PARLIAMENT OF UGANDA

11TH PARLIAMENT

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE- COMMISSIONS, STATUTORY AUTHORITIES AND STATE ENTERPRISES ON THE REPORT OF THE AUDITOR GENERAL ON THE UGANDA NATIONAL AIRLINES COMPANY LIMITED (UNACL) FOR FY 2020/2021, AND THE OPERATIONS OF UNACL.

OFFICE OF THE CLERK TO PARLIAMENT
PARLIAMENT BUILDING
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ABBREVIATIONS/ ACRONYMS

Acronym	Meaning
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
MDAs	Ministries, Departments and Agencies
Bn	Billion
MoFPED	Ministry of Finance, Planning and Economic Development
MoWT	Ministry of Works and Transport
NAA	National Audit Act
NITA-U	National Information Technology Authority of Uganda
NDP	National Development Plan
NPA	National Planning Authority
OAG	Office of the Auditor General
PPDA	Public Procurement and Disposal of Public Assets
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulations
PPDA	Public Procurement & Disposal of Public Assets
BEC	Budget Execution Circular
PS/ST	Permanent Secretary / Secretary to the Treasury
TI	Treasury Instructions
UCAA	Uganda Civil Aviation Authority
UCF	Uganda Consolidated Fund
UGX	Uganda Shilling
USD	United States Dollars
UNACL	Uganda National Airlines Company Limited
PDU	Procurement and Disposal Unit
HR	Human Resource

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REPORT OF THE PUBLIC ACCOUNTS COMMITTEE - COMMISSIONS, STATUTORY AUTHORITIES AND STATE ENTERPRISES ON THE REPORT OF THE AUDITOR GENERAL ON THE UGANDA NATIONAL AIRLINES COMPANY LIMITED (UNACL), AND THE OPERATIONS THERE-IN.

1.0 INTRODUCTION

The Public Accounts Committee - Commissions, Statutory Authorities and State Enterprises (PAC-COSASE) considered the Report of the Auditor General on the Uganda National Airlines Company (UNACL) trading as Uganda Airlines for Financial Year 2020/ 2021 in accordance with Article 90 of the Constitution and Rule 181 (4) of the Rules of Procedure.

UNACL was incorporated as a limited liability Company, under the Companies Act 2012, on 30th January 2018. This choice of incorporation was to allow for an eventual listing and floatation of shares to the public. The Government of Uganda set up a national airline in order to: enhance the country's competitiveness by reducing the cost of air transport and easing connectivity to and from Uganda; to support faster harnessing of opportunities in the economy (tourism, agriculture, minerals, oil and gas); and fulfil the requirement to establish air transport infrastructure to meet the growing demand for air transport (passenger and cargo).

The Airline assumed the status of national carrier following the grounding of Air Uganda in June 2014. Uganda Airlines launched commercial operations on 27th August 2019. Uganda Airlines operates scheduled and unscheduled passenger and freight services.

The Airline is jointly owned by the Ministry of Finance, Planning and Economic Development and the Ministry of Works and Transport, as shareholders on behalf of the general public.

Following studies and wide consultations, the Cabinet opted to re-launch Uganda Airlines, with six new jets, two of which are the wide-body, long-range A330-800 and the other four being CRJ900 aircraft. On 27 July 2019, the Uganda Civil Aviation Authority awarded Uganda National Airlines Company (UNACL) an Air Operator Certificate, finalizing a three-month, five-step certification process that cleared the airline to commence commercial operations.

During the re-establishment of the company, the Business Plan emphasized the need to appoint a highly competent team to run the company on a professional basis, and free of political interference for the airline to succeed.

The Auditor General after due consideration of the financial statements of the UNACL for FY 2020/2021 issued the Company a qualified opinion based on the issues in this report which the Committee interrogated in depth.

