: The Accounting Officer conceded the audit observation. He added that the contractor was granted extension due to revised scope of works, delays in VAT payment by GOU, modification in designs including relocation of sewage and water supply lines, long haulage distances for local materials through bad roads, suspension of work due to concerns by the local community resulting from political interference in the construction of the market and the unfavourable weather conditions.

Observation and recommendation: The Committee notes that some of the reasons for the delay such as concerns of local residents are matters that should have been handled at inception of the project. As it stands, there was poor stakeholder involvement at the inception phase of the project.

The Committee recommends that the Accounting Officer should ensure that works are completed within the agreed extension.

iv) Hoima Central Market



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Query: The construction of this market was awarded to Amugoli General Enterprises Ltd at a contract sum of Shs.13,717,782,223. By the time of audit inspection, the works were ongoing but behind schedule.

Response: The Accounting Officer conceded the audit observation and explained that a time extension of 3 months was granted after analyzing the causes of delay which included delays in the payment of VAT to the contractor by GOU, initial investigations of the materials and corresponding design mixes, modifications in designs and introduction of extra works.

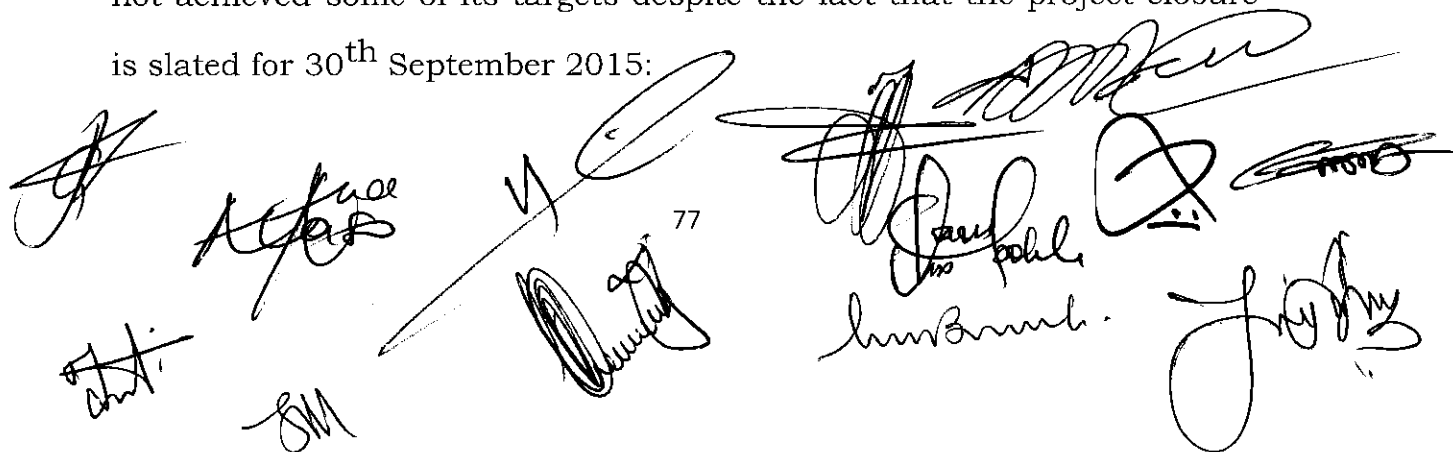
Observation and recommendation: The Committee notes that the citing of delayed payment of VAT as a cause for project delay is unfortunate as this is a planning and budgetary matter.

The Committee recommends that the Accounting Officer should ensure that works are completed within the agreed extensions.

(g) Status of project implementation

i) Project performance as per logical framework

Query: According to the Project five year implementation plan and physical progress reports accessed from management, the Project had not achieved some of its targets despite the fact that the project closure is slated for 30th September 2015:



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- Center: A signature with "77" written below it.
- Right: A large signature, "Paul", "Lumbumb.", and another signature below it.
- Far right: A signature and the word "nono".

Response: The Accounting Officer informed the Committee that the Project was set for closure in line with the project closure date and that two out of seven markets were completed and commissioned. He added that the remaining five markets were 95% complete and commissioning is expected by February 2015.

Observation and recommendation: The Committee notes that delays in Project implementation attracts additional administrative costs in monitoring and supervision.

The Committee recommends that the Accounting Officer expedites completion of the remaining markets within the extended timeframe.



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**5.5 DISTRICT LIVELIHOODS SUPPORT PROGRAMME (DLSP) –
MINISTRY OF LOCAL GOVERNMENT (MOLG)**

(a) Low absorption capacity

Query: The approved budget for the financial year 2012/2013 was Shs.29,273,931,317. While Shs.20,354,291,615 was released, only Shs.17,640,275,579 was spent representing an absorption capacity of only 60%. It is worth noting that the Project is in the sixth year of the seven-year implementation period.

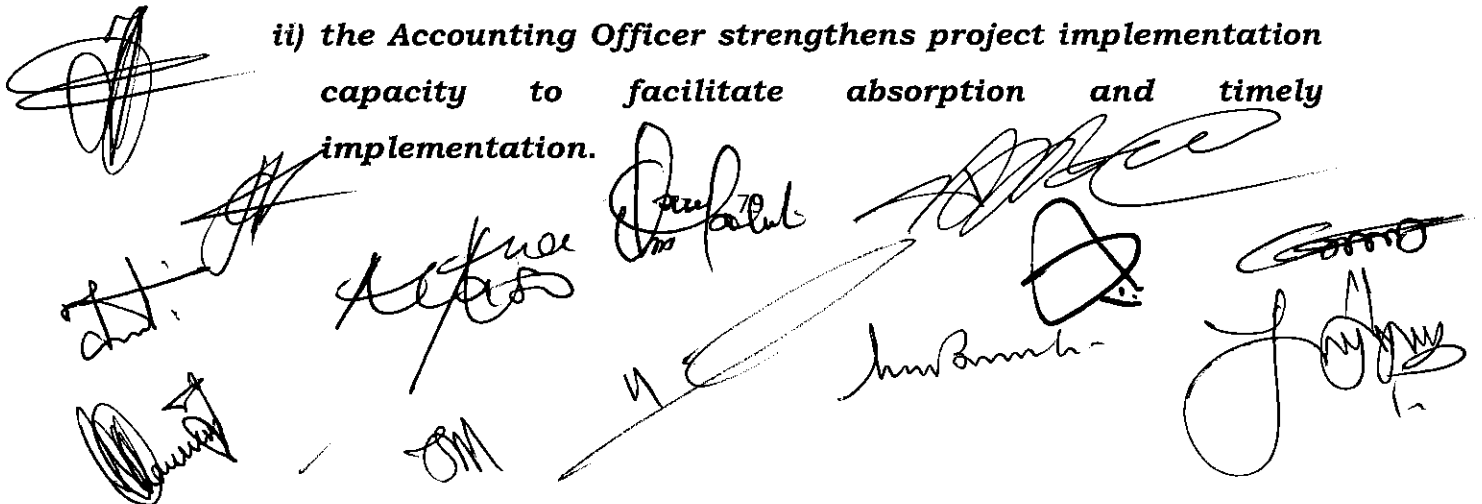
Response: The Accounting Officer conceded the audit observation and attributed the low absorption capacity to delays in the procurement process and lack of Engineers to supervise works. He further explained that internal mechanisms had been put in place to ensure that activities are done on time.

Observation and recommendation: The Committee notes that low absorption capacity was largely due to poor planning and possible incompetence.

The Committee further notes that the low absorption capacity deprives the community of services meant to uplift their livelihoods.

The Committee recommends that;

- i) the Accounting Officer be held responsible for failure to carry out proper planning in as far as absorption of the released funds is concerned.***
- ii) the Accounting Officer strengthens project implementation capacity to facilitate absorption and timely implementation.***

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(b) Non-incorporation of the GOU counterpart funding into the Consolidated Annual budget of DLSP

Query: According to the Project Financial Guideline 1.32, all budgets are required to be associated with codes which identify the funding source, budget categories, budget components, sub components, and activities as indicated in the budget plan chart and analysis. However a review of the Annual work plan and budget for the programme revealed that GOU counterpart funding budget and work plan was not incorporated in the project consolidated work plan and budget.

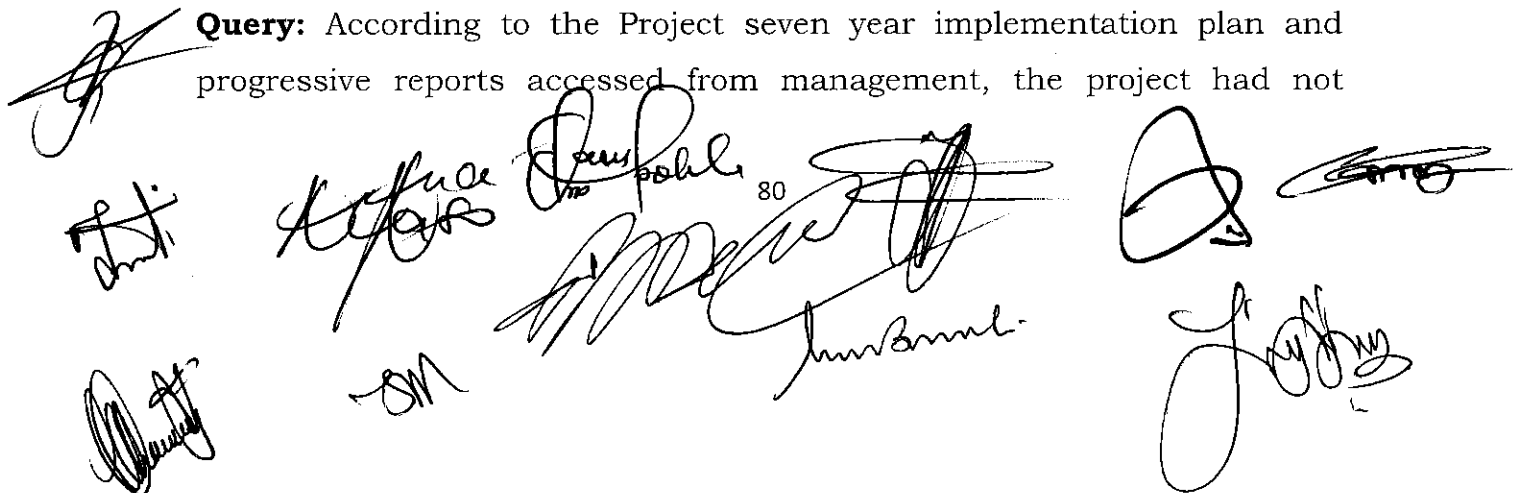
Response: The Accounting Officer conceded the audit observation and stated that the annual work plan and budget will be updated to incorporate GOU funds.

Observation and recommendation: The Committee notes that failure to incorporate the GOU funds in the Project consolidated work plan and budget may have been deliberate to enable expenditure on items and activities that are outside the project.

The Committee recommends that the Accounting Officer be held responsible for failure to incorporate GoU funds in the project workplan and budget.

(c) Project performance as per logical framework

Query: According to the Project seven year implementation plan and progressive reports accessed from management, the project had not



achieved the following targets despite the fact that the project closure date was set for 15th December, 2014.

Activity	Targets	Progress as at 30 th June 2013
	Community infrastructure	
Community Access roads (CARs)	Construction of 2,400 Kms of community access roads. Training 300 road users	<ul style="list-style-type: none"> The first batch CARs of 313.5 Kms were completed and in use. 570 Kms under the second batch of CARs had been completed while construction of 77.1 Kms were still in progress. Contracts for the third batch of CARs totaling to 488.1 Kms were submitted to the Solicitor General for clearance, not yet implemented Procurement of contractors for the fourth batch totaling to 765 Kms is in progress (37% complete) 171 road user committees had been

committees	trained (constituting only 57%)
Community Development	
Train and facilitate 1,872 community volunteers (household mentors and FAL instructors) <ul style="list-style-type: none"> Enroll 46,800 FAL learners Train 15,600 farmers in group organization and leadership skills. 	<ul style="list-style-type: none"> Achieved: 572 FAL instructors facilitated. Achieved: 660 household mentors trained and facilitated (66%) 13,028 of FAL learners enrolled (28%) 10,240 FAL learners tested (22%) 680 farmer groups identified and Strengthened 15,640 Individual farmers have

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	<p>been targeted for capacity building however no training has commenced (0%)</p>
<p>Agriculture Development and Land Tenure</p> <ul style="list-style-type: none"> Support 624 groups with Enterprise grants Establish 312 on farm demonstration. Support 17,280 poor households with food security grants Sensitize 25,000 people in land tenure rights Train 39 area land committees. 	<ul style="list-style-type: none"> Enterprise development grants valued at an average of US Dollars 5,000 per grant were provided to 680 farmer groups and producer associations (109%). 236 on farm demonstration were established. (76%) Food security grants were given to 18,172 poor household at an average of US dollars 120 per household. (105%) 25,000 people sensitized on land tenure rights. (100%) 39 area land committees trained. (100%).
<p>District and Sub-County Execution</p> <ul style="list-style-type: none"> Refurbishment of 13 sub-county headquarters Refurbishment of 5 district headquarters. 	<p>One sub-county headquarters per programme district refurbished. (100%)</p> <p>2 district headquarters Refurbished (40%).</p>

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Response: The Accounting Officer conceded the audit observation and informed the Committee that internal mechanisms had been put in place to ensure that activities are done in time.

Observation and recommendation: The Committee notes that delays in project implementation may lead to unnecessary extra administrative costs in form of monitoring and supervision.

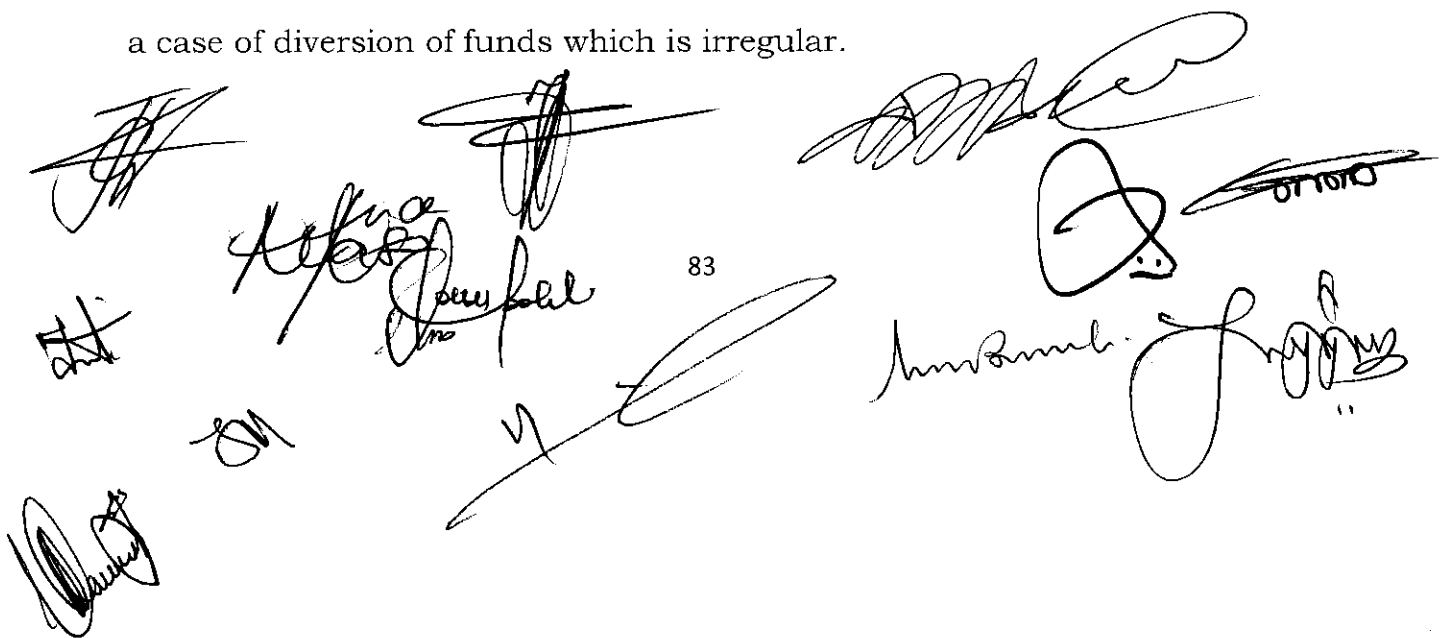
The Committee recommends that the Accounting Officer strengthens project monitoring and supervision.

(b) General standards of accounting and internal control

i) Spending at source

Query: A review of the Ministry of Local Government development expenditure revealed that GoU contribution amounting to Shs.331,250,577 was released to the Project through the Ministry Treasury General Account (TGA) where funds were spent on behalf of the Project contrary to the Project's operations manual.

Observation and recommendation: The Committee notes that this was a case of diversion of funds which is irregular.



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The Committee notes that spending Project funds by the Ministry does not only deny Project management control over the funds but also poses a risk of diverting the funds to activities outside the project.

The Committee recommends that the Accounting Officer be held responsible for diversion of funds.

ii) Lack of a Vehicles Maintenance Register

Query: It was noted that the Project does not maintain a vehicle movement register to record all repairs done on vehicles and spares used contrary to the Treasury Accounting Instructions.

Observation and recommendation: The Committee notes that the absence of the requisite records impedes the crucial comparison of vehicles' performance and their cost of maintenance. In addition, financial resources may be lost through recycling of repairs on the same vehicles.

The Committee recommends that;

- i) the Accounting Officer be held responsible for contravening the TAIs by failing to put in place operating records for each vehicle as required by TAI in order to monitor the frequency of repairs, maintenance costs and spares used.***

- ii) the Accounting Officer immediately ensures adherence to the TAIs in this regard.***

iii) Unutilized 'TOMPRO' Accounting Software

Query: "TOMPRO" Accounting Software was procured and installed at the districts and at the Project Coordination Unit (PCU) in Kampala. The Accounting software was intended to harmonize the financial, monitoring and reporting for the project team. The software has modules for system parameters; financial accounting, reports analysis, budget control, fixed assets management, credit management, procurement management and disbursement reports. However, it was noted during the audit that the accounting software had not been put to use at the PCU and the districts.

Observation and recommendation: The Committee notes that the failure to utilize the TOMPRO software defeats the intention of its implementation and exposes public resources to loss.

The Committee recommends that the Accounting Officer be held responsible for failure to operationalise the TOMPRO software.

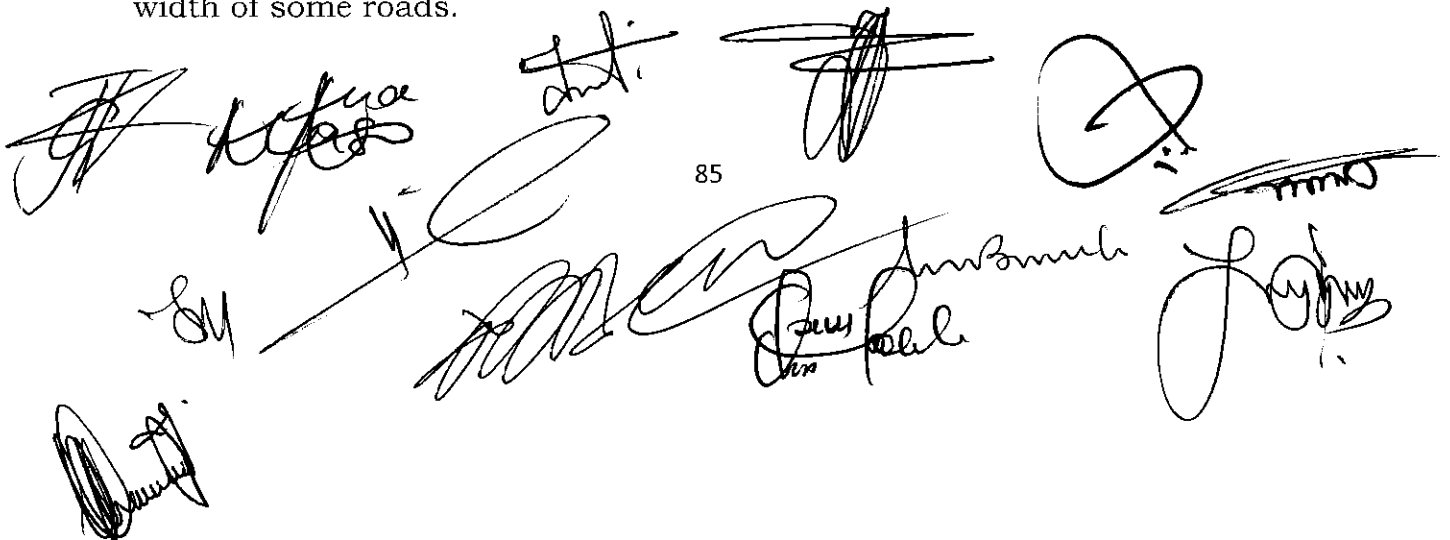
(e) Audit Field Inspections

Field inspection to assess progress on implementation of DLSP activities was undertaken and the findings are noted below.

i) Lack of routine road maintenance by the Districts

Query: It was noted that most of the roads were not maintained. Drainages were found blocked and over growing grass had narrowed the width of some roads.

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Response: The Accounting Officer conceded the audit observation and added that there was a delay in putting road gangs in place however the Ministry had procured and distributed road equipment which will be used to maintain the roads.

Observation and recommendation: The Committee notes that due to lack of routine maintenance, the roads may not last for the expected life span.

The Committee recommends that the Accounting Officer ensures timely routine maintenance of rehabilitated roads.

ii) Non adherence to specifications

Query: It was observed that the works on Byerima-Kaiha-Maiha and Rwenzimire- Kyamugenyi-Kyangamoyo roads in Masindi was not done according to the specifications in the contract. Inadequate workmanship was exhibited in backfill around the headwalls posing a risk of rain water washing away murram thereby exposing culverts and making the roads narrow. Furthermore the culverts used could not contain the large volume of rain water leading to silting.