2.0 METHODOLOGY

2.1 Meetings

The Committee held meetings with the following;

1. Accounting Officer and Management of UNACL
2. The Board of UNACL
3. Hon. General Katumba Wamala – Minister of Works and Transport
4. Mr. Cornwell Muleya – Former CEO, UNACL
5. Mr. Ahabwe Pereza, Former Board Chairman UNACL

2.2 Document Review

The Committee studied and made reference to the following documents;

(i) The Auditor General's Report for FY 2020/21

(ii) Additional documents on the queries raised, and the general operations of UNACL

3.0 COMMITTEE FINDINGS

The Committee made the following findings, observations and recommendations on the queries raised by the Auditor General;

3.1 Failure to undertake stock counts -UGX 8,716,398,000

UGX 8,716,398,000 was disclosed as the value of the inventories in the statement of financial position. The inventory was comprised of engineering stores (expendable parts) of **UGX 8,584,169,627** and general stores (inflight stock, uniform stock and other inventories) of UGX 132,228,783. However, there was no evidence that Management carried out end of year stock taking to get actual values of inventories.

A review of stores and discussion with the Management revealed that there were no stores ledgers for engineering stores. Although the general stores had manual ledgers, the ledgers were not capturing Goods Received Note reference numbers (GRN) against the receipts in the ledgers as a reference of the goods received. This implies limited audit trail of items received in stores and issued out.

Without end of year stocktaking figures and proper records of stores, the Auditor General was unable to confirm whether **UGX 8,716,398,000** was a correct closing inventory value.

Although the Accounting Officer explained that a soft record (excel spread sheet) for management of the engineering stores inventory was available, no sufficient evidence was provided to support the assertion. The Accounting Officer further explained that for process improvement, an advanced system specifically designed for aeronautical stores management and control called ADT Wings (Materials module) had been acquired this Financial Year.

Observations

1. The Accounting Officer failed to cause the assets and inventories of the entity to be inspected regularly as provided under Section 34 (2) of the Public Finance Management Act (PFMA) 2015.
2. UNACL management exhibited weak internal controls and failed to carry out effective supervision. The Committee attributes this to the general poor corporate governance that has bedevilled the Company.
3. The absence of the information system database exposes the Company's assets to possible theft and wastage.
4. Failure to undertake stock counts renders the credibility of such financial statements doubtful.

Recommendation

1. **The Accounting Officer should be held liable for failure to keep proper records under Section 79 (1) (n) of the PFMA which provides that a person commits an offence if that person fails to keep proper records or conceals or wrongfully destroys information that is required to be recorded by this Act.**

KEY AUDIT MATTERS

The Auditor General noted the following key audit matters;

3.2 Implementation of the approved budget 2020/2021

On 22nd December 2017 Cabinet approved a business and implementation plan for the Uganda National Airlines Company Limited (with a trade name Uganda Airlines).

To achieve its objectives, UNACL planned to implement both recurrent and capital development activities. A review of the entity's budgets revealed that the entity had an approved budget of **UGX 1,025.542 billion** covering both GOU receipts and locally generated revenue.

During the financial year 2020/21, UNACL did not prepare an annual budget for the internally generated revenue. However, two (2) outputs under the Project: 1512 Uganda National Airline Project in the GoU subvention annual work plan with an approved total budget UGX 581.144bn were selected for assessment.

The Accounting Officer responded that UNACL has a system which keeps stock record of all spares and their values. These records are updated on a continuous basis when spares are received and when issued out. This captures continuous inventory movement.

3.2.1 Existence of Strategic Business Plans that are aligned to NDP-III

Paragraph 5 of the budget execution circular for the financial year 2020/2021 cites poor alignment of Government Budgets with the National Development Plans. The PS/ST urges Accounting Officers to ensure that all activities for Financial Year 2020/2021 are aligned with NDP III and implemented accordingly. Regulation 26 (1) of the National Planning Authority (development of Plans) regulations require entities to submit to NPA their five-year development plans for certification before approval.

This being the first year of implementation of the NDP-III, the entity was expected to prepare a strategic plan aligned to NDP III and ensure that the plan is approved. The strategic plan would then form the basis of the preparation of the entity's annual plans.

Through document review and interviews, the Auditor General noted that whereas UNACL had a strategic/ business plan document running from 2019-2023, it was not aligned to the National Development Plan III in terms of timeframe as required by the National Planning Authority (NPA).

Management responded that on 1st February 2022, a 4-day Strategic Retreat was held and it earmarked the commencement of a Strategic Planning Process intended to develop a Five Year Strategic Plan aligned to NDP III for the Airline facilitated by Summit Consulting. On Wednesday, 02nd March 2022, the first draft of the New Airline strategy was presented to the Leadership team for critique. There is ongoing continuous engagement with the Consultant to ensure that the final document is produced.