Response: The Accounting Officer conceded the audit observation and informed the Committee that the omissions were brought to the contractor's attention for rectification.

Observation and recommendation: The Committee notes that Non-adherence to road width specifications is a breach of contract and also denies communities access to good roads.

The Committee further notes that the failure by contractors to adhere to road specifications led to loss of public resources.

The Committee recommends that;

i) the Accounting Officer be held liable for causing financial loss.

ii) the Accounting Officer and the Contracts Manager be held responsible for failure to carry out proper contract management.

iii) Abandoned Works in Bulisa district

Query: Terms and conditions of Project civil works contracts stipulate that the contractors should complete the work and correct any defect within 6 months from the contract completion date.

A review of one of the contracts indicated that a total of 45.3kms of five (5) community access roads was to be rehabilitated in Bulisa district under batch 2 at a total cost of Shs.1,464,068,499. However at the time of inspection, it was noted that all the roads had been abandoned by the contractors after having completed only 4.2km, less than 10% of the entire road length. Shs.344,252,546 had been paid for the certified works while performance securities in form of bank guarantees provided by the contractors had expired before the execution of the works and therefore could not be enforced except for one bank performance security/guarantee amounting to Shs.55,937,860.

Response: The Accounting Officer informed the Committee that the re-tendering process for the roads at an estimated cost of Shs.1,626,565,500 (a cost which is higher than the original contract cost of Shs.1,464,068,499) had begun.

He added that the relevant clauses of the contract were invoked and all recoveries made. However the recoveries allegedly made were not availed for verification.

Observation and recommendation: The Committee notes that the Accounting Officer could not elaborate on the circumstances that led to the abandonment of works by the contractors.

The Committee also notes the abandonment of works by all the contractors renders the procurement process suspicious.

The Committee further notes that whereas the initial contract was at a total cost of Shs.1,464,068,499 for 45.3kms of five (5) community access roads, and 4.2km (less than 10%) had been completed at the time of abandonment of the works, the re-tendering process for the remaining 90% of the roads is at an estimated cost of Shs.1,626,565,500 -a cost which is higher than the original contract cost of Shs.1,464,068,499.

The expiry of the performance bonds is an indicator of poor contracts management.

The Committee recommends that;

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i) *the Accounting Officer be held responsible for failure to effectively monitor and supervise the contractors and subsequent loss of public funds.*

ii) *the Accounting Officer ensure that there is due diligence during pre-qualification, evaluation and award of contracts to confirm the ability of the contractors to execute the contracts.*

iv) Delayed completion of works

Query: Best practice requires that traffic must be managed to make roads accessible to users despite on-going works by creating diversions or working on half of the road while the other half is being used. During inspection of the rehabilitation of Otwal Railway Ojwi Road (12km) in Oyam district, it was noted that the dumped murram had not been spread making the road inaccessible and the work had also stalled.

Observation and recommendation: The Committee notes that due to the delays, communities are denied access to roads meant to uplift their livelihood. This inevitably jeopardizes the attainment of Project objectives.

The Committee recommends that the Accounting Officer ensures that contractors provide alternative access routes during road works.

v) **Poor procurement record keeping**

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Query: During inspection in Masindi district, it was noted that the district did not maintain a procurement file for the procurement of Heifers and Oxen worth Shs.44, 294,000 carried out during the year.

Observation and recommendation: The Committee notes that the absence of requisite documentation on the procurement of the animals raises questions of the veracity of the said procurement.

In addition, the absence of the procurement file is a contravention of the PPDA Act and the regulations there-under.

The Committee recommends that the Accounting Officer be held liable for the contravention of the PPDA Act and the regulations there-under.



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6.0 MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

1). Mischarge of expenditure

Query: Contrary to the Government Chart of Accounts which defines the nature of expenditures for each item code, a sum of shs.1,506,161,379 was charged on items which do not reflect the nature of the expenditure.

Response: The Accounting Officer conceded the audit observation and attributed it to insufficient releases on some budget lines.

Observation and recommendation:

The Committee observed with dismay the failure of the Ministry of Finance, Planning and Economic Development to set the pace in adhering to the PFAA and the TAIs given the central mandate they have in regard to the budget process.

The Committee further notes that whereas the objective of the chart of accounts is to enable classification of financial transactions and track budget performance per item, mischarge of expenditure jeopardizes this objective thereby impeding prudent public sector financial management. In essence, mischarge of expenditure impacts on the credibility of the financial statements since the figures reported therein do not reflect true amounts expended on the respective

The Committee recommends that;

- i) the Accounting Officer be held liable for usurping the powers of Parliament of appropriation.***

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2). Un-supported Gross Tax payments shs. 1,468,868,156

Responses: The Accounting Officer conceded the audit observation admitting that Gross tax payments are made directly to URA on receipt of import documents for the respective entities. He however added that the requisite documentation has since been secured.

The Committee recommends that the Accounting Officer be held liable for violating section 37 of the National Audit Act 2008.

3). Gross Tax payment for Non-Qualifying Items shs. 642,902,785

3). Gross Tax payment for Non-Qualifying Items shs. 642,902,785

Query: Government, in support to the Agriculture Sector value chain (Textile sub-sector), has been paying import taxes on raw materials for the manufacture of textiles. The Ministry paid Shs.642,902,785 as taxes for these imports. This is against the purpose for which the incentive was established. Importation of already ginned cotton (yarn), bed sheets materials and other fibre, will not benefit the local cotton farmers as had been intended.

It was noted that the beneficiary companies instead imported semi/finished textiles (Bed sheet material, Bales polyester and viscose rayon staple fiber, cartons polyester viscose, texturised yarn and polyester bed sheet material etc.).

Response: The Accounting Officer contested the audit observation stating that the intervention into the textile sector covers both unprocessed and intermediate inputs. He added that the companies in question imported fabric for further transformation into finished products. This, he argued, is consistent with the authority granted by the Minister and verified by URA. He subsequently tabled the Minister's authority and the list of qualifying items from URA. He attributed the extension of the facility to cover imported raw materials to the need to supplement insufficient local production of cotton lint for input in the textile sector.

Observation and recommendation: The Committee observes that while the Accounting Officer cited a formal authorization from the Minister and an accompanying list of qualifying items, the Committee notes the failure

of the Accounting Officer to furnish the auditors with this very letter at the time of audit.

The Committee further notes the waiving of import taxes by the Minister, on semi finished and finished textiles is self-defeating to the Support to the Agricultural Sector Value Chain. Far from enhancing value addition for locally produced cotton, it potentially stifles the growth of local production.

Noting that the selective application of tax waivers on finished products undermines local production and its associated benefits, the Committee recommends that;

- i) the entire policy of tax waivers on imports should be aligned in a manner that; stimulates local production, is time bound and closely evaluated for policy outcomes so that the intended benefit is realized, lest the benefit will accrue only to the industrialists but not to the local producers.***
- ii) The IGG should investigate further the entire system of tax waivers with a view of recovery and prosecution,***
- iii) Government should review its policy with a view of abolishing tax waivers since they no longer serve the intended purpose.***

4). Amounts due to URA not disclosed in MoFPED Financial statements

Query: Receivables of Shs.2,017,372,495 were disclosed in the URA financial statements as due from the Ministry. This payable was not disclosed in the Ministry financial statements.

Response: The Accounting Officer conceded the Auditor General's observation. He added that the liabilities in question were unknown to the Ministry.

However, following the Minister's pronouncement in the budget speech for FY 2014/15 the Tax Policy Department of the Ministry is reconciling with URA to verify these tax liabilities before the financial statements can be reviewed. The Accounting Officer added that the Minister in the said budget speech stated that these obligations had been waived and are no longer considered payable.

Observation and recommendation: The Committee notes that the non-disclosure of payables by the Ministry implies that the financial statements of the Ministry are inherently inaccurate and potentially misleading.

In addition, the admission of the Accounting Officer of his ignorance of the said payables puts to question the systems at the Ministry for tracking transactions.

The Committee therefore recommends that the Accounting Officer be held responsible for mis-stating the payables position of the Ministry and by implication distorting the accuracy of the financial statements.

5). Unlicensed Gaming and Pool Betting Businesses

Query: Whereas it is the responsibility of Ministry of Finance to issue licenses to betting companies, audit noted that 24 companies did not have operating licenses in the period in which they transacted business. Subsequently, there is an estimated loss of over Shs.24 million in uncollected license fees.

Response: The Accounting Officer conceded the audit observation. He attributed it to a discrepancy between the tax-payers list by URA and the licensed list of betting houses by the Lottery Board. Since payment of taxes to URA does not require a license, several unlicensed and illegal operators continued to remit tax to URA. As a result, the Lottery Board had closed down 40 illegal operators. He admitted that the elimination of illegal operators is still a challenge and that the Lottery Board was working with the Police and Urban Authorities to control this practice.

Observation and recommendation: The Committee notes with concern the proliferation of unlicensed and illegal betting houses.

The Committee was concerned that the failure to license directly undermines the regulation of betting and gambling activities which have a negative influence on young people.

The Committee recommends that the Lottery Board works concertedly with the Police and URA to harmonize and strengthen the regulation of betting houses.

6). Inadequate budgeting and management of gross tax account

Query: During the period under review the Ministry budgeted for Shs.26bn out of which Shs.15 bn was received as gross tax amount available to settle import related taxes. Out of the total release, management paid for taxes of only Shs.10,431,635,839. Also noted was the gross tax balances of Shs.4,568,364,161 transferred to the UCF, despite having outstanding tax obligations with URA of Shs.3,657,635,260 arising from import related taxes.

Response: The Accounting Officer conceded the audit observation and added that Gross tax was a non-resource estimate at the time of budgeting. The estimate was based on previous interventions for subsidies and bilateral agreements with Development Partners, NGOs, Churches/Religious organizations and the Private Sector. A provision of 10% is included at the time of budgeting based on previous performance to cater for new beneficiaries.

Out of the budget provision of Shs.26bn which was an estimate for FY 2012/13, only Shs.10.4bn was utilized.

The tax liability of 3.6bn was submitted after the closure of the FY and did not qualify to be paid from gross tax.

Observation and recommendation:

The Committee observes that gross tax is paid upon submission of import documents by MDAs. Therefore the Accounting Officer's argument that the 4.56bn returned to the UCF was prior to the submission of tax

obligations by MDAs as inconceivable as there was no evidence to that effect.

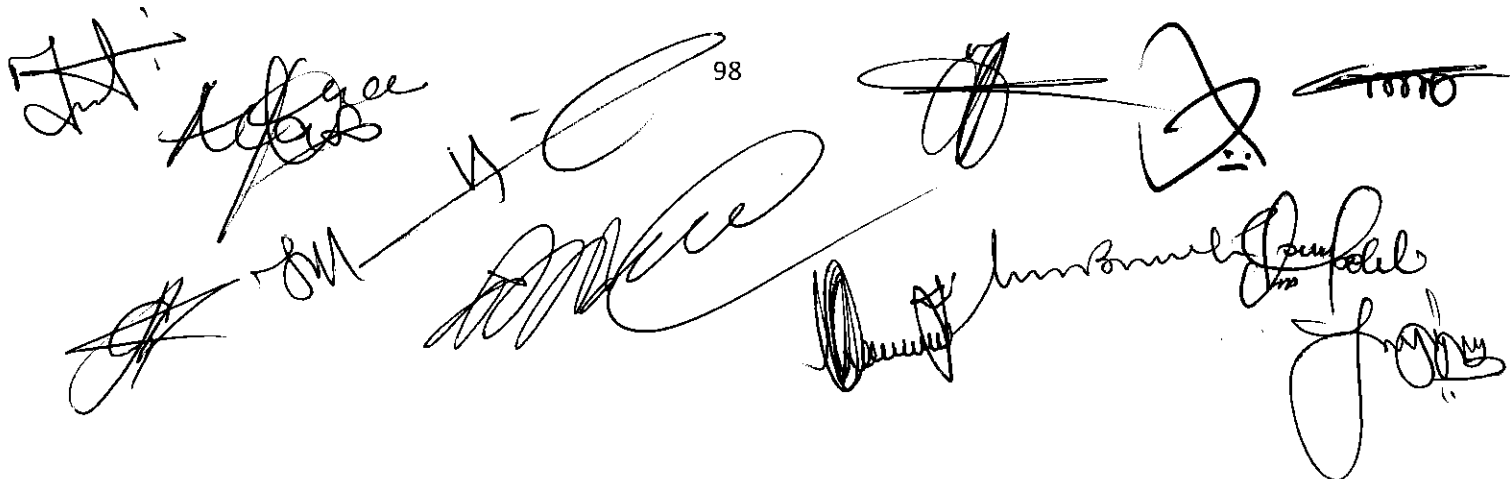
The Committee recommends that the transmission of import documents from MDAs to MoFPED should be streamlined.

7). Unclear criteria for selecting and recommending firms for tax incentives and lack of information in that regard.

Query: There was no guidance given in the criteria to be used in the selection and recommending firms for tax incentives by the tax policy desk in the Ministry. Further, there is lack of clear and readily available information to the public/players in the economy regarding specific sectors of the economy which have been earmarked to benefit from tax waivers. For instance, the Hotel industry, Steel manufacturing and textile among others have been benefiting from tax incentives without any documented criteria in place which is open to all players in such sectors to enable equal opportunities to access the tax incentives. Audit further observed that the beneficiaries of the tax incentive (e.g. BIDCO) charge similar oil prices as non-beneficiaries (e.g. Mukwano) without consideration of any returns in benefits to the economy as would have been expected.

Response: The Accounting Officer dispelled the audit observation and informed the Committee that the issuance of tax incentives to all qualifying tax payers by the Ministry is done annually. The incentives policy and guidelines are derived from the respective tax laws and are

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sector-specific. These incentives are not discretionary but are open to all taxpayers as prescribed in the law including the Income Tax Act, VAT Statute and the Customs Act.

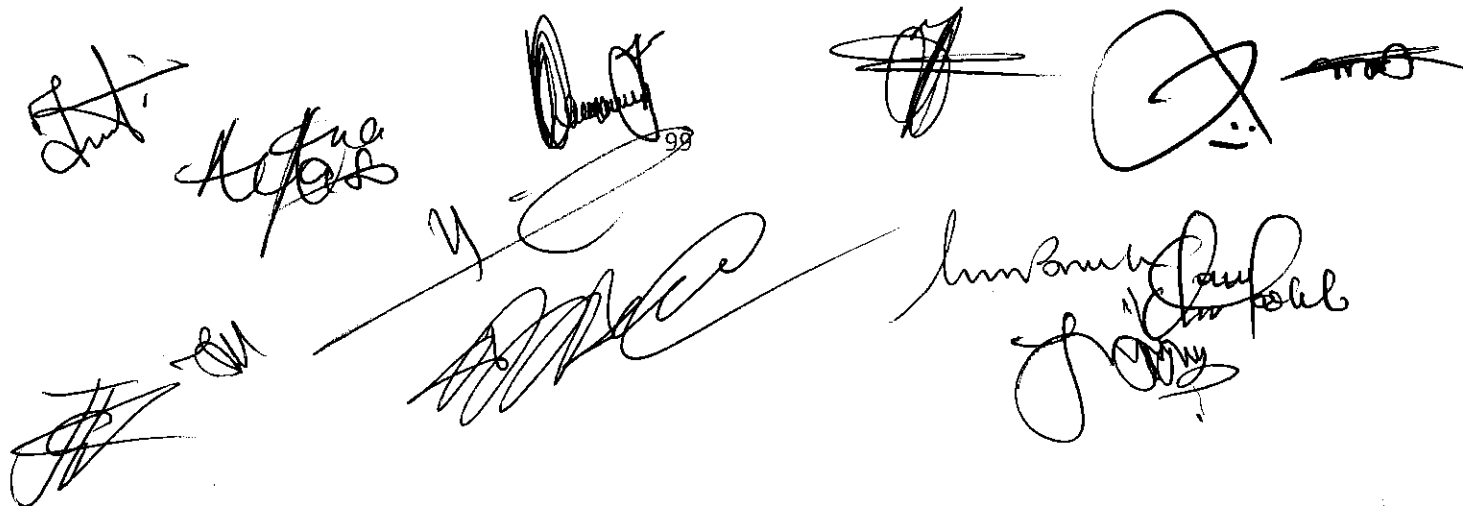
For this particular year under review, the policy was communicated through UMA for all manufacturers. To dispel the audit observation, the Accounting Officer tabled the guidelines that relate to the textiles sector issued by the PSST in 2013/14.

Observation and recommendation: The Committee notes the explanation of the Accounting Officer on the general procedure for issuing tax incentives. However the Committee observes that the documentary evidence tabled by the Accounting Officer before the Committee relates to 2013/14 and not the year under review. The failure of the Accounting Officer to provide documentary evidence that relates to the year under review strengthens the case for the audit observation.

The Committee further notes that while it is standard practice for Government to intervene in strategic sectors of the economy to promote development, such intervention should be equitable, strategic and time bound to forestall un-fair competition and any other attendant irregularities in the market.

The Committee recommends that;

- i) the Accounting Officer be held responsible for failure to put in place the requisite criteria for selecting and recommending firms for tax incentives.***

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ii) the Accounting Officer be held responsible for failure to ensure availability of information relating to tax incentives.

8). Lack of repair post inspection reports

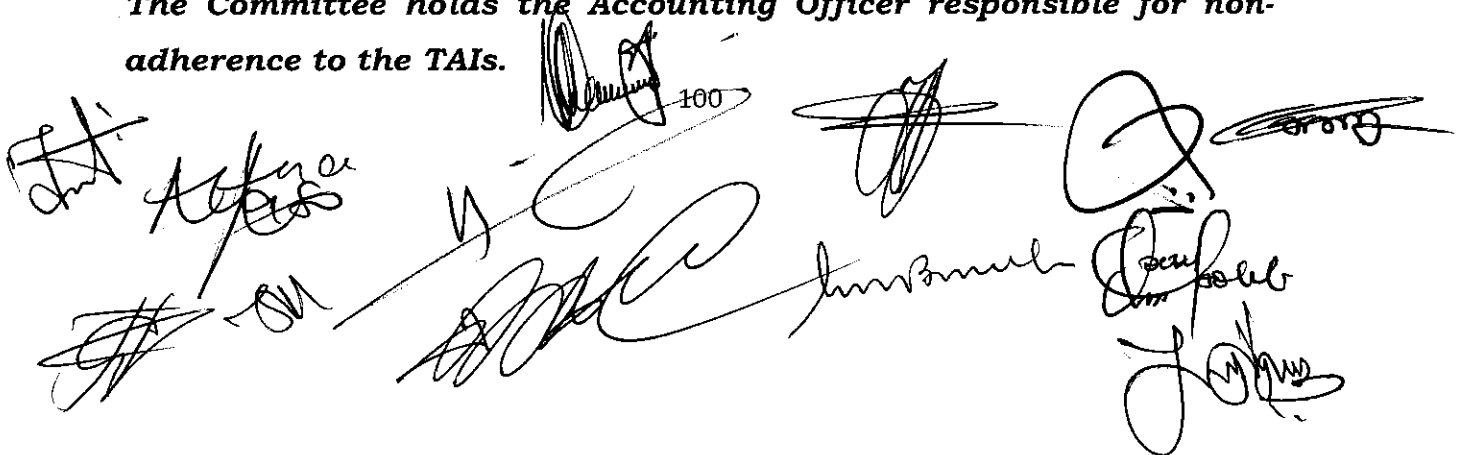
Query: S.816 of the TAIs requires that, a motor vehicle should be inspected by the mechanical supervisor before and after repair and a certificate of completion or inspection report should be prepared by the mechanical supervisor confirming that the vehicle has been repaired, all spares installed and in a good mechanical condition. However, during the financial year, a sum of Shs.889,964,805 was spent on repair and servicing of various vehicles but there were no certificates of completion/inspection reports prepared for the serviced vehicles.

Response: The Accounting Officer conceded the audit observation and attributed it to the absence of pre and post inspection guidelines from the Chief Mechanical Engineer. He however added that these guidelines have since been developed and are currently in place and are being adhered to.

Observation and recommendation: The Committee notes that even in the purported absence of the said guidelines, the TAIs are elaborate on this pre and post repair inspection of motor vehicles. Therefore the excuse of the Accounting Officer for non-adherence to the TAIs does not hold.

In the absence of such inspection reports, public funds are at risk of being lost.

The Committee holds the Accounting Officer responsible for non-adherence to the TAIs.



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9). Capitalization of institutions

Query: During the period under review Parliament appropriated Shs.25,079,000,000 for capitalization of EADB, UDB, IDB and PTA. Examination of the activity revealed the following;

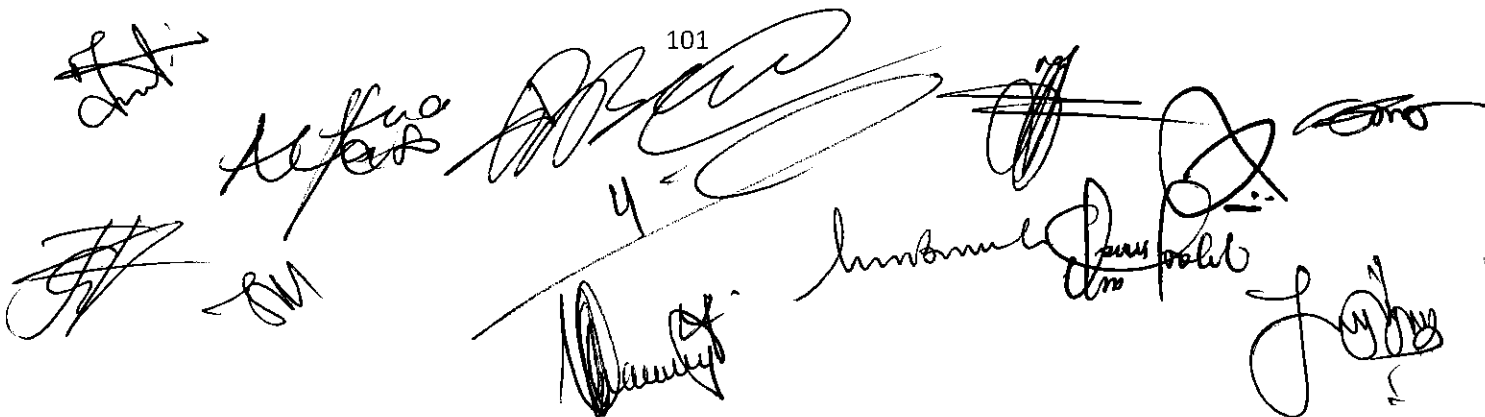
- The EADB board of directors and governing council made a decision on 15th March, 2012 that each member state pays an amount of USD 4.5 Million each year towards capital subscription. At the time of audit, USD4,119,822 was still outstanding. · Uganda being a member state was supposed to make annual capital contribution of USD 1,632,024. However, only USD 930,000 was paid leaving a balance of USD 8,050,872 as at 30th June 2013.
- Arrears continue to attract interest at a rate of 8% per annum and by 30th June 2013 this had accumulated to USD 820,752. objectives.