Observation

Committee noted that the existence of Strategic Business plans that are not aligned to NDP- III poses a risk that activities implemented during the financial year 2020/2021 were not aligned to the NDP-III sector indicators/ targets, which negatively affects the achievement of NDP-III national objectives.

Recommendation

Management should fast-track the preparation and alignment of the strategic/ business plan to the NDPIII sector priorities and have it approved by NPA to facilitate preparation of annual business plans and the achievement of the sector priorities in the NDP III.

3.3 Performance of Internal Revenue

The Auditor General reviewed the internal revenue estimates, revenue sources and rates charged at Agency level for the financial year 2020/2021 and noted that out of the budgeted revenue of **UGX 304,633,836,800** during the financial year 2020/2021; only **UGX 48,605,410,000** was collected representing a performance of 16% of the targeted revenue budget.

The Accounting Officer responded that the effects of the COVID 19 Pandemic grossly affected performance. The airspace was closed for several months. Uganda Airlines had anticipated to be operational in 18 routes, but this growth couldn't be achieved. Besides this, the airbus aircraft could not be deployed without the Approved Operators Certificate (AOC).

The above notwithstanding, Management said they have put in place strategies to rationalize the costs and improve the revenue generation capacity of the

Company. Management is targeting projects such as Self Handling and Approved Maintenance Organization (AMO) projects that will minimize costs and act as additional revenue generators for the Airline.

In addition, management is in the process of preparing a five year strategic plan that will rationalize the revenue and cost projections putting into consideration the impact of Covid on the Aviation Industry.

Observations

The Committee noted that notwithstanding the explanation of the Accounting Officer and the justifiable reason for the revenue shortfall, the general corporate governance inefficiencies like operating without approved staff structures, lack of Board's independence and human resource incompetences among others have hampered the expansion of the revenue base.

Recommendations

1. **UNACL Management should open up new routes which are commercially viable in order to increase the revenue base.**
2. **UNACL should improve on professionally marketing the airline in order to generate more sales.**

4.0 EMPHASIS OF MATTER

The Auditor General emphasised the following matters;

4.1 Loss for the year – UGX 164,601,281,000

The company incurred a loss of **UGX 164,573,633,000** at the end of the trading year 2020/2021. This was a result of generating low revenue in comparison to its costs. The company generated revenue totalling to UGX 46,927,333,000 from its operations. However, direct costs amounting to UGX 163,519,597,000 were incurred. In addition, the company incurred expenses on employees amounting to UGX 27,936,543,000, indirect overhead expenses of UGX 19,841,895,000, and Finance costs of UGX 230,579,000. The total costs (direct costs, employee expenses, indirect overheads and Finance costs) amounted to **UGX 211,528,614,000.**

The low revenue outturn in relation to the company's operations costs will lead to the erosion of the company's capital in the medium term if strategies to improve revenue are not devised urgently.

The Accounting Officer explained that the effects of the COVID 19 Pandemic grossly affected the airline's performance. The airspace was closed for several months. Uganda Airlines had anticipated being operational in 18 routes, but this growth could not be achieved. Besides this, the airbus aircrafts could not be deployed without the Approved Operators Certificate (AOC). The Accounting Officer also explained that the Board approved a request for Management to review the current Company strategy.

Observations

1. The Committee notes that the Airline is in its infancy and suffered operational costs in its first year which were exacerbated by the closure of airspace in March 2020 at the onset of the COVID 19 epidemic.
2. However, the initial losses by the Airline were also as a result of the lack of functional management systems at its inception including; recruitment processes, financial management policy and procurement processes.
3. Although Government has capitalised the Airline and provided sizeable financial support, the high cost in wages, disregard of procurement regulations, inefficiency in management and lack of a staff structure have rendered no value for money to the taxpayer.
4. Uganda Airlines has a poor marketing strategy. As a result, there are limited passengers on some routes despite the high operational costs of the Airline.

5. The Committee learnt that Management contracted Mixjet, a Dubai Company, to act as an agent for fuel supply to the Airline. Moreover in Mogadishu a local fuel company was contracted by Mixjet to supply fuel to UNACL. However the supplying company does not find merit in incurring the cost of a middle man Mixjet, when they can supply directly to UNACL under similar terms offered to the agent - Mixjet.