Response: The Accounting Officer conceded the audit observation and attributed the accumulation of arrears in capital contributions to insufficient budget allocations. He added that by 30th June 2014, the EADB subscription had been reduced to \$1m.

Observation and recommendation: The Committee notes with concern that the failure to make timely contributions to the aforementioned regional entities will ruin the image of Uganda among regional peers, cost the tax payers colossal sums of money in interest and jeopardize the attainment of the intended aims/objectives.

The Committee recommends that the Ministry of Finance, Planning and Economic Development prioritizes the payment of arrears and

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streamlines the timely payment of Uganda's financial obligations to regional and international bodies.

10). Budget Performance

Query: According to the annual budget performance report for 2012/13 for the Ministry, Shs.225.05 billion was budgeted, Shs.207.04 billion was released and Shs.207.01 billion was actually spent.

In 4 instances, funds released and spent was above the approved budget. From the annual budget performance report, a number of activities were budgeted for but activities were not fully performed.

Response: The Accounting Officer informed the Committee that the suspension of donor funding for some activities namely; data centre enhancement, reallocations for IFMS upgrade, International Conference on Inter-Governmental Committee of Experts, funding Scientists and outstanding taxes; warranted re-allocations.

Therefore, the 4 instances of expenditure exceeding the budget was due to authorised re-allocations from the macro economic policy and management vote function to the following vote functions; 1403:Public Financial Management, 1404: Development Policy Research and Monitoring, 1406: Investment and Private Sector Promotion, 1449: Policy, Planning and Support Services. He tabled copies of letters of authorization.

Observation and recommendations: The Committee notes that appropriation follows planning and budgeting and therefore the practice of re-allocating resources within the vote functions affects the objectives and output of the entity.

6.1 AUDIT OF SUBVENTIONS/PROJECTS

6.2 IRISH AID SUPPORT TO EQUITY AND BUDGETING (EDUCATION SECTOR AND KARAMOJA SUB-REGION)

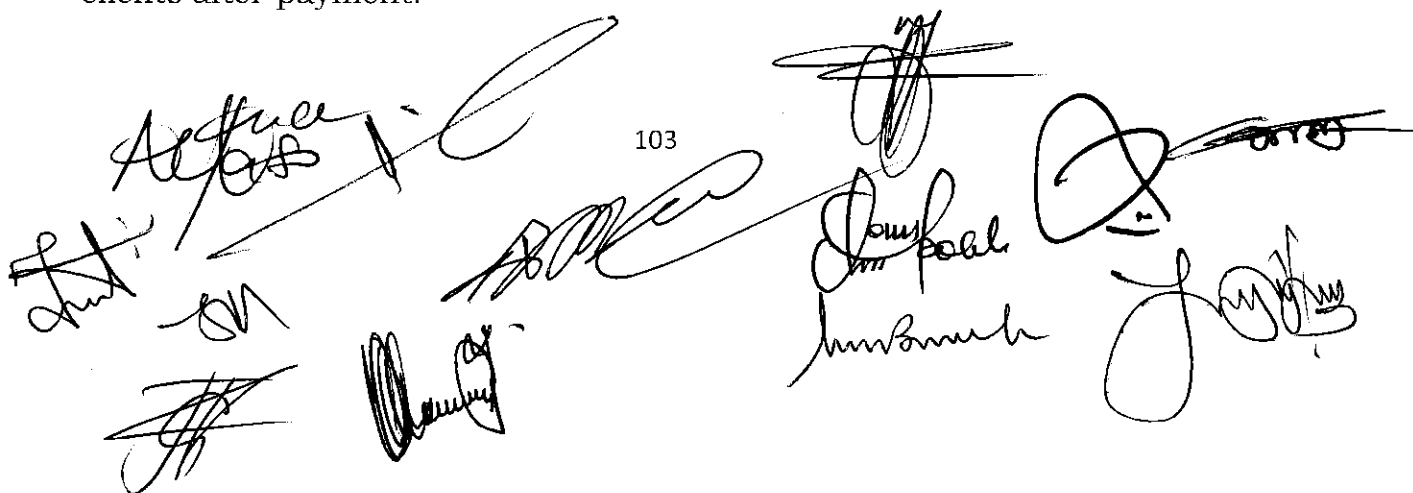
10.1.1 General Standards of Accounting and Internal Audit Control Systems

1) Lack of critical information on payment vouchers

Query: Payment vouchers did not contain signatures of the payees as evidence of receipt of the money paid. There is a risk that irregular transactions could go undetected and payments could go to un-intended persons.

Response: The Accounting Officer conceded the Audit observation. He explained that payees did not acknowledge receipt of funds as funds were disbursed directly to their accounts. The modern online payment system requires that the beneficiaries provide their bank details using an EFT form. The forms are filled and signed by the beneficiaries themselves, making it irrelevant to obtain receipts from suppliers and clients after payment.

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The project was terminated in November 2012 when the Irish Government withdrew funding.

Observation and recommendation: The Committee notes that the reliance on EFT forms as a substitute for duly signed payment vouchers is risky especially if it is for money meant for activities. While EFT payments are effective for salaries and emoluments, the modus operandi of the accounting officer in this case means that activity funds could have been wired to individuals' bank accounts contrary to the 2012 directive by the PSST.

Even if the project ended, the Committee recommends that payment vouchers should be duly signed at all times as an integral part of accountability and a safeguard for public funds

10.1.2 Compliance with Financing Agreement and GOU Financial Regulations

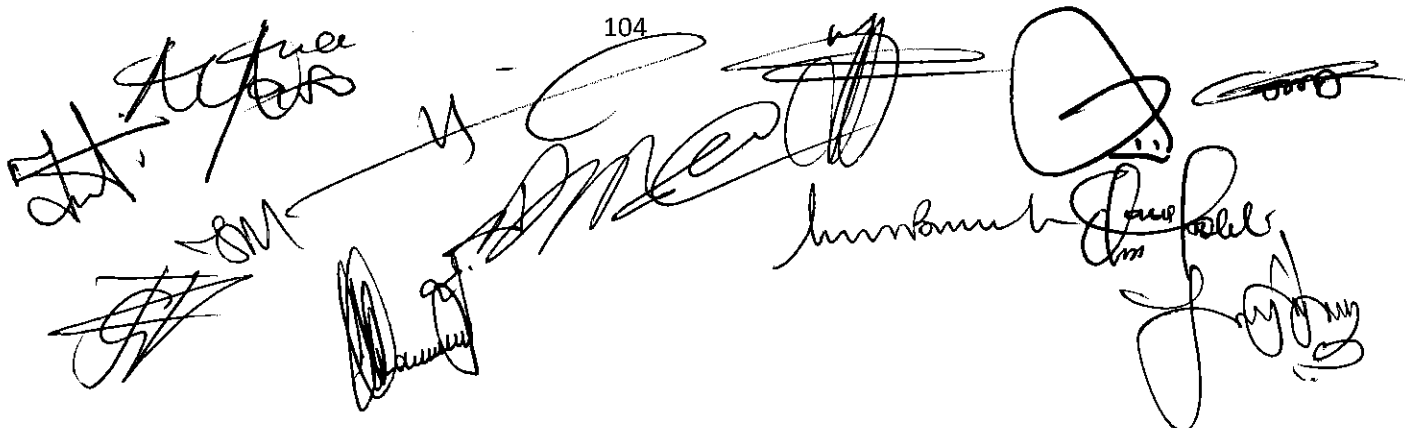
2) Non-remittance of Local Service Tax (LST)

Query: It was noted that Local Service Tax (LST) was not remitted at all during the year. Non-compliance could attract penalties based on the existing regulation.

Response: The Accounting Officer conceded the audit observation. He added that the Project employed 3 contract staff. The project was terminated before deductions were made.

Observation and recommendation: The Committee notes that a tax forms a fraction of the emoluments payment and therefore should have been deducted prior to payment. The non-deduction and subsequently the non-remittance of Local Service Tax was a contravention of tax laws

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and may attract costly penalties. Such non-compliance is evidence of negligence on the part of the Project Accounting Officer.

The Committee recommends that the Project Accounting Officer be held responsible for failure to deduct and remit Local Service Tax.

6.3 FINANCIAL MANAGEMENT AND ACCOUNTABILITY

PROGRAMME (FINMAP)

10.1.3 Compliance with programme financing agreement and Government financial regulations

3) Statutory deductions

Query: Withholding tax deducted from suppliers of goods and services and paid during the year under review was not remitted to the relevant authority on a timely basis i.e. by the 15th day of the following month. Also noted was that all PAYE & NSSF returns were filed late.

Response: The Accounting Officer conceded the Auditor General's observation. He attributed the delay in remittances to resource constraints accruing to the suspension of donor financing in FY 2012/13. He informed the Committee that the remittances were ultimately paid from the resources of FY 2013/14 without penalties.

On the non deduction of WHT worth Shs 1,067,797/= from Pinnacle Publishers and Shs 750,000 from Uganda Printing & Publishing Corporation, the Accounting Officer stated that this was an error of omission. He added that the companies have since been notified accordingly and recovery measures instituted. He tabled a copy of a letter

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Observation and recommendation: Non compliance with the provisions of the Income Tax Act and NSSF Act may lead to heavy penalties and interest being imposed. Such penalties may deprive the programme of much needed finances for other planned activities.

4) Expenditure reallocation

Response: The Accounting Officer conceded the Auditor General's observation. He attributed the budget mischarge to suspension of donor financing. This expenditure was for ongoing activities and was incurred from the remaining relatively smaller donor funds from the partners who continued funding the programme even after withdrawal of the majority.

Observation and Recommendation: The Accounting Officer acknowledged the anomaly and further asserted that they obtained approval for a reallocation by word of mouth. The Committee took exception to the blatant disregard of financial regulations. The

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Committee notes that such unauthorised budget re-allocation is indeed a mischarge of expenditure and renders the budgetary control ineffective.

The Committee recommends that the Accounting Officer should always ensure that the requisite procedure for approvals for reallocations is sought whenever the need arises.

5) General standards of Accounting and Internal Control

Staff advances

Query: There were cases of salary advances made to project staff in excess of Shs.1m and recovered over a period exceeding three months. Such advances could be construed as interest free loans in accordance with the Income Tax Act Cap 340 (Section 7 of the 5th Schedule). This would give rise to a taxable benefit on which PAYE should have been accounted for on a monthly basis.

Response: The Accounting Officer conceded the Auditor General's observation. He informed the Committee that prior to this query there were no deductions on advances. After the Auditor General's advice, deductions were then made as per the operational guidelines and using the Income Tax Act.

Observation and recommendation: The committee notes that the delayed recovery of the said salary advances is attributable to laxity on the part of the Accounting Officer.

The Committee recommends that the Accounting Officer should be held responsible for failure to recover the advances within the stipulated 60 days from the date of disbursement.

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6) Payment vouchers

Query: A number of payment vouchers and their support documents were not stamped "Paid" or "Cancelled" after payment to deter reuse. No other indicative mark was put on these vouchers to indicate that they have been paid.

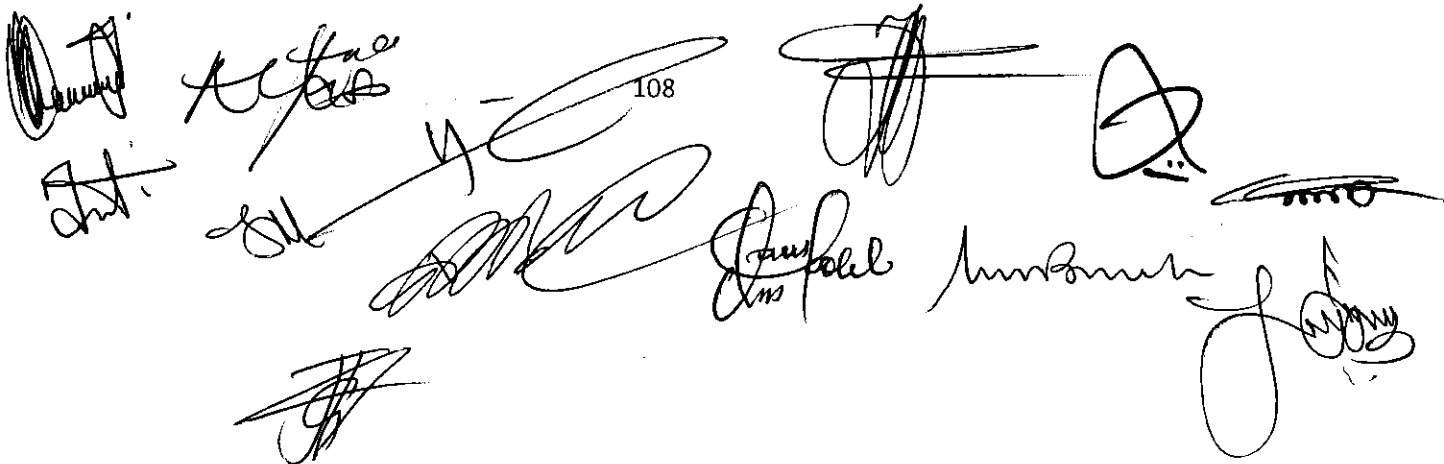
There is a risk that the supporting documents could be paid again resulting into double payments.

Response: The Accounting Officer conceded the Auditor General's observation, adding that whereas previously the programme inadvertently omitted stamping some of the vouchers, currently there are markings with reference indicating that action has been taken. The programme now complies with stamping vouchers "PAID".

Observation and recommendation:

The Committee notes that the failure to mark and stamp payment vouchers is an indication of the absence of control measures and smacks of fraud.

The Committee recommends that the Accounting Officer be held responsible for failure to exercise prudent control measures which is at the core of the mandate of an Accounting Officer.



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7) Project stores

Query: A surprise visit to the project store revealed that for all the sampled items subjected to a spot physical count, the bin card balances differed from the physical counts. Besides, reconciliation for the variances was not provided. There was no proper store's ledger and the bin cards used in place of the stores ledger were incomplete.

It was further noted that all accounting records in the store were not reviewed by an independent person and therefore the project risks errors going unnoticed.

Response: The Accounting Officer conceded to the Auditor General's observation. He added that with the Auditor General's guidance, the Programme bin cards have since been updated and are regularly reviewed by the Programme Administrator.

Observation and recommendation: The Committee notes that the TAIs mandate the Accounting Officer to provide stewardship in the management of stores. However in this case, the AO failed.

The Committee recommends that the Accounting Officer be held responsible for failure to carry out proper stores management.

8) Field visits

Query: During a visit to the IFMS sites namely; Inhouse Training Facility (ITF), Dairy Development Authority, Uganda Cotton Development Authority, Uganda Registration Services Bureau, IFMS disaster recovery

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site and the local government sites – tier 2 IFMIS roll out, several observations were noted, including;

- The absence of visitors' books to record all people accessing the server room and the purpose for their visit;
- The lax security at server rooms since some door locks were faulty leaving the door open for most of the time.
- There are two keys to the server room door, one kept by the responsible official at ITF and the other by the Principal Systems Officer (PSO) who sits at the ministry;
- Some server rooms are used as stores;
- Some installed equipment are not engraved,
- The absence of assets registers,

Response: The Accounting Officer conceded the audit observation and added that the Accountant General has written and directed the various sites to take action on the issues identified. He tabled a status report detailing the various actions taken on the audit observations at the various sites. Some of the remedial action so far taken included;

- The equipment that had their installation delayed due to unforeseen delays of the ORACLE upgrade have since been installed and engraved,
- The old decommissioned equipment at the Disaster Recovery Centre that was not well arranged has since been shifted to the archival room.

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Observation and recommendation: The Committee notes with concern the deplorable state of affairs at the sites listed by the Auditor.

The Committee notes that the TAIs mandate the Accounting Officer to provide stewardship in the management of stores and assets. However in this case, the AO failed.

The Committee recommends that the Accounting Officer be held responsible for failure to carry out proper stores and assets management.

Accepted
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James
Chen

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6.4 STRENGTHENING EVIDENCE BASED DECISION MAKING- FINANCE COMPONENT 2013

10.1.4 Compliance with the key covenants of DFID Funding Agreement and GOU Financial Regulation

9) Tax of shs. 9,251,795 paid from SEBDEM II Project Fund

Query: Shs.9, 251,795 was paid from project funds to cater for taxes. Use of project funds to pay taxes contravenes section 7 of the Memorandum of Understanding (MoU) which prohibits the use of project funds to pay taxes levied on goods or services imposed directly or indirectly by Government.

Response: The Accounting Officer conceded to the audit observation. He added that invoices from suppliers are normally VAT inclusive and the project was paying at face value. Tax refunds on donor payments under SEBDEM were done bi-annually and SEBDEM tax refund was fully made on 8th Oct 2013.

Observation and recommendation: The Committee notes this as a case of laxity in compliance with the MoU.

Inspite of the practice of refunding donor funds incurred on taxes, the very act of spending these funds on taxes was a breach of the MoU.

Such breaches is an indictment of the compliance function of the Ministry and casts the Government of Uganda in bad light and may potentially jeopardize relations with some donors.

The Committee recommends that the Accounting Officer adheres to the financing agreements and provisions of the MoU at all times.

Alfred

Joseph

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**6.5 SECOND PRIVATE SECTOR COMPETITIVENESS PROJECT
(PSCPII)**

5.11.1 Compliance with the credit agreement and Government regulations

i) Non deduction of withholding tax

Query: The Income Tax Act requires withholding tax agents to make monthly withholding tax returns and submit details of their suppliers from whom tax has been withheld and remitted to URA. However, it was also noted that withholding tax amounting to Shs.128,722,558 was not deducted from payments to suppliers.

The Auditor was not availed any documentation exempting the suppliers from withholding tax.

Response: The Accounting Officer dispelled the audit observation. He explained that out of Shs. 128,722, 558, Shs. 122,080,058 was retention fees. The WHT had already been deducted from the certificate payments as per the terms and conditions of the contracts.

The Accounting Officer however conceded that the balance of Shs. 6,642,500 was a payment to Mr. Kakembo J. Moses and unfortunately WHT was not deducted.

Observation and recommendation: The Committee notes that the non-deduction of WHT even in the case of Mr. Kakembo J, is contrary to the law and could attract penalties.

***The Committee recommends recovery of the WHT due to
Gouvernement from Mr. Kakembo J.***

ii) General standards of Accounting and Internal Control

Discrepancy between quarterly reports and financial statements

Query: The total expenditure in quarterly financial statements submitted to the bank was not in agreement with total expenditure included in the annual financial statements. There was a discrepancy of Shs.8,241,678,840.

The disagreement between two implies quarterly financial statements were not accurately prepared.

Response: The discrepancy of Shs. 8b is broken down in the table below.

Direct Payment	7,527,351,274
Kalenge-Consultancy Services	(1,229,359,227)
Operating Costs	6,748,830
GOU Counterpart Funding	1,936,937,963
Total	8,241,678,840

The variance was caused by the reporting time. Whereas the reporting time by the World Bank is 20th June, the financial statements were for 30th June.

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The contract for M/s Kalenge had not been captured in the World Bank system and therefore the payment was recognized later. This caused a discrepancy at the time of reporting.

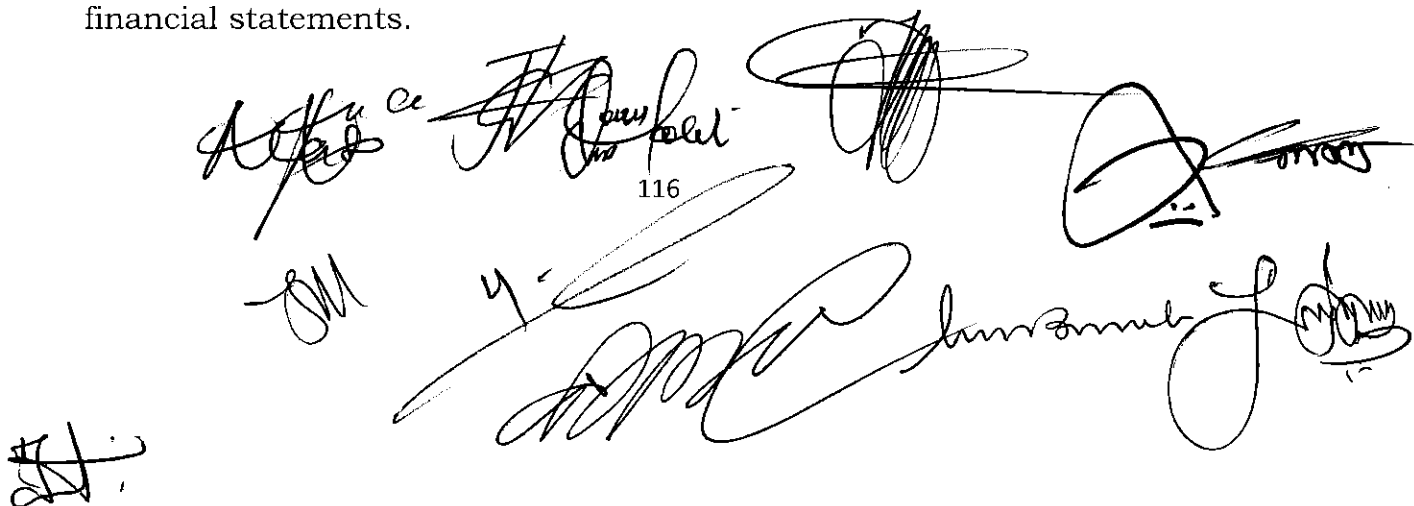
Observation and recommendation:

The Committee notes that although management attributed the variances to difference in the reporting dates and errors during preparation of these statements, the auditor cited management's failure to prepare the last quarter interim report contrary to the World Bank requirements as a major contributing factor. In the view of the Committee, this would have been ameliorated with timely reporting and reconciliation of the quarterly reports and financial statements.