   The Committee further noted that local companies such as Shell and Total could supply the same fuel at a significantly lower price by approximately 20%, enabling UNACL to manage this cost line better.
6. Hon. Pereza Ahabwe, the former Board Chairperson informed the Committee that the Insurance policies in place were procured under the direct influence of the CEO. Given the implications of the associated costs and risks, the Board was concerned that the interests of the Company were not safeguarded.
7. There was inadequate supervision by the Ministry of Works and Transport. UNACL Board equally lacks independence and has exercised very passive control and supervision of management.

Recommendations

1. **UNACL should establish strong partnerships and open more routes in order to counter the losses.**
2. **UNACL should review its business strategies to improve the company's generating ability in order to enable the company maintain its operations.**
3. **The UNACL Board should establish key performance indicators and set targets and deliverables for Management and staff which should be used as a basis for promotion and contract renewal of employees.**
4. **UNACL should carry out cost reduction strategies for example; self-handling to reduce costs of outsourcing, operate its own Business Lounge, increase incentives for special charters and negotiate for standard food prices with service providers.**
5. **The Insurance contract of UNACL should be reviewed and UNACL should adhere to the procurement procedures in the PPDA Act.**

6. **UNACL should eliminate the current exploitative middleman (Mixjet) in the procurement of fuel.**
7. **The responsible officers who were involved in the procurement of the insurance and fuel contracts should be held responsible for flouting procurement regulations.**

4.2 Long Outstanding Payables

The company had payables totalling **UGX.47,032,043,000**. All the outstanding invoices were payable to UCAA. Out of the amount, payables totalling **UGX 16,065,309,363** had been due for more than 6 months.

Under the circumstances, the company may incur un-necessary legal costs if the creditor opts for legal redress.

The Accounting Officer explained that the Airline is waiting for specific arrears disbursements from the Ministry of Finance so as to pay these outstanding passenger taxes to UCAA. At the point of setting up the Airlines, Government committed to help the Airline settle these UCAA bills. The Accounting Officer also indicated that by the time of the audit, these invoices had been submitted to MoWT for inclusion in the schedule of arrears for onward submission to Ministry of Finance, Planning and Economic Development.

Observation

Long outstanding payables accumulation is indicative of financial indiscipline by the Accounting Officer.

Recommendation

The Accounting officer should be held responsible for non- remittance of the dues.

4.3 Doubtful value of Property Plant and Equipment -UGX 1,127,484,315

UGX 1,127,484,315 was the value of Property Plant and Equipment in the statement of financial position and the corresponding note (Note 12) as at the close of the financial year. However, it was noted that assets were not engraved to give them an identification number for easy identification. It was also noted that the assets could not be traced in the assets' register due to lack of identification numbers.

Further, in note 12 to the financial statements, property, plant and equipment were categorized into eight categories. To the contrary, a review of the assets register revealed that the non - current assets in the excel sheet assets register were not captured in the same assets' categories as per the note 12 to the financial statements. It was also noted that the excel sheet (Assets register) capturing assets did not have a column to describe the individual assets.

Due to failure to engrave the individual assets with identification numbers for audit trail in the assets register, the Auditor was unable to confirm whether all the assets were captured in the assets register and appropriately used in computing the values of property, plant and equipment.

The Accounting Officer explained that a supplier had been engaged and Bar codes sequencing shared with the supplier and printing of the tags was on-going. The Accounting Officer also explained that at the time of audit, updating of the assets register was work in progress.

Observation

The Committee observed that due to failure to engrave the individual assets with identification numbers for audit trail in the assets register, it was difficult to confirm whether all the assets were captured and appropriately used in computing the values of property, plant and equipment.

Recommendation

The Director Finance should be held liable for failure to maintain an accurate assets register.

4.4 Financial analysis and assessment of the Company's performance

The Auditor General carried out financial analysis of UNACL financial performance and observed that the Company had made losses for the year 2019/2020 and 2020/2021 amounting to **UGX 102.442bn** and **UGX 164.573bn** respectively. On review of the operating margin, the Auditor General observed that the costs before considering interest and taxes exceeded company revenues for the two years. He also observed that due to the losses incurred, the Company generated negative return on assets of 12.2% for the year 2019/2020 and 13.1% for the year 2020/2021. Further, the Company's revenue is still far below its assets. Management informed the committee that the loss for the financial year 2021/2022 is over UGX 232bn, which brings the total loss thus far to about UGX 500bn.