The Committee therefore recommends that the Accounting Officer should always comply with the reporting and other agreed upon requirements of development partners.

iii) Payments to wrong supplier

Query: A payment meant for Charles Koojo was credited to Peter Kasyoka's account because the bank account quoted on the payment instruction was for Mr. Peter Kasyoka. At the time of audit, US \$ 15,980 had been recovered from Peter Kasyoka on 7th June, 2013. The unrecovered balance of US \$ 15,111 was included in receivables in the financial statements.



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Response: The Accounting Officer conceded to the Auditor General's observation attributing it to an error of commission. At the time of interfacing with the Committee, there was an outstanding balance of US 8,126 which was ultimately paid by Mr. Kasyoka Peter on 11th March 2015. The entire amount of US\$ 31,000 has since been recovered in installments of US\$ 15000 and US\$ 7,830 and US\$ 8,126.

Observation and recommendation:

The Committee observes that inspite of the recovery of the full sum, the very act of paying a wrong payee is a gross act of negligence.

The Committee recommends that the Accounting Officer improves his internal controls to forestall any future recurrence of this anomaly.

iv) Mis-procurement

Query: Management contracted a company to undertake Government Land Inventory at a cost of US \$ 1,889,828 including taxes. Accordingly, US \$ 882,200 was paid as advance for the activity. However, it was determined by the World Bank that the contract had been irregularly awarded and therefore considered ineligible for which Government was required to refund the advance payment to the bank.

Further, it was noted that the contractor was unable to complete execution of the activity. I find this advance doubtful as the payment guarantee expired.

Response: The Accounting Officer conceded to the audit observation and informed the Committee that as advised by Auditor General, the Ministry

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wrote to the Solicitor General for guidance on recovery of USD. 427,943 that was considered due from M/S Geomaps.

Observation and recommendation:

The Committee recommends that for smooth project management, projects should be domiciled in their respective sector ministries.

v) Outstanding project liabilities

Query: The project closed on 28th February 2013 with nil cash balances. However, it was noted that it had unsettled liabilities amounting to Shs.2,053,917,000. It was not clear how these project liabilities were to be settled given that the project had exhausted all funding available in the financing agreement.

Response: The Accounting Officer conceded the audit observation and added that PSFU is in discussion with MOFPED over the settlement of the stated liability. A letter had been written to Ministry of Finance, Planning and Economic Development to avail funding to settle the commitments entered under the PSCP II, which is in line with the subsidiary agreement.

Observation and recommendation:

The Committee notes that the very act of incurring liabilities over and above the available project funds is illegal.

The Committee recommends the IGG investigates the circumstances under which the outstanding liabilities were incurred with a view of prosecution and recovery.

vi) Land Information system (LIS)

Query: The implementation of the National Land Information System was reviewed and the following were noted;

- (i) Some zones (Masaka and Wakiso) were experiencing problems in carrying out subdivisions on some parcels of land.
- (ii) The Wakiso district land office did not have enough equipment including scanners, printers and computers to handle the volume of work that was available. Because of the volume of scanning being done at the moment, the scanners are sometimes overwhelmed and malfunction.
- (iii) Transaction processing was not timely. Processing a land transfer takes up to five months in some instances.

Response: The Accounting Officer conceded the audit observation informed the Committee that;

- i) Problems identified in carrying out sub-divisions on some parcels of land have been rectified through the technical corrections in the Land Information System (LIS) under the Ministry of Lands.

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- ii) on the inadequate equipment in Wakiso district land office; more scanners were acquired and supplied to the office. Additional equipment will be provided in phase ii in the current FY.
- iii) On delays in processing of land titles; at the time of audit the LIS was being piloted. However, the system has now been improved and will be completed in Phase I of implementation, it is hoped that timely titling will be achieved with completion of Phase II implementation that started in July 2014.

Observation and recommendation:

The Committee notes that with timely planning and responsive management, the shortcomings unearthed by audit would have been ameliorated in time.

The Committee therefore recommends that the Accounting Officer improves his planning function to forecast, detect and innovate in time


Alfred



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6.6 SIDA SUPPORT TO COMPETITIVENESS INVESTMENT CLIMATE STRATEGY (CICS) PROJECT

10.1.5 Compliance with the SIDA/GOU Financing Agreement Provisions and GOU financial regulations

1). Human Resource Issues.

a). Un approved staff titles

According to the project organogram, a provision was made for 10 staff. Contrary to the above approved structure, the project had an additional three Research Assistants earning a total monthly salary of Shs.4,575,470.

Response: The Accounting Officer conceded to the Auditor General's observation. He added that the recruitment of three Research Assistants was based on a World Bank recommendation on a restructured organogram with the aim of assisting in setting up of the Business Licensing Reforms. Implementation of the new organogram which included Research Assistants was delayed due to halting of donor funding.

Observation and recommendation:

The Committee notes that whereas the Accounting Officer makes mention of a restructured organogram to justify the recruitment of 3 Research Assistants, no evidence was availed to that effect.

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The Committee therefore recommends that the Accounting Officer be held responsible for operating outside the approved staff establishment.

2). Non-remittance of Un-utilized Project funds

Query: Article 4 section 5 of the agreement signed between Sweden and GoU for support to the competitiveness investment climate strategy secretariat requires that funds transferred to Uganda and not utilized by 30th June, 2013 shall be repaid to Sweden within three months of that date. However, it was noted that as at 30th June, 2013, the project had a cash balance of Shs.47,010,645. At the time of audit, a period of more than four months. These funds had not been remitted to Sweden.

Response: The Accounting Officer dispelled the audit observation arguing that Article 4 Section 1 “Conditions for Utilization of Swedish Contribution”, gives a grace period of 6 months within which all payments should be made. He informed the Committee that the balance of shs. 47m was already committed towards SIDA activities and was paid within the grace period of 6months after the end of the FY.

Observation and recommendation: The Committee notes with grave concern the failure of the Accounting Officer to avail the auditors with the above explanation at the time of audit.

The Committee recommends that the Accounting be held liable for failure to remit the Shs. 47m back to the Government of Sweden.

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3). Procurement of hire of reality TV production services

Query: On 26th November 2012, the project national coordinator in his communication to the Swedish Embassy requested for no objection to use direct procurement while procuring services of hiring of reality TV production. This was to be undertaken through the use of the Ministry's prequalified firms that previously supplied similar goods and services to the Ministry. The Embassy responded with a no objection but indicated that it was a one off and not the rule. On 11th January 2013, the project management signed a contract agreement with Explode 360 for a contract price of Shs.48,050,000 for the hire of reality TV production service.

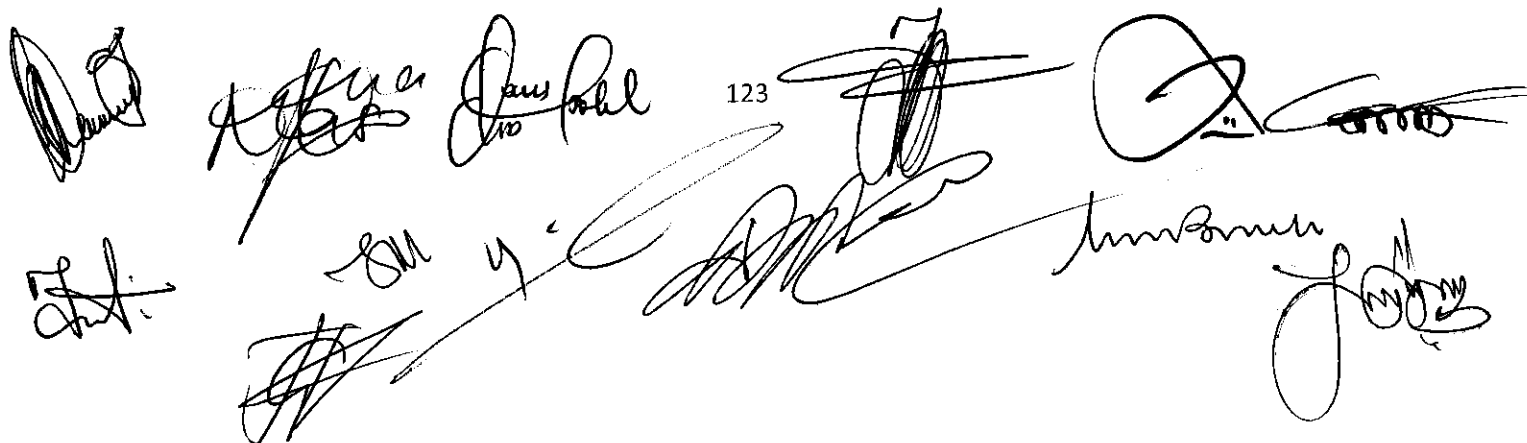
The following anomalies were noted:

- Hiring of TV production services had been estimated at Shs.45,000,000 as opposed to Shs.48,050,000 which was eventually contracted. The no objection for the extra Shs.3,050,000 was not provided.

The request for no objection indicated that the project was to use direct procurement using the Ministry's pre-qualified firms however, this procurement was not approved by the contracts committee as recommended by PPDA regulations (Sec.119 (2)).

- The contractor was paid the full amount without deducting the 6% WHT worth Shs.2,883,000 from the supplier.

Response: Regarding the absence of approval of the no objection, the Accounting Officer stated that whereas a no objection was obtained from SIDA for funding the Youth Entrepreneurship Challenge (YEC) at shs.



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45m as an estimate, the actual expenditure was shs.48m. The excess of Shs. 3m is within the PPDA threshold.

Regarding the non deduction of the 6% WHT from the supplier, the Accounting Officer attributed it to a regrettable error of the omission. He added that the supplier has since been instructed to remit the funds to URA. He tabled a letter he had written to the supplier.

Observation and recommendation: The Committee notes that by failing to secure the approval of the Ministry's contracts Committee, the Accounting Officer erred. To this effect, the Accounting Officer not only breached the advice of the Swedish Embassy that the direct procurement be done with the approval of the Ministry's contracts Committee but also the PPDA Act and the regulations there-under.

The Committee further notes that an error of omission in failing to deduct WHT is a gross act of inexcusable negligence on the part of the part of the Accounting Officer.

The Committee recommends that;

- i) the Accounting Officer be held responsible for violating the PPDA Act and the regulations there-under***
- ii) In view of the fact there was no evidence of recovery, the Accounting Officer makes good the un-deducted 6% WHT and the same should be remitted to URA with immediate effect.***

4). Overspent items

Query: It was established that actual expenditure on; Strengthening CICS staff Capacity, The 6th National Competitiveness Forum and CICS II Communication & Outreach strategy was beyond the budgeted amounts of 213,153,461 by Shs.52,747,730.

Response: The Accounting Officer conceded to the Auditor General's observation. He added that CICS secretariat expected sponsorship from several donors for the Youth Entrepreneurship Challenge (YEC) event 2013. However, DANIDA, SIDA and EU did not fulfill their commitment, though implementation of the event was in progress and could not be cancelled.

Observation and recommendation: The Committee notes that the Youth Entrepreneurship challenge that the Accounting Officer used to justify the over-expenditure has no relationship with the said 3 budget items.

The Committee further notes that it was irregular for the Accounting Officer to falsify the expenditure on the 3 budget items in order to raise money to finance the Youth Entrepreneurship Challenge.

The Committee therefore recommends that the Accounting Officer be held liable for contravention of the PFAA and the regulations there-under by falsifying the expenditure on the 3 budget items.

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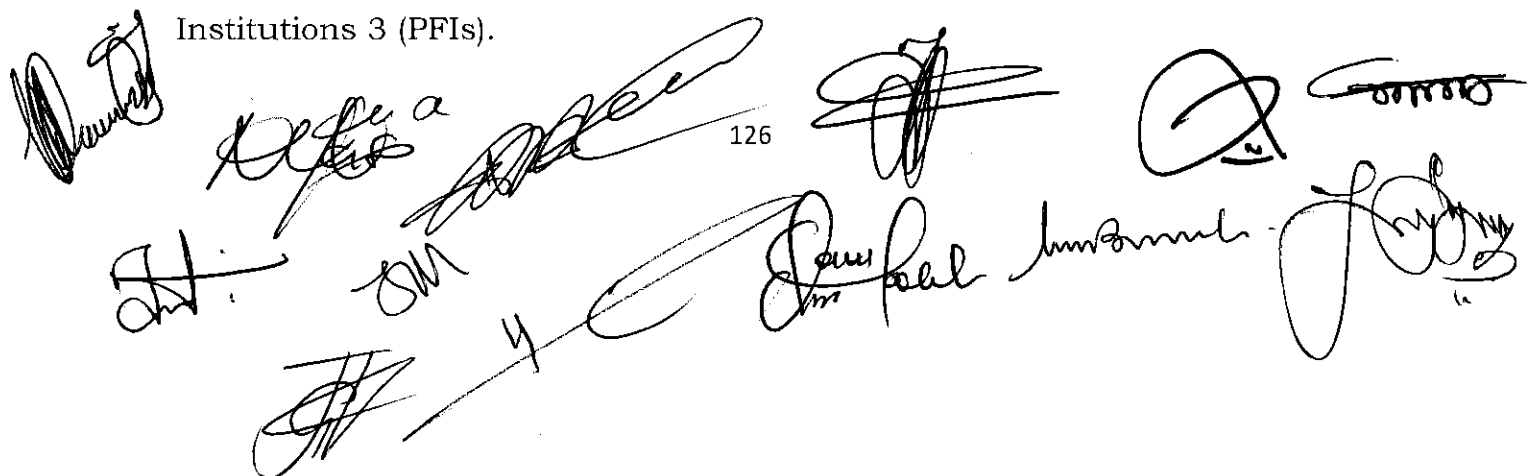
6.7 AGRICULTURAL CREDIT FACILITY PROJECT

1). Inadequate monitoring and supervision of the scheme by the Administrator

Query: The Bank of Uganda internal quarterly report for the period ended 30th June, 2013 highlighted the following delinquent accounts but there was no evidence that the Administrator had reviewed and taken action on these cases.

s/n	PFI	Project/Beneficiary	Amount
1	DFCU	Bunya SACCO	18,251,164
2	DFCU	Kahunga Investments	702,223,587
3	Stanbic Bank	Mr & Mrs Byensi	105,919,095
4	Post Bank	Herdoh Ltd	41,666,667
			868,060,513

Response: The Accounting Officer conceded the challenge of monitoring PFIs stating that whereas the Project had provided that BOU monitors the PFIs, BOU had reneged on this role citing that this was not consistent with its mandate of providing prudential regulation of the financial system. Consequently, monitoring and supervision is done through the quarterly reports submitted by the Participating Financial Institutions 3 (PFIs).

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The PFIs are responsible for the appraisal and monitoring of the funded projects. They have a significant stake in each of the loans disbursed, which is an incentive for them to monitor the projects financed.

MoFPED has been advised that an independent body be set up to specifically monitor the ACF funded projects.

On the non-performing projects cited by the auditor, the Accounting Officer stated specifically as follows;

- a). Kahunga Investments: DFCU is in the process of revamping the project by restructuring and advancing additional financing.
- b). Bunya Sacco: DFCU has communicated that all measures were undertaken to recover the funds in arrears but without success and they are awaiting a write-off of the outstanding GoU contribution.
- c). Mr. & Mrs Byensi: Stanbic Bank has since paid off the loan
- d). Herdoh Ltd: Post Bank has since paid all arrears to BoU and the last instalment is due in December 2014.

Observation and recommendation: The Committee notes that without a proper monitoring function, the ACF is at risk of loss of scheme funds arising from delinquent accounts. This may jeopardise the objectives of the ACF

The Committee recommends that the ACF MoU be reviewed with a view of establishing an independent body to monitor and supervise the scheme operations so as to forestall any losses.

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2). Non-Compliant use of ACF funds

Query: It is a requirement under clause 2.1 (vi) of the Memorandum of Understanding that the primary security for the credit facility should be the machinery and equipment financed. However, it was noted that one of the beneficiaries – Sugar and Allied Industries – the eligible beneficiary diverted a loan facility worth Shs.424,000,000 to another company – Steel Rolling Mills Ltd, which then purchased the machinery and equipment. The loan facility of Shs.424,000,000 is therefore not secured since the purchased machinery and equipment is not owned by the eligible beneficiary.

Response: The AO informed the Committee that all loan disbursements from BoU are made directly to the PFIs after obtaining proof or confirmation from the PFIs that funds have been disbursed to the final borrower.

Therefore, refinances made by BoU are based on the information submitted by the PFIs. In this particular case, Bank of Baroda (BoB) through which the project beneficiary submitted information to the extent that the project was eligible and upon receipt of proof of disbursement to the borrower by the bank, refinancing was made. MoFPED contacted BoB to clarify on this issue and they affirmed that the funds were not diverted. In their letter dated November 07th 2013, they clarified that the client wanted the machinery urgently before the ACF funds were disbursed and they contacted the sister company to purchase them on their behalf. When the ACF funds were disbursed to Sugar and Allied Industries (SAIL), they paid the sister company and all the machinery were transferred into the company books (SAIL books).

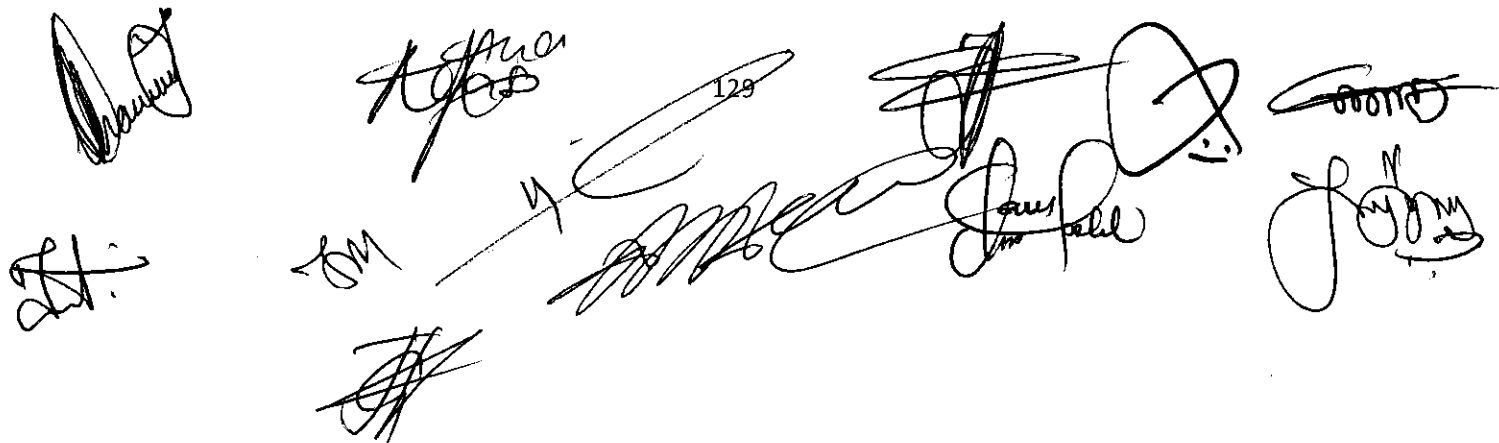
Observation and recommendation: The Committee observes that the circumstances under which Sugar and Allied Industries Ltd got aware in advance of approval of their loan application to warrant borrowing from Steel Rolling Mills Ltd is suspect.

The Committee further notes that the requirement of using equipment and machinery as security was compromised as registering the equipment and machinery by Steel Rolling Mills Ltd leaves the loan unsecured.

The Committee notes that Bank of Baroda breached the terms and conditions of the ACF MoU by misrepresentation to Bank of Uganda that there was compliance whereas not.

The Committee recommends that;

- i) the ACF MoU be reviewed to provide for adequate and reliable mechanisms to realise the objectives of the ACF. This should include a system for adequately verifying the eligibility report by the PFIs on prospective beneficiaries.***
- ii) ACF should be housed and managed under the Ministry of Agriculture, Animal Industry and Fisheries as a line Ministry with the appropriate technical and institutional capacity and mandate.***
- iii) Bank of Baroda be investigated by Police for her role in misrepresenting the compliance of Sugar and Allied Industries Ltd with a view of bringing them to book.***



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iv) Bank of Uganda ensures that the ownership of these particular machinery and equipment be regularized.

3). Non participation of Micro Finance deposit taking institutions (MDIs)

Query: The Memorandum of Understanding signed on 13th October 2009, provides for the Micro Finance Deposit taking Institutions (MDIs) to take part in the Scheme.

However under the current Project portfolio, there is no evidence that MDIs are involved in the scheme. The MDIs that were signatories to the MOU included the following:

- Finca Uganda
- Pride Micro Finance Limited
- Uganda Finance Trust

Information obtained from interviews conducted with some of the licensed MDIs revealed that the interest rate of 12% charged on loans under the scheme is on the high side compared to the rate of 6% that the MDIs normally charge their customers.

Response: The Accounting Officer conceded to the audit observation and attributed the failure of MDIs to participate in ACF to the comparatively high interest rates they levy on their own resources and the attendant profits rather than the ACF. MDIs such as Pride Micro Finance lend to non collateralized borrowers at 25% and to borrowers with collateral at 22%.

Observation and recommendation: The Committee notes that the non-participation of MDIs in the scheme poses the risk of narrowing the project scope thereby jeopardizing the attainment of its intended objective of supporting and modernizing agriculture.

The Committee recommends that ;

i) Considering that the ACF is a government scheme with disbursements from BoU, the lower interest rates should be publicized and matched with a negotiation with the MDIs on interest rates. This is because the lower interest rates favour the intended beneficiaries of the project thereby aiding the attainment of the objectives of the scheme.

ii) The Committee therefore recommends greater publicity if the scheme to the public.

4). Lack of detailed report's review and feed back by management of MOFPED

Query: It was noted that there was no evidence of a detailed review and feedback by the management of Ministry of Finance, Planning and Economic Development (MoFPED) on periodic reports. There could be a missed opportunity to realize the benefits arising from the quarterly reporting process.

Response: The Accounting Officer conceded that while reviews are not documented, issues raised by both beneficiaries and PFIs are dealt with, to the extent possible in successful MOU amendments.

Observation and recommendation: The Committee notes that the non-documentation of reviews renders any claims of reviews inherently doubtful. Even with the benefit of doubt, such alleged undocumented reviews renders follow-up practically impossible thereby confirming the audit observation.

A project that is devoid of periodic review and feedback risks is bound to be static and potentially stagnant in growth and progression.

The Committee recommends that the Accounting Officer establishes a well laid down procedure for eliciting and documenting reviews and disseminating feedback.

5). Delays in the implementation of decisions

Query: A review of correspondences between the parties in the MoU indicated that whereas the Minister of Finance, in a letter dated 28th August, 2012 agreed to increase the interest rate chargeable by the participating financial institutions from 10% to 12%, implementation of the decision by the Funds administrator and the signing of the new addendum took place seven months later (March, 2013).

Response: The AO attributed this delay to the bureaucracy that requires amendments to the MOU to be subject to the consent of all parties and the approval of Solicitor General.

Observation and recommendation: The Committee notes that delays in the implementation of the agreed upon decisions may adversely affect the overall performance of the Project. While it is imperative to elicit the consent of the various parties involved, the Accounting Officer did not show any indications of attempts to expedite the consultative process.

The fast changing terrain of business implies that any delays in implementing decisions has a significant bearing on the pace of outcomes.

The Committee recommends that the Accounting Officer ensures speedy consultations with concerned parties to enable expeditious implementation of decisions.

6). ACF Program implementation status-field work

Query: The Auditor carried out field work inspection and noted that some beneficiaries were partially or not complying with the loan provisions, in some instances the auditor general was denied access to requisite information and in some cases the equipment installed and structures constructed did not match the loan taken.

Response: The Accounting Officer informed the Committee that; BoU disburses funds to the PFIs upon confirmation that the projects are eligible. In the cases where Auditors were denied access to the projects, BoU has since communicated to the respective PFIs to always provide the Auditors with unfettered access to the projects under the ACF. For the case of diversion of funds, the quarterly report from Stanbic bank through which the project benefitted affirms that there was no diversion of funds and that the loan is performing.

Observations and recommendations: The committee notes that the bulk of the audit observations border on non-compliance and inept

monitoring and supervision of beneficiaries. These are at the heart of a managerial lapse in the entire scheme.

The Committee recommends that the Accounting Officer immediately steamlines the management of the project with a view of bolstering monitoring and supervision. This requires a review of the MoU.

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RURAL FINANCIAL SERVICES PROGRAM (RFSP)

1) Technical oversight by the Programme Steering Committee

Query: The IFAD loan agreement required that a programme steering committee be formed to provide the program with technical expertise and therefore be responsible for approving annual work plans and budgets, review semi-annual reports and suggest ways to implement and improve the programme operations.

The loan agreement further required that this committee meets at least three times during the year and on an adhoc basis as and when necessary. It was however noted that there were no meetings held by the steering committee thus no technical expertise was provided during programme implementation.

Response: The Accounting Officer conceded the Auditor General's observation and admitted that there was no Programme Steering Committee in place. Instead of the Committee, the Project was getting Technical guidance from the Implementation Support Mission constituted by IFAD and GOU

Observation and recommendation: The Committee notes that the absence of a programme steering Committee and with it the lack of technical oversight for the loan was a contravention of the IFAD loan agreement. This implies that the procedure for approval process of workplans and budgets and programme reviews was essentially flawed.

The reliance on the implementation support mission as a substitute for

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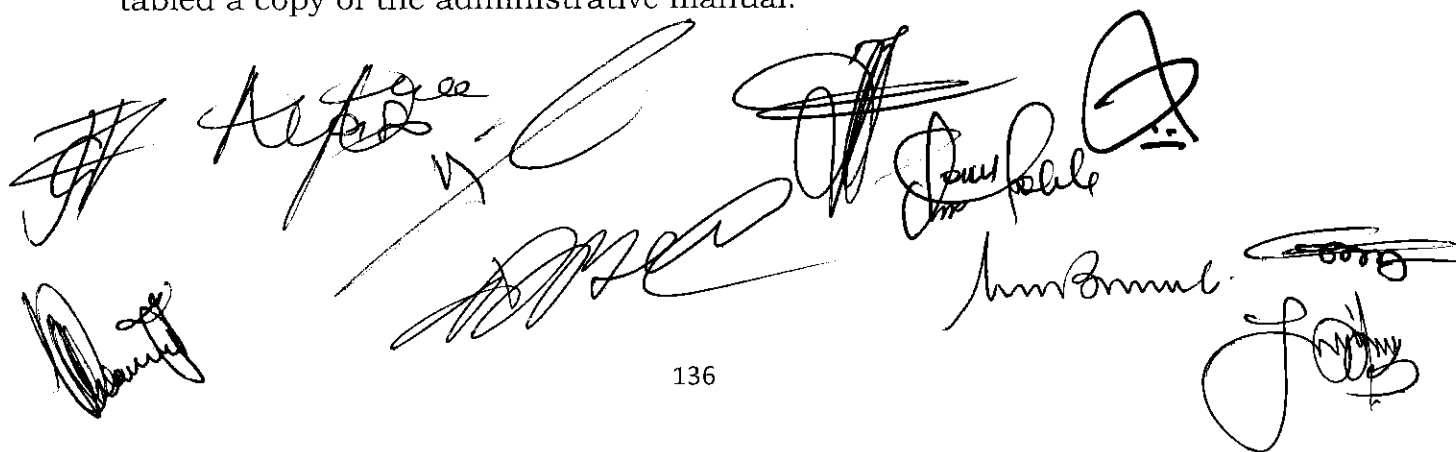
the programme steering committee was not in tandem with the loan agreement. Such managerial lapses potentially jeopardize the attainment of the loan objective and yet the tax payers shoulder the burden of loan repayment.

The Committee therefore recommends that Accounting Officer ensures compliance with loan agreements and any modification of the terms of the loan agreement should be formally agreed upon by all the concerned parties.

1) Employee code of conduct

Query: It was noted that as much as employees are inducted at the point of recruitment in the expected practices of the organization, there is no follow up training or communication from management intended to remind employees of what is expected of them as per the guidelines set in the programme's code of ethics. In the absence of refresher trainings and regular communications from management about the code of ethics, employees may act contrary to the policies and procedures and thus expose the programme to actions of unethical behaviour.

Response: The Accounting Officer conceded the audit observation and attributed it to budget constraints. On Ethical Code of Conduct, an internal memo was circulated to staff reminding them of the need to observe code of conduct in line with the Administrative Manual. He tabled a copy of the administrative manual.

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Observations and recommendations: The Committee notes that refresher trainings is integral for retooling staff and consistently keeping them alive to organizational objectives, culture, missions and vision. It is therefore imperative that such trainings are routine and timely.

The Committee recommends that the Accounting Officer streamlines the training programme and ensures timeliness, fairness, equity, inclusivity and value for money in the process.

3) Staff appraisals for PAU staff

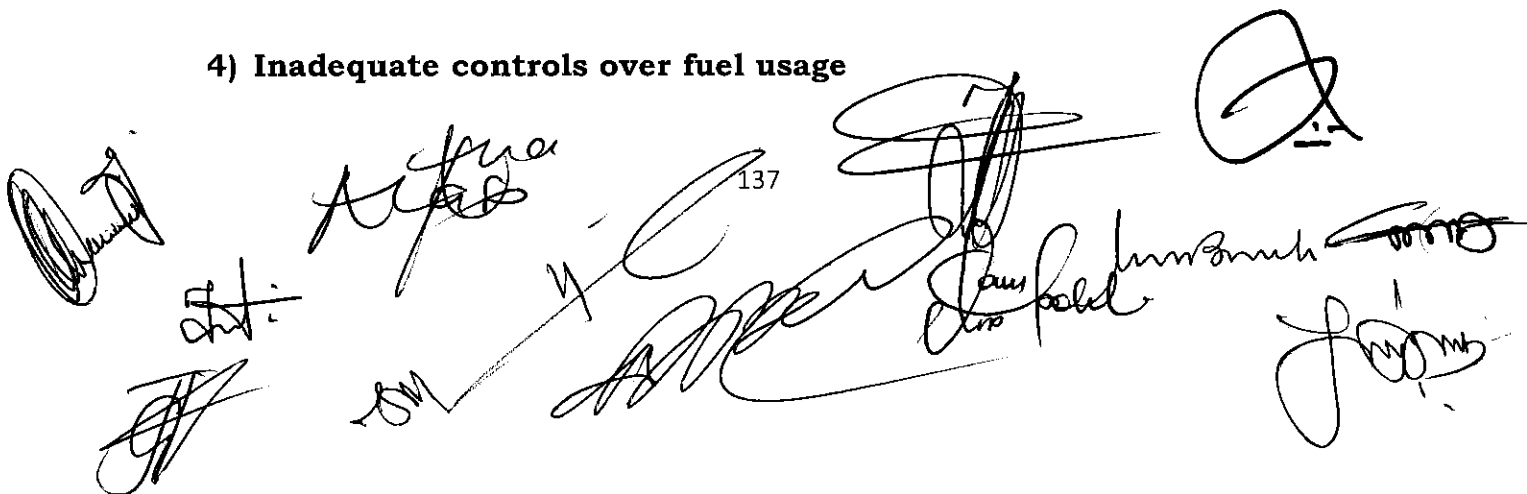
Query: The Auditor noted that the program did not carry out any staff appraisals for employees during the year and therefore could not tell with certainty the extent to which each employee has achieved their goals or contributed to the achievement of the overall goals and objectives of the program.

Response: The Accounting Officer conceded the audit observation.

Observation and recommendation: The Committee notes that the absence of performance appraisals is a damning failure of the Accounting Officer in his human resource management role. Without measuring staff performance, organizational performance itself is at stake.

The Committee recommends that the Accounting Officer establishes routine and timely performance appraisal systems.

4) Inadequate controls over fuel usage

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Query: Whilst fuel is a major expense of the project, management does not have sufficient controls in place to monitor the reasonableness of fuel usage especially by programme vehicles. No analysis is done in terms of the fuel usage per kilometre vis a vis the specific trips done by the vehicle.

Response: The Accounting Officer conceded the audit observation and added that fuel tracking sheets have since been introduced and are reviewed by the programme.

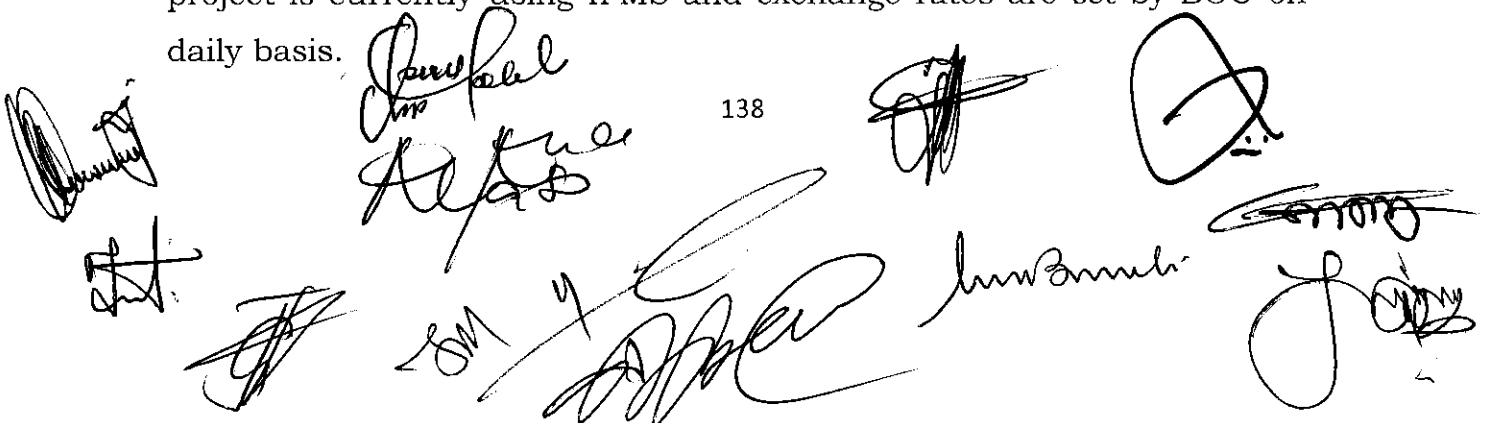
Observation and recommendation: The Committee notes that the laxity in monitoring fuel consumption is a recipe for gross mis-use of vehicles and loss of public funds.

The Committee recommends that while fuel tracking sheets have been introduced, it is imperative to actually enforce and periodically evaluate their usage with attendant sanctions for any culprits.

5) Inadequate review of system exchange rates

Query: A review of exchange rates by the auditor, revealed no evidence that the exchange rates input into the system were reviewed by a more senior person to ascertain their accuracy.

Response: The Accounting Officer informed the Committee that the project is currently using IFMS and exchange rates are set by BOU on daily basis.

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Observation and recommendation: The Committee notes that the non-review of the exchange rates input into the system is an indicator of a weakness in internal controls and may predispose public funds to loss.

The Committee further notes that while the project is currently using IFMIS and exchange rates are set by BoU on a daily basis, the audit observation on the realities prior to the embracement of IFMIS still stands and with it the culpability of the Accounting Officer.

6) Dormancy of Board Committees

Query: Whilst the SACCOs boards have formed committees charged with particular responsibilities such as the supervisory committee and the credit committee, there was no evidence of this activity being implemented in some of the SACCOs visited. There were no minutes of any such meetings held by these committees. It was further noted that some loans were approved by the SACCO manager instead of the credit committee which further confirms that the committee did not participate in the approval process.

Response: The Accounting Officer conceded the Auditor General's observation. He added that while committees of some SACCOs have not been discharging their responsibilities as they should, the programme has been continuously carrying out assessment of SACCOs to identify specific SACCO training needs that can make SACCOs more effective and functional. The programme has therefore developed tailor made mentoring training to address such SACCO training needs. This is aimed at improving SACCO performance

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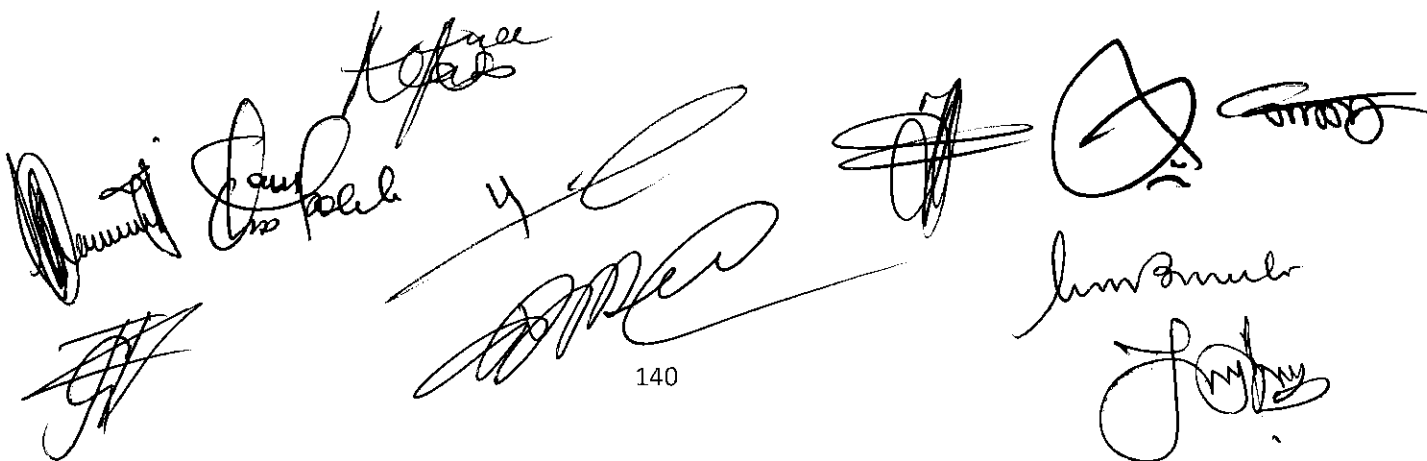
Observation and recommendation: The Committee notes that the failure of board committees to effectively discharge their duties inevitably jeopardises the segregation of duties as management staff take on an oversight role that ideally should be a preserve of the board on top of their day to day roles. This blurring of the segregation of duties may precipitate role conflict and ultimately impede the efficiency and effectiveness of the SACCOs.

Whereas the Accounting Officer alluded to the continuous assessments of SACCOs to identify training needs and enhance their functionality, the Committee recommends that beyond training, there is need for the bolstering of the supervisory and monitoring framework for SACCOs with a view of improving compliance to set corporate governance benchmarks. Lest it will take another external audit to unearth the governance dilemmas there-in.

1) Deficiencies in SACCO loan registers

Query: A review of the loans register at the Bukigayi SACCO in Bududa revealed the following exceptions:

- The register was insufficiently detailed as it only showed the loan amounts disbursed to each recipient and the tenure of the loan but no information on amounts repaid to date and hence the outstanding balances. Management was therefore not in a position to reconcile its



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outstanding loan portfolio as declared by the SACCO manager in Min 4/08/012 of our meeting.

- It was also noted that there were several inconsistencies in attempting to reconcile the loan register to the approved loan application forms.

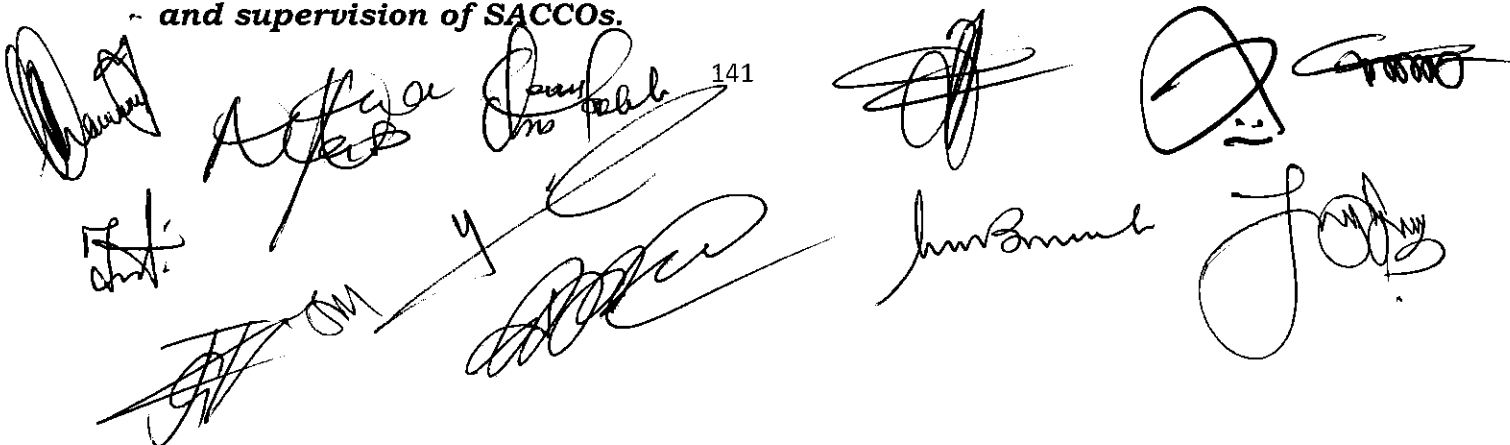
Generally, poor record keeping practices were noted characterized by poor filing of loan records. Tracing a disbursement right from origination (loan application form) to signing of a contract and eventual disbursement proved futile.

Response: The Accounting Officer conceded the audit observation. He added that the programme usually identifies challenges facing SACCOs such as poor record keeping, poor loan management and governance and develops tailor made mentoring training to address those specific training needs.

Some SACCOs like Bukigayi that are still facing challenges, the Programme through the District Cooperative Officers convene Special General Meetings to review the SACCO operations and come up with remedial actions.

Observation and recommendation: The Committee notes that the pitfalls noted in loan registers inevitably threatens the continued operation of the affected SACCOs as it jeopardizes recovery of loans.

The Committee recommends the strengthening of the monitoring and supervision of SACCOs.



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8) Insufficient staffing

Query: Some SACCOs did not have adequate staffing to ably perform the tasks of accepting deposits and advancing micro loans from and to the members respectively since they operate as village banks. This was especially the case for SACCOs such as Butonde and Kubumbu that have only two staff; a manager and a cashier either of whom acts as a loans officer from time to time.

There were also SACCOs like Bungokho Fukirisa that did not have a security guard.

Response: The Accounting Officer informed the Committee that staffing of a SACCO is the responsibility of the Board of the particular SACCO. However, the programme continues to advise the SACCO Governance Boards to recruit and maintain adequate staffing.

Observation and recommendation: The Committee notes that staffing is directly proportional to the attainment of organizational efficiency and effectiveness. Inadequate staffing inevitably curtails organizational efficiency and effectiveness.

The Committee recommends that the programme considers sensitization of the SACCOs on the need for and benefit of adequate staffing

PRIVITISATION AND UTILITY SECTOR REFORM PROJECT OPERATIONS ACCOUNT

1) Human Resource Management

a). Vacant posts

Query: The entity had 48 approved posts out of which 36 (75%) were filled and 12 (25%) were vacant. Some of the vacant positions included the one of Chief Accountant (Head of Finance).

Response: The Accounting Officer conceded the audit observation and added that the PU was in the process of winding up and there was no need to fill up the vacant positions.

Observation and recommendation: The Committee notes that even if the PU is in the process of winding up, it continues to play a crucial role in as far as PPP is concerned. This implies that any staffing gaps ac cited by the auditor has ramifications of how efficiency and effectiveness of the PU in this regard.

The Committee recommends that the Accounting Officer liaises with the responsible authorities to ensure that the vacant positions at the PU are filled.

2) Lack of Internal Audit department

Query: Best practice requires an organization to have an internal audit unit to assess and recommend on the organization internal controls.

However audit noted that the entity does not have this unit. The risk is

that checks and balances with the organization systems were not effectively carried out.

Response: The Accounting Officer conceded the audit observation attributing the query to the imminent winding up of the PU. He added that the PU relies on the internal audit function of the Ministry.

Observation and recommendation: *The Committee recommends that the Accounting Officer liaises with the responsible authorities to ensure that the vacant positions at the PU are filled.*

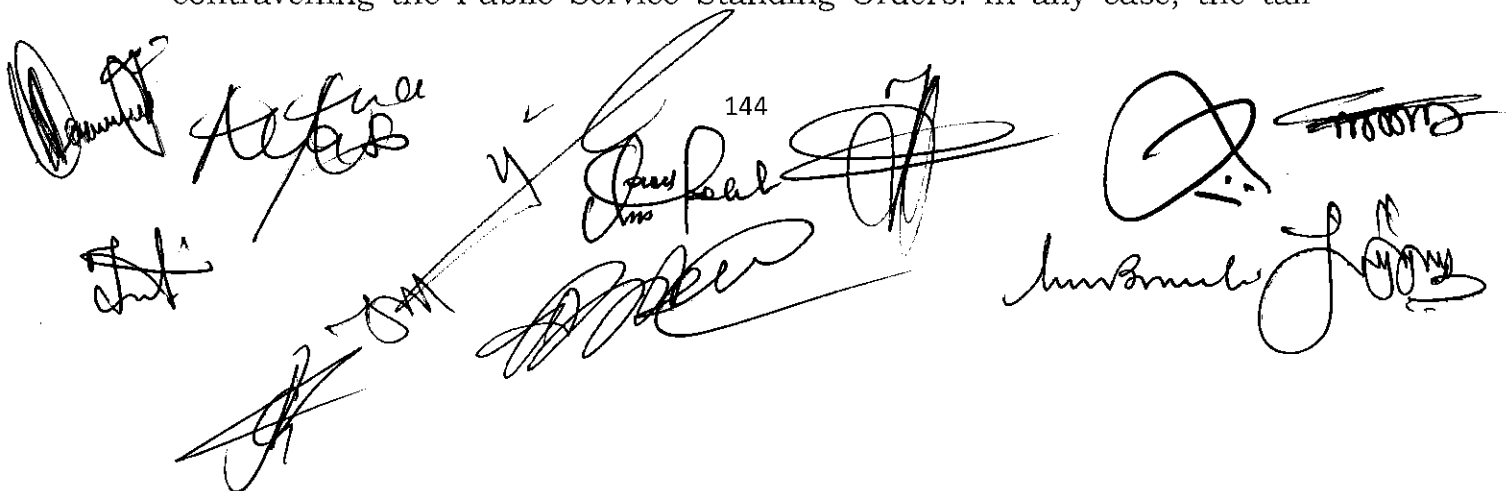
3) Failure to conduct staff appraisals

Query: Sections 10 to 18 (A –m) of the Uganda Public Service Standing Orders, January 2010 requires the staff to be appraised annually. Contrary to the above sections of the Uganda Public Service Standing Orders, a review of staff files revealed that the staffs of the entity were not appraised during the calendar year 2012. Failure to undertake staff performance appraisals hinders measurement of performance of staff and the related decisions on promotions and dismissal.

Response: The Accounting Officer conceded the audit observation and attributed it to the imminent winding up of the PU. He added that staff were involved in pre-closure activities at the time.

Observation and recommendation: The Committee notes that the imminent winding up of a programme cannot be a justification for contravening the Public Service Standing Orders. In any case, the tail

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end of a programme provides an opportune moment for a final evaluation of staff performance through the lifespan of the programme.

The Committee holds the Accounting Officer responsible for the contravention of the Public Service Standing Orders.

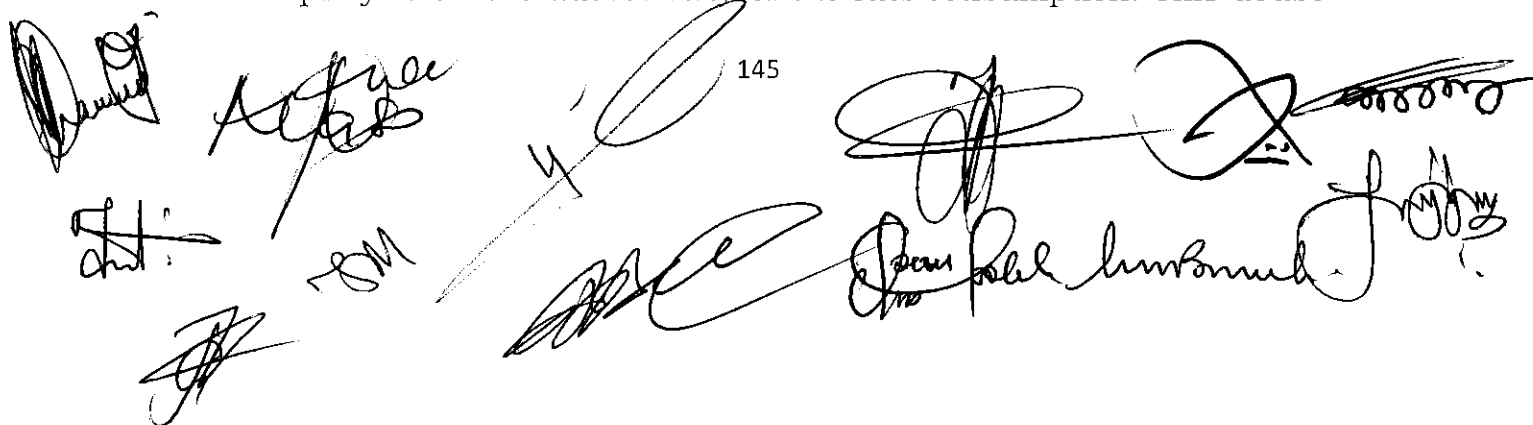
4) Doubtful fuel consumption

Query: Section 40(1) of the PU guidelines requires that all PUSRP staff shall be entitled to the use of pool vehicles only while on PUSRP work wherefore the requisition of vehicle shall be authenticated by the relevant head of department and shall clearly state the purpose of the journey, destination and duration of the journey. Contrary to this, Shs.16,031,025 was consumed at various shell service stations across the country without the users showing the purposes, destinations and duration of the journey and without producing activity reports to justify the consumption of the fuel. There is a risk that the fuel was used for private purposes.

Response:

The Accounting Officer informed the Committee the fuel allocation to the Officer is an entitlement by his position as Head Legal Services. The amount was budgeted for, usage was authorized and expenditure was authentic. The duties of the Head Legal Services (HLS) includes; liaison with the Courts, Parliamentary Committees, Ministry of Justice and other entities on legal matters.

Observation and recommendations: The Committee notes that the gist of the query is on the authenticity of the fuel consumption. This doubt

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can only be laid to rest if the standard operating procedures have been adhered to by the fuel user namely; proper fuel requisitions and accompanying consumption data indicating time, frequency, activity reports and mileage including up to date vehicle log books. As it stands, the explanation of the Accounting Officer falls short.

The Committee recommends that;

- i) The Shs.16,031,025 worth of doubtful fuel consumption be immediately recovered from the responsible officer***
- ii) fuel usage be regularized by introducing fuel cards that are calibrated to indicate timing and frequency of fueling, mileage and vehicle registration numbers. This should be accompanied by regular use of vehicle log books as well as timely reconciliation of the fuel card data and the log book data.***

5) Lack of approved annual training program

Query: Section 15 (4) (a) of the PU staff guidelines requires that management shall prepare an annual training program which shall be submitted to the Permanent Secretary/Secretary to the Treasury (PS/ST) for approval and that all subsequent changes shall be subject to further approval from the PS/ST in accordance with the project implementation manual. Furthermore, Section 15 (5) (a) requires that at the beginning of each calendar year, the administrative officer in collaboration with the project director/heads of departments, shall be responsible for designing and preparing an integrated annual training program as per training guidelines in place based on the training and development needs for the

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PUSRP and its contracted staff as identified in the annual staff evaluation confidential reports.

Contrary to the above sections Shs.71, 242,291 was spent on training in Public Private Partnership of PU staff without an approved annual training program.

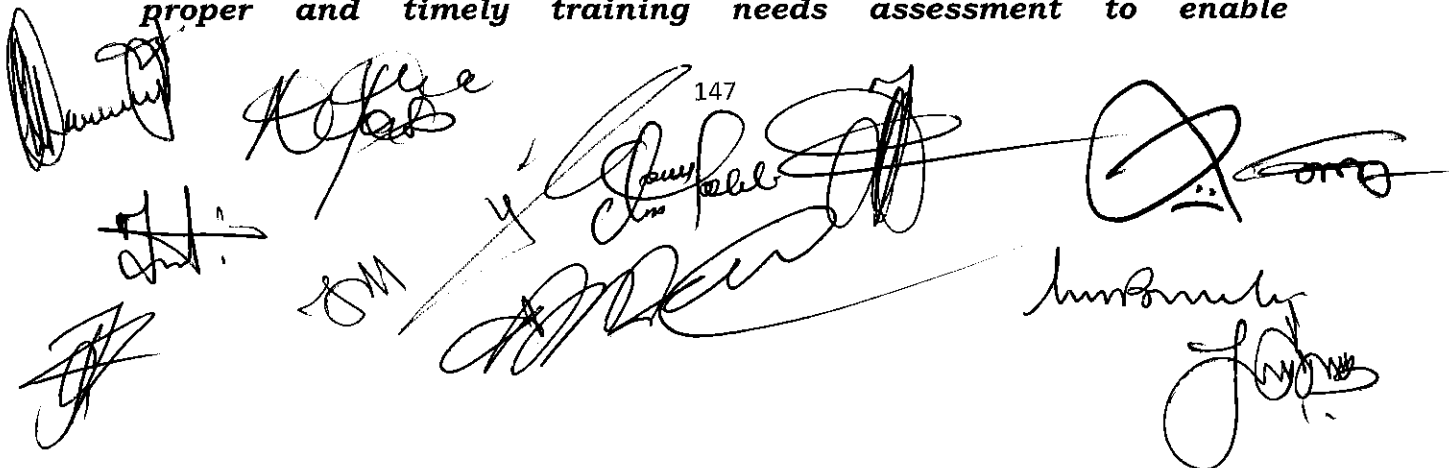
There was no prior annual training program prepared by management and submitted to PS/ST.

Response: The Accounting Officer conceded the audit observation. He added that whereas, in the past the PU has operated Approved Annual Training Programmes, during the year under review, expedited interim PPP training was undertaken on an adhoc basis mainly to prepare for PPP implementation.

Following the passing of the PPP Bill, it is anticipated that clear guidance on the shape, size and organizational structure of the PPP Agency will be clarified and an approved broader training programme will be put in place.

Observation and recommendation: The Committee notes that an adhoc training regime smacks of a misalignment between training needs that ideally should be well assessed and the actual training. As such, there is a risk that the training undertaken was not beneficial to the entity and beneficiaries. This implies that the value for money for such training may be doubtful.

The Committee recommends the Accounting Officer undertakes a proper and timely training needs assessment to enable



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comprehensive training plans to be prepared and accordingly seek approval from the authorities as required by the guidelines.

6) Repairs not supported by pre and post inspection repair reports

Query: Payments worth Shs.34,960,341 for motor vehicle repairs were not supported by pre inspection and post repair inspection reports.

Response: The Accounting Officer conceded the audit observation.

Observation and recommendation: The Committee notes that the failure to adhere to the pre and post inspection of motor vehicles in the repair process is not only a violation of the TAIs but also a recipe for loss of public funds in dubious motor vehicle repairs.

The Committee recommends that the Accounting Officer be held responsible for violating TAIs for which he is supposed to be a custodian and predisposing public funds to loss.

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ENTERPRISE UGANDA

Enterprise Uganda is a public entity duly registered and constituted according to the Laws of Uganda with the objectives among others to work with Government to promote Government policies, directives and programmes. A sum of Shs. 2,150,000,000 was released to Enterprise Uganda during the year under review.

1) Lack of an Internal Audit function

Query: It was noted that management did not put in place a separate and independent internal audit function. Instead the function was being carried out by the finance department which can not independently and objectively evaluate their own performance.

Response: The Executive Director/Accounting Officer conceded the audit observation and added that at the time of audit, Enterprise Uganda was in the process of recruiting an Internal Auditor who reported on 1st April 2014.

Observation and recommendation: The Committee notes that the absence of an internal audit function affects evaluation of the efficacy of internal controls. This predisposes public resources to loss.

The Committee takes cognizance of the recruitment albeit belated of an internal auditor and recommends that the Accounting Officer ensures the unfettered operation of the internal audit function and appropriately utilizes its recommendations for the betterment of internal controls and safeguarding public resources.

2) Overspent item of conferences and workshops

Query: A sum of Shs. 1,100,000,000 had been budgeted to be spent on conferences and workshops during the year however Shs. 1,146,559,523

was spent, leading to an over expenditure of Shs. 46,559,523. The re-allocation documents and the appropriation authority supporting the over expenditures were not provided for verification.

Response: The Accounting Officer conceded the audit observation. He added that the expenditure of shs.46,559,523/- was approved by the himself as Executive Director because it was within the 10% variation provision in the Enterprise Uganda Finance Manual. This over expenditure was occasioned by the deepening of the training activity to cover more areas than was anticipated.

Observation and recommendation: The Committee notes that the Enterprise Uganda finance manual is subordinate to the PFAA and the regulations there-under and therefore can not be used as a justification for either usurping the legislative powers of appropriation or failure to secure the authorization of the PSST for a re-allocation.

The Committee recommends that the Accounting Officer be held responsible for unauthorized over-expenditure.

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RURAL FINANCE SERVICES PROGRAM (RFSP)

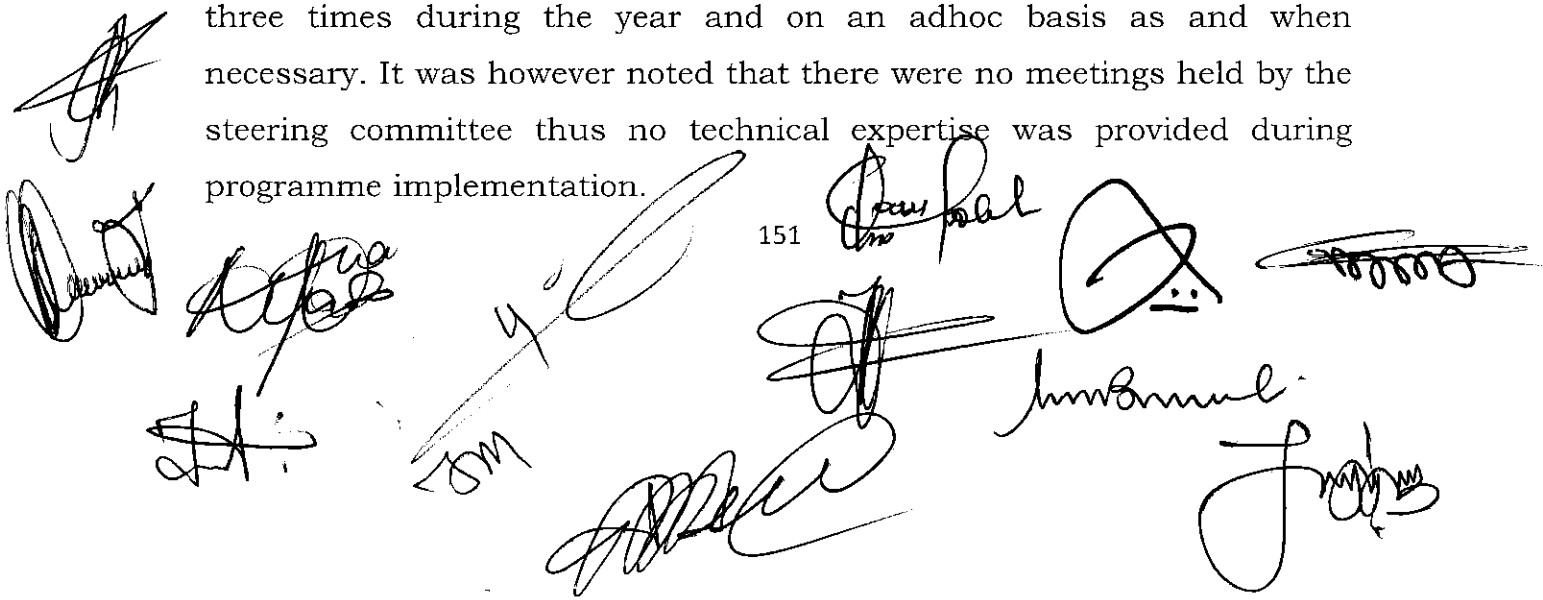
The Government of Uganda through the Ministry put in place the Rural Financial Services Program as one of the pillars of the prosperity for all with the aim of expanding rural financial infrastructure as a means of ensuring enhanced access to financial services by the predominantly poor rural agricultural producers.

The RFSP became operational in 2004 where outreach to rural areas was done. In 2007, the programme was revamped so as to be oriented towards the new rural financial strategy that emanated from the prosperity for all programme. RFSP is aimed at building a rural financial services infrastructure that: promotes rural savings, protects members' savings, promotes efficiency and profitability of SACCOs and helps monetize the rural economy.

1) Technical oversight by the Programme Steering Committee

Query: The IFAD loan agreement required that a programme steering committee be formed to provide the program with technical expertise and therefore be responsible for approving annual work plans and budgets, review semi-annual reports and suggest ways to implement and improve the programme operations.

The loan agreement further required that this committee meets at least three times during the year and on an adhoc basis as and when necessary. It was however noted that there were no meetings held by the steering committee thus no technical expertise was provided during programme implementation.



Response: The Accounting Officer conceded the Auditor General's observation and admitted that there was no Programme Steering Committee in place. Instead of the Committee, the Project was getting Technical guidance from the Implementation Support Mission constituted by IFAD and GOU

Observation and recommendation: The Committee notes that the absence of a programme steering Committee and with it the lack of technical oversight for the loan was a contravention of the IFAD loan agreement. This implies that the procedure for approval process of workplans and budgets and programme reviews was essentially flawed. The reliance on the implementation support mission as a substitute for the programme steering committee was not in tandem with the loan agreement. Such managerial lapses potentially jeopardize the attainment of the loan objective and yet the tax payers shoulder the burden of loan repayment.

The Committee therefore recommends that;

- i) Accounting Officer ensures compliance with loan agreements and any modification of the terms of the loan agreement should be formally agreed upon by all the concerned parties.**
- ii) The Accounting Officer be cautioned for circumventing bilateral contract provisions**

2) Employee code of conduct

Query: It was noted that as much as employees are inducted at the point of recruitment in the expected practices of the organization, there is no follow up training or communication from management intended to remind employees of what is expected of them as per the guidelines set in the programme's code of ethics. In the absence of refresher trainings and regular communications from management about the code of ethics, employees may act contrary to the policies and procedures and thus expose the programme to actions of unethical behaviour.

Response: The Accounting Officer conceded the audit observation and attributed it to budget constraints. On Ethical Code of Conduct, an internal memo was circulated to staff reminding them of the need to observe code of conduct in line with the Administrative Manual. He tabled a copy of the administrative manual.

Observations and recommendations: The Committee notes that refresher trainings is integral for retooling staff and consistently keeping them alive to organizational objectives, culture, missions and vision. It is therefore imperative that such trainings are routine and timely.

The Committee recommends that the RFSP Coordinator Accounting Officer streamlines the training programme and ensures timeliness, fairness, equity, inclusivity and value for money in the process.

3) Staff appraisals for PAU staff

Query: The program did not carry out any staff appraisals for employees during the year and therefore could not tell with certainty the extent to which each employee has achieved their goals or contributed to the achievement of the overall goals and objectives of the program.

Response: The Accounting Officer conceded the audit observation and added that appraisals for the staff of RFSP are normally done by the Human Resource Department of the Ministry of Finance and that the said appraisals have since been conducted.

Observation and recommendation: The Committee notes that in the absence of performance appraisals, management may not be able to identify training gaps and improvement areas for employees.

The Committee further notes that the RFSP coordinator failed to show any evidence of his attempts to have the programme staff appraised.

The Committee recommends that the RFSP Coordinator/ Accounting Officer be held responsible for the failure to appropriately appraise the staff under his purview.

4) Inadequate controls over fuel usage

Query: Whilst fuel is a major expense of the project, management does not have sufficient controls in place to monitor the reasonableness of fuel usage especially by programme vehicles. No analysis is done in terms of

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the fuel usage per kilometer vis a vis the specific trips done by the vehicle.

Response: The RFSP Coordinator conceded the audit observation.

Observation and recommendation: The Committee notes that the laxity in monitoring the use of fuel may result into misuse of organizational vehicles to carryout personal activities which may lead to unnecessarily high fuel expenses and a major budget leakage.

The Committee recommends that the RFSP Coordinator institutes better internal controls with regard to tracking fuel usage.

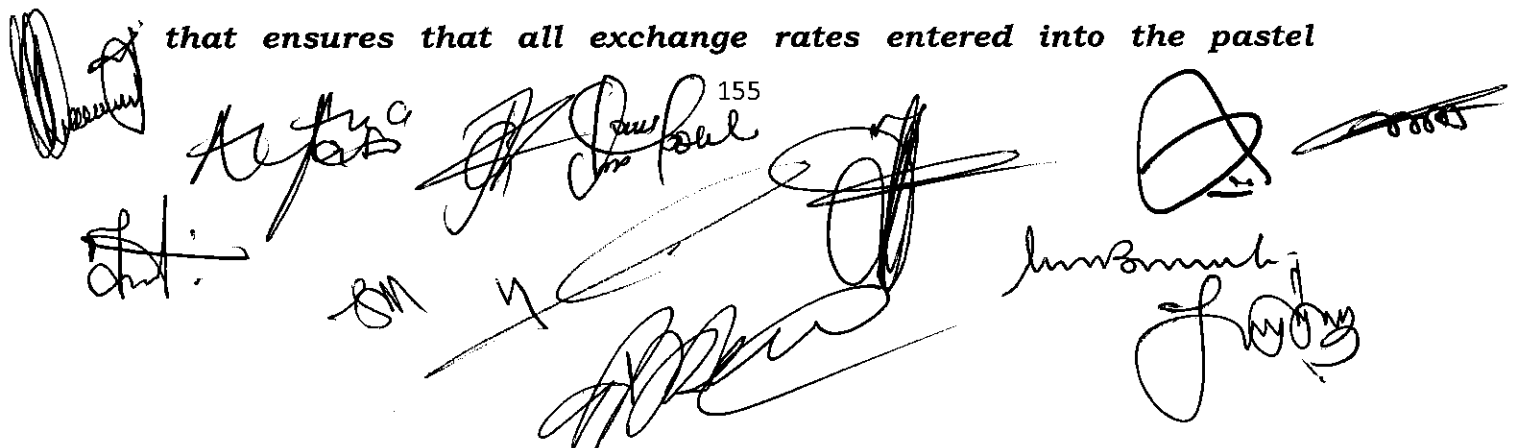
5) Inadequate review of system exchange rates.

Query: During the of exchange rates, the Auditor was not able to obtain any evidence that the exchange rates input into the system were reviewed by a more senior person to ascertain their accuracy.

Response: The RFSP Coordinator informed the Committee that the programme relied on exchange rates set by the Bank of Uganda.

Observation and recommendation: The Committee notes that such lapses in review of system exchange rates may result into misstatements if wrong exchange rates are input into the system.

The Committee recommends that the RFSP puts in place a process that ensures that all exchange rates entered into the pastel

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accounting system are reviewed by a more senior person to avoid misstatements and the assignment of this responsibility should take place within one month from the adoption of this report.

6) Dormancy of Board committees

Query: It was observed that whilst the SACCOs boards have formed committees charged with particular responsibilities such as the supervisory committee and the credit committee, there was no evidence of this activity being implemented in some of the SACCOs visited. There were no minutes of any such meetings held by these committees. It was further noted that some loans were approved by the SACCO manager instead of the credit committee which further confirms that the committee did not participate in the approval process.

Response: The RFSP Coordinator conceded the audit observation and undertook to educate SACCOs to comply through continuous mentoring.

Observations and recommendations: The Committee notes that the failure of these committees to discharge their duties may result in a lack of segregation of duties as management staff take on an oversight role on top of their day to day roles.

The Committee recommends that further training for SACCOs be done with a view of enhancing their efficiency and effectiveness.

7) Deficiencies in SACCO loan registers

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A review of the loans register at the Bukigayi SACCO in Bududa revealed the following exceptions:

- The register was insufficiently detailed as it only showed the loan amounts disbursed to each recipient and the tenor of the loan but no information on amounts repaid to date and hence the outstanding balances.

Management was therefore not in a position to reconcile its outstanding loan portfolio as declared by the SACCO manager in Min 4/08/012 of our meeting.

- It was also noted that there were several inconsistencies in attempting to reconcile the loan register to the approved loan application forms examples of which are summarized below;

Name of recipient	Details on application form	Details in loan register
Bilah Wanzababa	Ushs 70,000 for 1 month	Ushs 100,000 for 4 months
Nataka Milton	Ushs 200,000 for 1 month	Ushs 200,000 for 4 months
Naboko Kadija	Ushs 50,000 for 2 months at 6% per month	No record seen

- Generally, poor record keeping practices were noted characterized by poor filing of loan records. Tracing a disbursement right from origination (loan application form) to signing of a contract and eventual disbursement proved futile.

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Response: The RFSP conceded the audit observation and made an undertaking that the programme will undertake continuous education and mentoring to address the audit concerns.

Observation and recommendation: The Committee notes that failure to properly track loans disbursed reduces chances of recoveries and may result in financial loss to the SACCO. This in turn affects its ability to continue operating.

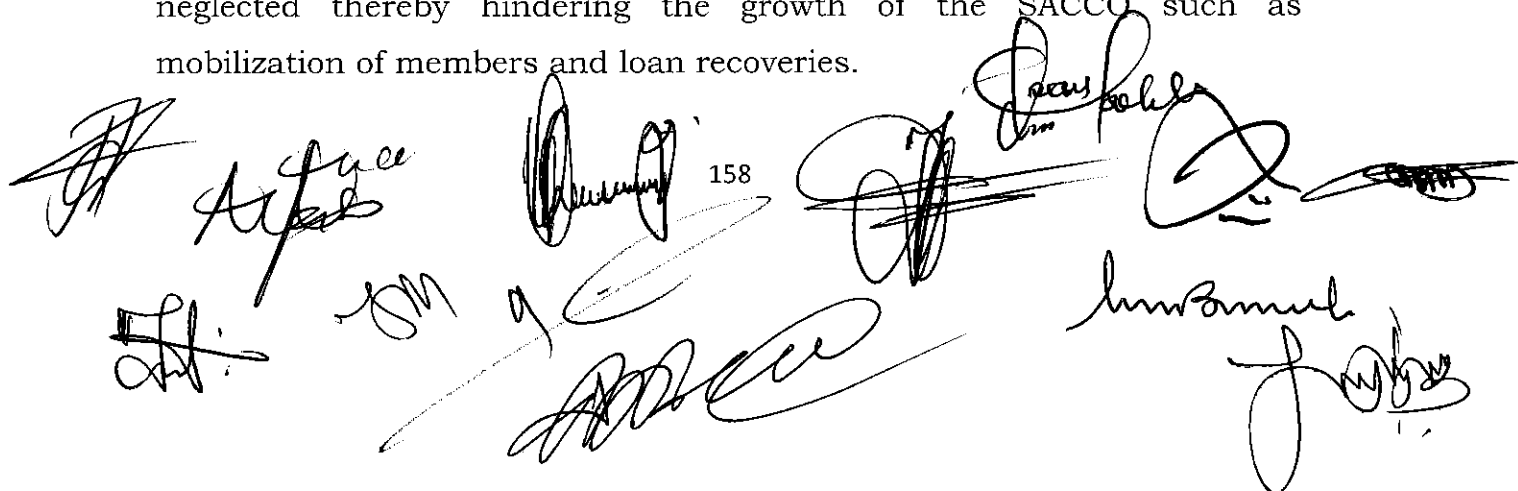
The Committee recommends that the RFSP Coordinator follows through his undertaking and reports to the Committee on progress within six months of the adoption of this report.

8) Insufficient staffing

Query: It was noted that some SACCOs did not have adequate staffing to ably perform the tasks of accepting deposits and advancing micro loans from and to the members respectively since they operate as village banks. This was especially the case for SACCOs such as Butonde and Kubumbu that have only two staff; a manager and a cashier either of whom acts as a loans officer from time to time.

There were also SACCOs like Bungokho Fukirisa that did not have a security guard.

The inadequacy of the staff numbers mean that certain activities are neglected thereby hindering the growth of the SACCO such as mobilization of members and loan recoveries.

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Response: The RFSP Coordinator conceded the audit observation and added that staffing decisions are normally SACCO specific responsibilities but RFSP through its implementing agencies will continue encouraging SACCOs to adopt best practices that are suited to their individually unique environments.

Observation and recommendation: *The Committee recommends that RFSP ensures more robust sensitization of SACCOs on the benefits of having adequate staffing and its link to growth and sustainability.*

9) Failure to engrave all Project Assets

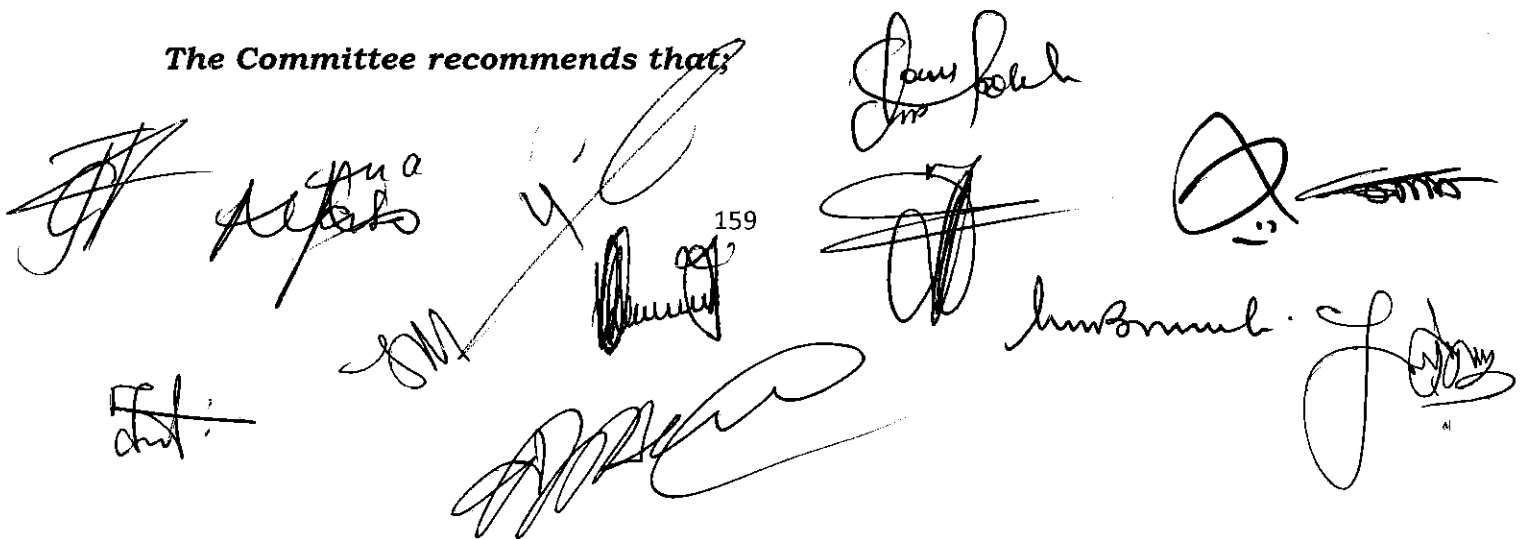
Query: Section 101 of the PFAR requires that assets shall be appropriately marked or engraved to ensure that they are easily identifiable as government assets,

During the year, a sum of Shs. 8,240,000 was spent on verification of the project assets in UCSCU in regional branches. A review of the verification report indicated otherwise. Some assets like; furniture, filing cabins, CPU and computer desks were not engraved.

Response: The Accounting Officer conceded the audit observation and added that a service provider was hired to engrave the assets.

Observation and recommendation: The Committee notes that the failure to engrave assets impedes identification and predisposes such assets to the risk of loss.

The Committee recommends that;



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- i) **The Accounting Officer be held responsible for negligence of duty and refusal to engrave and maintain an assets register.**
- ii) **the Accounting Officer should always ensure that assets upon acquisition are duly engraved and recorded in the Assets register.**

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SUPPORT TO POPULATION SECRETARIAT (POPSEC)

1). Un-acknowledged printed stationery shs. 48,205,600

Query: The absence of distribution lists and acknowledgements from the respective recipients of various printed materials amounting to shs. 48,205,600

Response: The Executive Director POPSEC dispelled the audit observation and insisted that the documents were submitted to the Auditor.

Observation and recommendation: The Committee dispels the plea by the Executive Director that the relevant documents were given to the Auditors because the observation would not have arisen had this been done.

The Committee recommends that the amount in question be recovered from the Executive Director.

2). Assets recording and management

Query: A review of the Assets register and physical inspection of assets revealed that some of the assets were not engraved and the Asset register was not up to date.

Observation and recommendation: The Committee notes that the lapses in assets management poses a risk of loss of assets moreover undetected.

3). Performance review

Query: A performance review of TAT activities revealed a number of planned activities that had not been achieved:

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- 4 staff not trained in law and management
- 8 talk shows were un realized
- opening of Mbarara registry was not achieved
- It was noted that some staff advances were not recorded in the individual staff advance ledgers during the period under review. The staff advance ledgers were not provided for audit.

Observation and recommendation: The Committee notes that this query relates to inadequate performance and non compliance with financial reporting standards and procedures. In addition the failure to avail auditors with requisite documents is a violation of the National Audit Act, 2008.

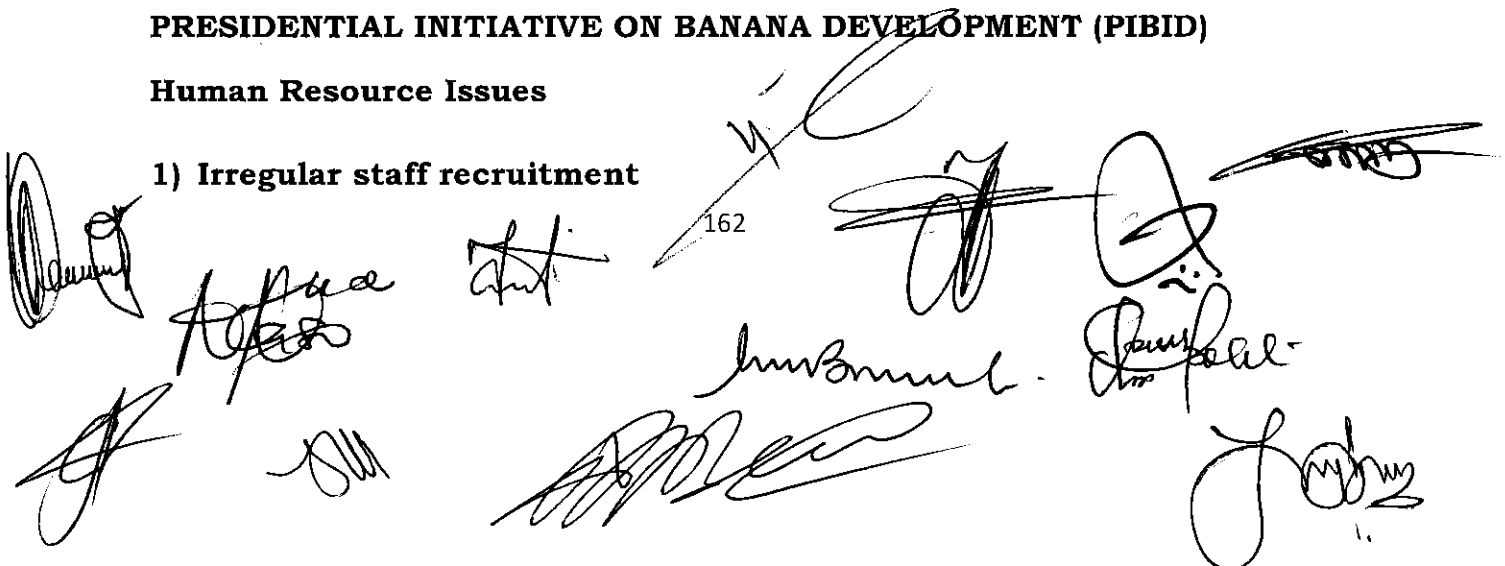
The Committee recommends that the Accounting Officer be held responsible for contravention of the National Audit Act 2008 with regard to failure to avail documents to Auditors.

PRESIDENTIAL INITIATIVE ON BANANA DEVELOPMENT (PIBID)

Human Resource Issues

1) Irregular staff recruitment

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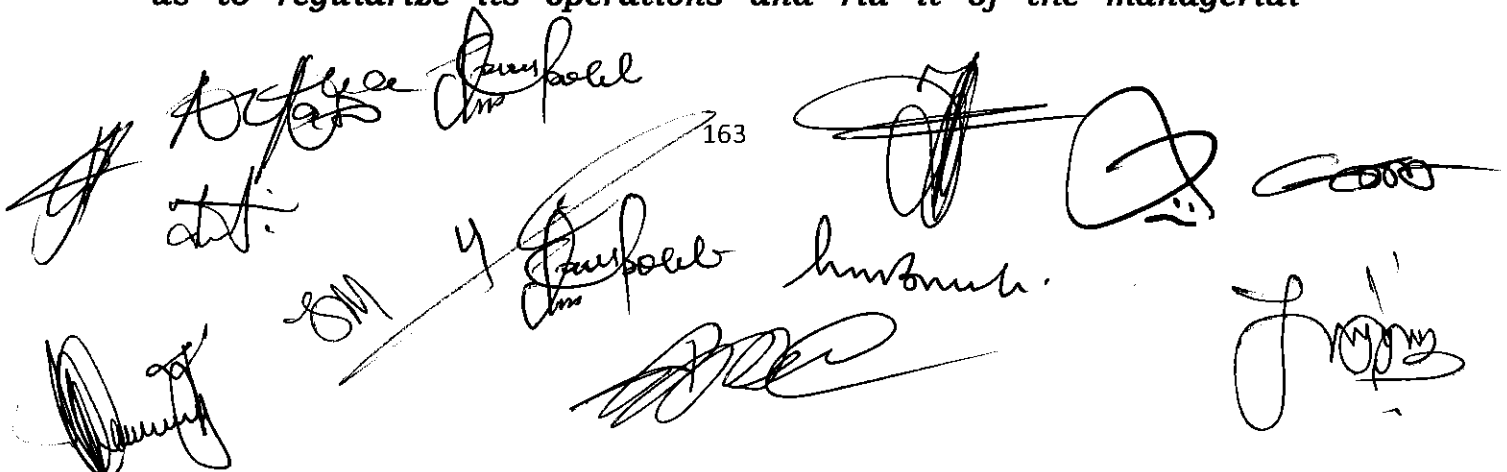
Query: Section 2.4 of the PIBID Human Resource Manual requires vacant positions to be advertised in the print media stating the job and person specifications and main duties involved. Section 2.5 further requires the need to fill a vacant position to be initiated by the respective heads of department/section and submitted to the Board and Management Committee for consideration and final approval. It was noted that 32 staff were recruited without adhering to the aforementioned procedures.

Response: The Accounting Officer agreed to the Audit observation and added that due to the unique and dynamic nature of the project, the same Human Resource manual Section 2.4 allows for recruitment through Consultants and Head Hunting which was the basis of recruitment of the 32 staff.

Observation and recommendation: The Committee notes that whereas the recruitment of the 32 was supposed to have been approved by the Board and Management Committee, this was not done and neither is there evidence that heads of department or sections initiated staffing requirements. This implies that the recruitment was not only whimsical but inherently irregular.

The Committee also notes that the PIBID is conveniently using head hunting to negate open competition in recruitment thereby perpetuating favouritism and nepotism.

The Committee recommends that the instrument for the establishment and operationalization of the PIBID be reviewed so as to regularize its operations and rid it of the managerial

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quagmire that has impeded its transition from a research project to a fully rolled out intervention.

2) Irregular appointments and remuneration of staff

Query: Section 18 of the HR manual requires all staff positions to be listed in the approved staff structure. A review of the personnel files revealed that 89 staff did not appear on the entity staff structure as approved by the BMC. PIBID is incurring unjustified costs to remunerate staff that were irregularly recruited to positions outside the approved staff structure. This caused over expenditure on staff emoluments of Shs. 906,2017,978 above the budget.

Response: The Accounting Officer conceded the audit observation. She added that out of 89 staff members mentioned, only 36 are not on the original structure of PIBID. The 36 staff members were engaged due to increased need for research and fulfillment of ISO certification requirements. However, the proposed structure to incorporate the 36 new positions has been submitted to BMC for approval.

William Kwetombi Irrigation Engineer denied knowledge of how the 36 were recruited.

Observation and recommendation: The Committee notes that the misalignment of actual staffing and the established staff structure potentially impedes the realization of the project goals.

Besides, the denial by some senior staff of the project of the circumstances under which some of these recruitment were done is an

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indicator of a bigger managerial malaise at the PIBID of which the Accounting Officer bears responsibility.

The Committee recommends that the Accounting Officer be investigated by the IGG for irregular recruitment of staff and violation of PIBID's own HR manual, with a view of prosecution.

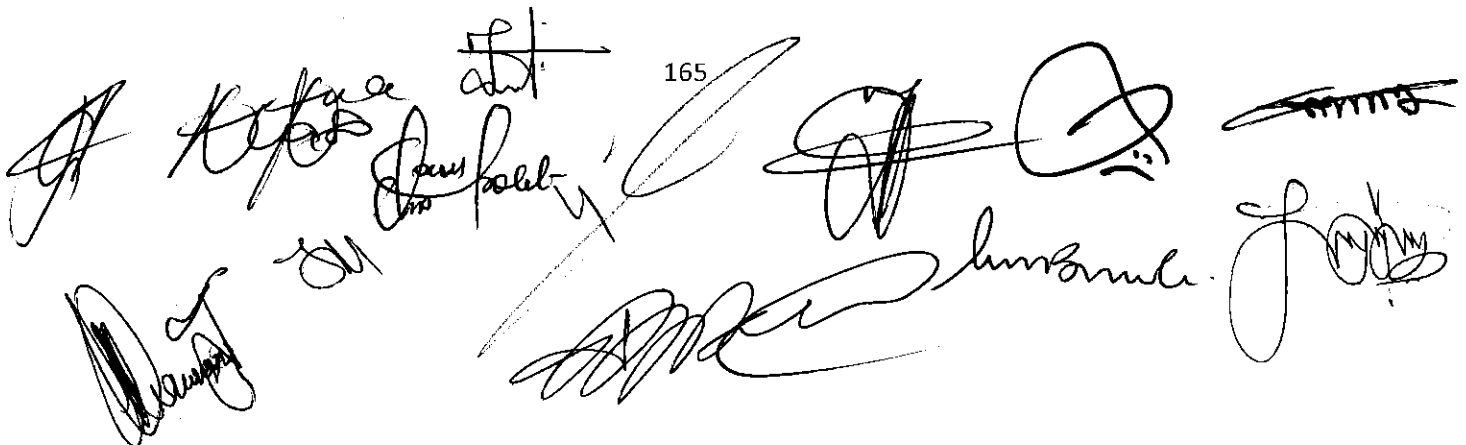
3) Provision of medical insurance to board members without due regard to staff

Query: Section 6.2 of the HR manual provides for a medical insurance scheme to benefit all employees. Section 4.23.12 of the HR and Management manual further provides for outsourcing of the medical services of staff to a competent service provider. It was noted that Shs. 60,158,924 was paid to AAR in respect of medical services to board Members and their dependants without due regard to staff.

Response: The AO agreed to the audit observation. She added that whereas the Auditor General noted that other staff members are not provided for under medical insurance scheme, the staff in this category are those engaged on short term duration. These are refunded whenever they incur any medical costs under the emergency fund due to the nature of their contracts i.e. casual laborers and those whose contracts are less than 6 months. However the rest of the staff members are covered under the medical insurance scheme with AAR.

Observation and recommendation: The Committee notes that the provision of medical insurance to board Members whilst at the same time denying some staff the same is irregular. Board Members are not full time employees of the project.

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The Committee further notes that the managerial malaise at PIBID stems from the very instrument that established it. The instrument for PIBID establishment was a presidential instrument and PIBID reports to the President. The parent Ministry in which it is domiciled – MoFPED does not even have representation on the PIBIB Board. As such there is no supervisory Ministry.

The Committee further notes that PIBID is neither a project, nor a body corporate nor a public corporation.

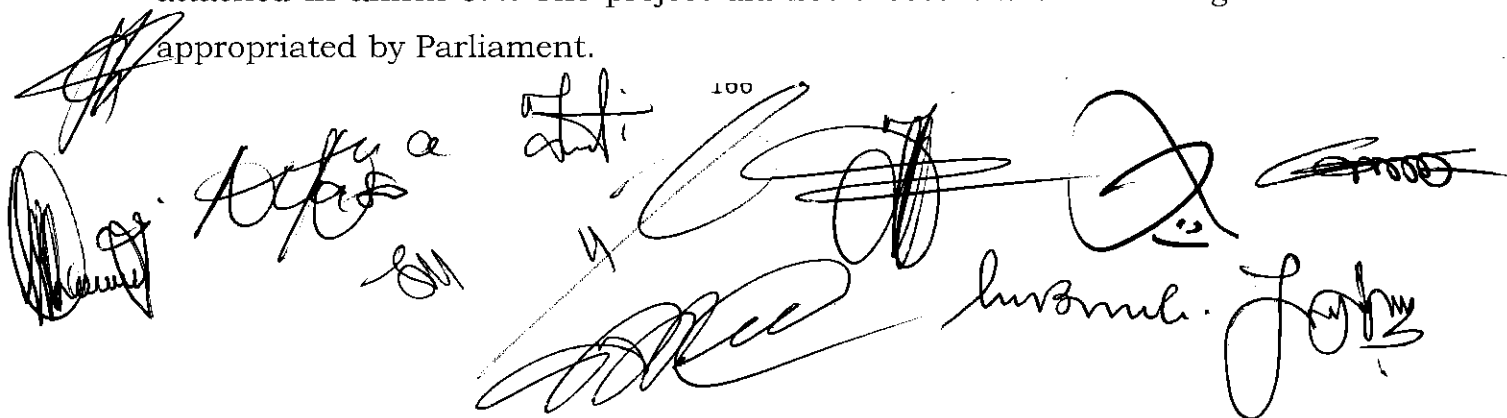
The revelation by the Accounting Officer that the benefits of Board Members are provided by a board policy manual which is approved by the very board is a startling one given that it serves self interest.

The Committee recommends that the annual payment of the medical insurance to the board members be stopped forthwith and all allowances irregularly doled out be recovered from the Board members

4) Over expenditure above the budget shs. 1,388,169,932

Query: Shs. 1,388,169,932 was spent over and above the approved budget on various items without authority. The over expenditures affected the achievement of other budgeted activities and led to mischarges.

Response: The Accounting Officer conceded the audit observation and added that the over expenditure on various items were payments for outstanding commitments brought forward from FY 2011/12. This was in compliance with PS/ST Circular on clearance of domestic arrears as attached in annex 8.4. The project did not exceed the overall budget as appropriated by Parliament.



Observation and recommendation: The Committee notes that there was no approval for this over expenditure and by so doing the Accounting Officer usurped the legislative powers of appropriation.

The Committee recommends that the Accounting Officer be held responsible for spending over and above the appropriated budget without authorization.

5) Budget performance review

Query: A review of the MoFPED Ministerial Policy Statement 2013/14 revealed that PIBID received all the Shs. 10,200,306,000 budgeted for. It was noted that a number of planned activities were not undertaken and some were only partly undertaken.

Response: The Accounting Officer conceded the audit observation.

Observation and recommendation: The Committee notes that failure to implement planned activities even after receiving 100% of the required resources is an indictment of the managerial capabilities of the Accounting Officer. This may also imply that the funds received may have been used for hitherto unplanned activities thereby distorting planning and budgeting function of Government.

The Committee observes that the ED/AO is unsuitable for the role of Accounting Officer and as such should be relieved of her duties and a more competent Accounting Officer be appointed immediately.

6) Missing and late approval of board minutes

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Query: A review of board minutes for meetings that took place during the financial year indicates that they were approved on 21st November 2013 after a formal request for them had been made by the audit team to PIBID management on 4th November 2013. In addition, board minutes of the meetings held on 2nd July 2012, 8th August 2012, 11th January 2013 and 5th May 2013 were not availed despite board Members receiving sitting allowances for the meetings. There was no record to prove that the previous meetings' minutes had been perused and passed by the board in the subsequent sittings.

Response: The Accounting Officer conceded the audit observation

Observation and recommendation: *The Committee notes this as a case of a lapse in internal controls and an indictment of the Accounting Officer's credentials as Secretary to the Board.*

Absentee board Member

Query: It was noted that one board member missed all the board meetings thereby depriving the entity of her valuable contribution.

Response: The Accounting Officer conceded the audit observation.

Observation and recommendation: The Committee notes that because the power of appointment of board Members is vested in the Presidency, the replacement of board members is a potentially bureaucratic one.

The Committee recommends that the modality for appointment of the board Members be revised and be vested in the PS/ST.

7) Procurements

a). Un availed procurement files

Query: During the year, procurements of Shs. 760,265,644 were carried out but the procurement files were not availed for audit.

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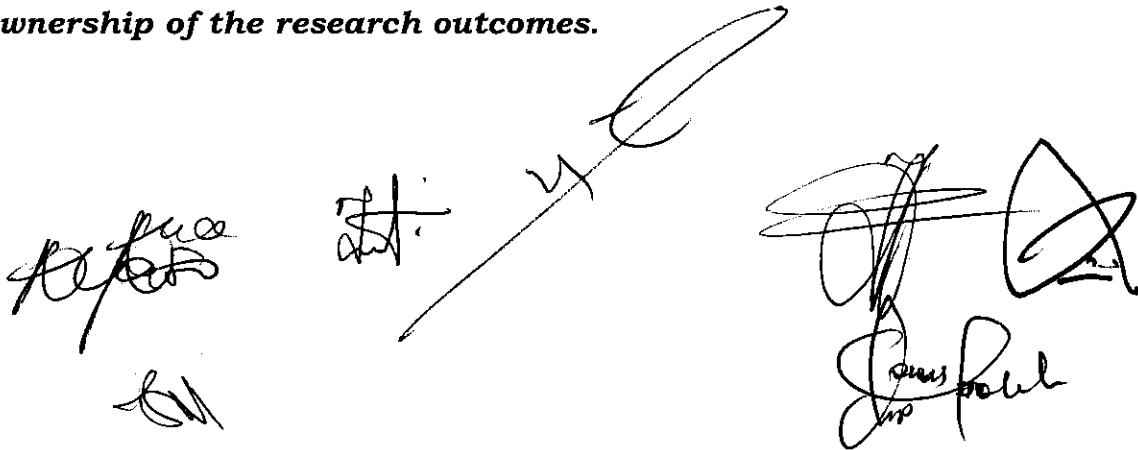
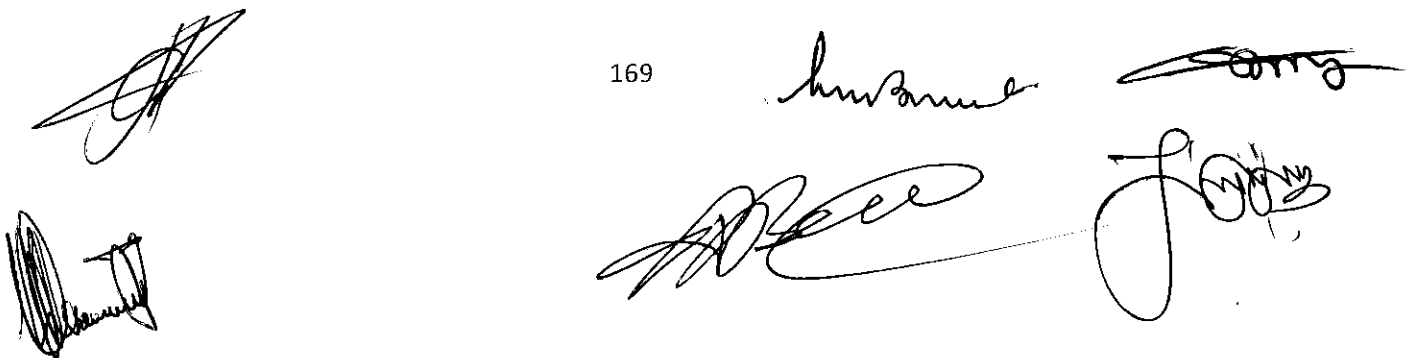
Response: The Accounting Officer conceded the audit observation.

Observation and recommendation: The Committee notes that the absence of procurement files is not only a contravention of the PPDA Act and its regulations but also renders the alleged procurements doubtful.

General Observation and Recommendation:

The Committee notes that at the core of the governance issue is the transition of PIBID from a research entity to a commercial entity. The Committee notes that the ownership of the research output of PIBID is contestable.

The Committee recommends an immediate review of PIBID –its instrument of establishment, governance structure and its operating manuals with a view to aligning its operations, putting in place a transitional framework and clearly identifying the ownership of the research outcomes.

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7.0 UGANDA LAW REFORM COMMISSION

The Uganda Law Reform Commission is a constitutional body mandated to reform the laws of Uganda and has been in operation for the last two and half decades. The Commission which is headed by a Chairperson and has Commissioners and a Secretariat is supposed to work closely with other Justice, law and Order Sector Institutions.

1) The leadership malaise at the Law Reform Commission

Prior to delving into the audit queries for the FY 2012/13, the Committee noted with concern the leadership malaise at the Law Reform Commission mainly attributed to the the technical and behavioral deficiencies of the current Chairperson- Prof Agasha Mugasha. Throughout his 4 year tenure so far, the Chairperson continues to hold onto his initial job as a lecturer at the University of Essex implying his perennial absence from his Office as Chairperson. The end result has been a deterioration in the efficiency and effectiveness of the Commission.

The Committee also notes that in the report of the Auditor General for the Year ended 30th June 2011, the Auditor General noted that the the appointment of Prof. Agasha Mugasha was in total breach of Section 4 of the Uganda Law Reform Act and Article 143 of the Constitution of the Republic of Uganda. Section 4 of the Law Reform Commission Act provides thus "the Chairperson of the Commission shall; be a lawyer and who is a retired or sitting Judge of the Court of Appeal, qualified to be appointed as a judge of the Court of Appeal or High Court of Uganda or a Senior teacher of law at a University or a Similar institution of Law in Uganda" while Article 143 of the 1995 Constitution provides that "a person shall be qualified for appointment as a judge of the High Court if

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The Committee was informed that Prof. Agasha Mugasha was single handedly sourced, no adverts were made, given extra perks beyond those provided for in the Act and all these cast doubt on the transparency and competitiveness of his appointment.

Given the opaque and non-competitive and yet very costly nature of his recruitment and contract coupled with his non-availability for full time work, the Committee recommends that the contract of Prof. Agasha Mugasha should not be renewed.

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The Committee therefore recommends that the current Chairperson, Prof. Agasha Mugasha does not deserve to be at the

helm of Uganda Law Reform Commission as Chairperson and the Attorney General should consider the appointment of a more suitable Chairperson who can propel the Commission to better heights.

2) Mischarge of Expenditure

Query: The Parliament of Uganda appropriates funds in accordance with the needs of the country and this appropriation is implemented through the budget in which funds are tagged to particular activities and outputs using account codes and MTEF codes. A review of the Commission payments revealed that there were mischarges under various codes worth Shs.373,406,461 (20% of actual appropriation). This practice undermines the importance of budgeting and could lead to misleading reporting.

Response: The Accounting Officer conceded the audit observation and informed the Committee that the mischarge mainly arose from the need to pay statutory allowances for the staff of the Commission and yet the vote item for allowances was not adequately funded. This rendered mischarge inevitable. He pledged that going forward he would minimize the incidents of mischarge.

Observation and recommendation: The Committee notes that besides breaching the Treasury Accounting Instructions which requires prior authorization from the PSST for virements and reallocations, mischarge distorts the objective of appropriation and undermines the entire appropriation process.

The Committee recommends that the Accounting Officer be held responsible for mischarge of expenditure.

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3) Unaccounted for fuel deposits

Query: It was observed that the Commission spent Shs.107,180,981 on fuel but the monthly fuel reconciliations were not maintained contrary to Standing Orders Section F-1. In absence of the fuel reconciliation statements, I was unable to ascertain the genuineness of the fuel usage.

Response: The AO conceded the query and noted it as an omission in failure to prepare a timely reconciliation. He further stated that to successfully do the reconciliation, they needed two sets of information-data from ULRC and the bank. The bank data was difficult to obtain. ULRC relied more on the vouchers received and would later reconcile with the cash book.

Observation and recommendation: *The Committee notes that the management of fuel should be streamlined by instituting and maintaining a proper fuel register , alongside a functional log book system for each vehicle and carrying out monthly reconciliations of the various sets of data including relevant information from the bank.*

4) Payables

Query: The Commission had outstanding payables amounting to Shs.489,478,968 broken down into: trade creditors Shs.314,507,781; sundry creditors Shs.172,391,288; and Withholding tax payable Shs.2,579,899. The outstanding arrears are attributed to non-compliance with the requirement of Commitment Control System. Accumulation of creditors may lead to unnecessary cost in form of litigation.

Response: The Accounting Officer attributed the accumulation of

payables to insufficient budget allocations and tabled a letter to the PSST dated 6th February 2013 detailing key unfunded areas. On withholding tax, the Accounting Officer informed the Committee that the validation of payment was done on 25th June 2013. He tabled evidence of systems generated receipts and these were handed over to the auditors for further verification. He further cited an increment in office space rent charges as another cost driver that had increased the amount of payables.

Observation and recommendations: The Committee notes that whereas in principle, payables receive a first call on the budget, in cases like this where the budget allocation is insufficient, this principle is jeopardized. In such cases adherence to the Commitment Control System alone may not necessarily stem the accrual of payables. On the WHT the Committee notes that the Accountant did not reconcile his payables position in time.

The Committee therefore recommends that;

- i) the Ministry of Finance, Planning and Economic Development re-evaluates the practice of arbitrary budget cuts and non-release of funds with a view of setting more realistic planning targets lest the realization of the development objectives of appropriation remain a dream.**
- ii) The Accounting Officer adheres to and respects the Commitment Control System**
- iii) The Accountant be cautioned for misrepresenting the financial statements**

5) Outdated organogram

Query: It was noted that the Organization Structure used by the Commission was last reviewed in 1990. Since that time, the Commission

has grown both in number of staff, and mandate. For instance research is a major activity in the process of law reform but this is not reflected in the existing organizational structure. As a consequence, in certain instances the Commission has gone ahead to recruit staff beyond the approved structure.

Response: The Accounting Officer agreed to the audit observation and informed the Committee that an impending restructuring exercise is expected to address this issue.

Observation and recommendation: Considering the pivotal role that human resources plays in the attainment of organizational goals and objectives, *there is need for the Ministry of Finance, Planning and Economic Development to ensure that the budgetary implications of the revised staff structure is met. In addition, the Accounting Officer should continue liaising with the the Public Service Commission and other stakeholders to ensure the realization of the revised staff structure.*

6) Unimplemented planned activities





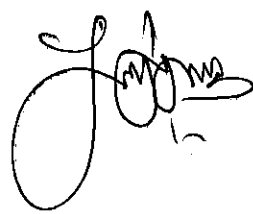




Query: The entity did not implement all activities that were planned for thereby affecting the achievement of entity objectives.

Observation and recommendation: The Committee notes that the non-implementation of planned activities is directly linked to other challenges that the Commission faced namely; budgetary shortfalls, the weak leadership at the helm of the Commission and staffing challenges.

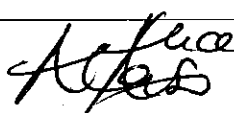
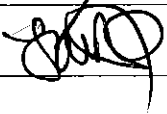
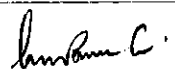
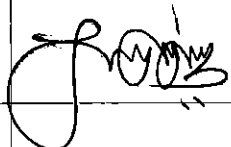
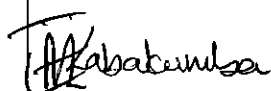
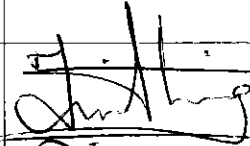
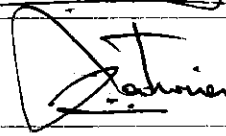
The Committee therefore recommends that besides the need for budgetary interventions, better planning and prioritization and revision of the staff structure, the Commission deserves a more

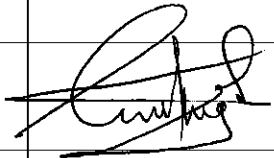



A collection of handwritten signatures and initials at the bottom of the page. From left to right, there are several distinct signatures, including one that appears to be 'Ant', another 'K. J. B.', and a large, stylized signature in the center that might be 'Mr. Banda'. To the right of this are more signatures, including one that looks like 'Campbell' and another 'J. J. B.'. There are also various initials and smaller marks scattered around the main signatures.

suitable Chairperson to propel it to the desired levels of performance; and therefore that the contract of the present Chairperson should not be renewed.

Alfred Smith     
  


**ACKNOWLEDGEMENT OF ENDORSEMENT OF THE REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE ON THE ENTITIES WITH
QUALIFIED OPINIONS VOLUME I, 2012/13; JUNE 2015**

NO	NAME	DESIGNATION	SIGNATURE
1.	Hon. Alaso Alice Asianut	Chairperson	
2.	Hon. Mwiru Paul	D/Chairperson	
3.	Hon. Ababiku Jesca	Member	
4.	Hon. Ajok Lucy	Member	
5.	Hon. Asupasa Isiko Wilson Mpongo	Member	
6.	Hon. Besisira Ignatius	Member	
7.	Hon. Boona Emma	Member	
8.	Hon. Byarugaba Alex Bakunda	Member	
9.	Hon. Dombo Emmanuel Lumala	Member	
10.	Hon. Egungyu Nantume Janepher	Member	
11.	Hon. Kabakumba Masiko Labwoni Princess	Member	
12.	Hon. Kabasharira Naome	Member	
13.	Hon. Kamba Saleh Moses Wilson	Member	
14.	Hon. Karuhanga Kafureeka Gerald	Member	
15.	Hon. Katwiremu Yorokamu Bategana	Member	
16.	Hon. Kibojana Margaret	Member	

	Namara		
17.	Hon. Kwizera Eddie Wa Gahungu	Member	
18.	Hon. Lwanga Timothy Mutekanga	Member	
19.	Hon. Mugabi Muzaale Martin Kisule	Member	
20.	Hon. Musasizi Henry Ariganyira	Member	
21.	Hon. Musinguzi Yona	Member	
22.	Hon. Nakato Kyabangi Katusiime	Member	
23.	Hon. Nandala-Mafabi Nathan	Member	
24.	Hon. Ogwang Peter	Member	
25.	Hon. Okot Ogong Felix	Member	
26.	Hon. Olanya Gilbert	Member	
27.	Hon. Oleru Huda Abason	Member	
28.	Hon. Opolot Jacob Richards	Member	
29.	Hon. Ssewungu Joseph Gonzaga	Member	
30.	Hon. Theodore Ssekikubo	Member	