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

The Accounting Officer acknowledged the findings and explained that a strategy session is scheduled where in among others, strategies for revenue maximization and cost cutting will be developed.

Observation and Recommendation

The Committee reiterates its earlier observations and recommendations in 4.1 above on losses incurred by UNACL.

4.5 Implementation of Planned activities

The Company did not implement some of its planned activities during the year. Examples include; procurement of spare parts; supporting 32 pilots for A330-800 neo type training and supporting 60 pilots in simulator training.

Management responded that the training of the Pilots was interrupted by the COVID 19 Pandemic which saw most of the Countries close their Borders and Airspace. Both the neo type and simulator training are conducted in International destinations as we have no capacity to do these in Uganda. However, with the gradual opening of the Airspace, all crew were rescheduled for training.
The company supported 39 CRJ & A330 pilots to attend simulator recurrence trainings, 10 A330-neo pilots attended initial type rating and another 6 CRJ pilots attended initial type rating.

There was a delay in purchase of spares because the suppliers who are monopolies insisted on advance/upfront payments which are in contravention of the PPDA regulations and guidelines. Management sought for exemptions/waivers from various key Stakeholders and on 23rd February 2022, approval to proceed with the Procurement was granted by the Hon. Minister of Works and Transport.

Observations

1. The action of the Minister in approving a procurement was not only irregular but also amounted to usurpation of the powers and functions of the PDU, Contracts Committee and Public Procurement and Disposal of Public Assets Authority.

2. Execution of procurements outside the approved procurement plan leads to diversion of funds and affects realization of the approved procurement plan targets hence affecting service delivery provision to the intended beneficiaries and is contrary to Section 58 (5)(7) of the PPDA Act.

Recommendation

Management should always follow the procurement regulations and seek necessary approvals and exemptions from the PPDA in peculiar procurements.

4.6 Implementation of un-planned procurement activities

UNACL implemented twenty-five (25) procurements outside the approved procurement plan for the FY 2020/2021. The procurements were made in different currencies amounting to (for each currency) **Euro 1,150,854.06**, **Kenya Shillings 61,879.2**, **USD 65,441.36**, **Tanzania Shillings 7,752,600** and **UGX 346,738,939**.

The Accounting Officer responded that since UNACL had just started operations, several critical activities came up during execution that had not been included in the procurement plan. Additionally, the aviation industry has a strict regulatory regime where new vital criteria are introduced that sector players must comply with in order to remain compliant in the industry. Management acknowledges that there was an oversight in updating the procurement plan in accordance with Section 58 (5)(7) of the PPDA Act which was occasioned by the suspension of key staff in the PDU and the remaining staff concentrated on completing the ongoing procurements to avert crises that would arise from delayed completion of such procurements.

However, a Comprehensive procurement plan was developed for the FY 2021/2022 which is now used as a reference point for Procurements.

Observations

1. UNACL has no functional PDU and relies on the Ministry of Works to conduct some of the procurement processes.
2. Management did not follow the procurement regulations envisaged by the Public Procurement and Disposal of Public Assets Act (PPDA) Act.

Recommendation

The Management team that handled the above procurements should be held responsible for not following procurement guidelines.

4.7 Procurement without Contracts Committee Approval

Regulation 12(2) of the PPDA (Rules and Methods for Procurement of Supplies, Works and non-consultancy services) Regulations, 2014 requires that the Procurement and Disposal Unit (PDU) shall make a submission to the Contracts Committee in respect of procurement under the direct procurement method.

However, it was noted that a Purchase Order no. 0021 dated 14th December 2020 was made to Collins Aerospace for the supply of inflight equipment at a price of **USD 25,694.46** (VAT Exclusive) without the approval of the Contracts Committee.

Observations

1. Failure to obtain Contract Committee approval is unacceptable, it negatively affects the transparency of the procurement process and could result in procurement of items in a manner that is uneconomical. It is contrary to Regulation 12(2) of the PPDA (Rules and Methods for Procurement of Supplies, Works and non-consultancy services) Regulations, 2014.
2. The Accounting Officer violated Section 26(2) of the PPDA Act by signing a contract without approval of the Contracts Committee.

Recommendation

The then Accounting Officer should be prosecuted for committing an offence under Section 95 (1b) (a) of the PPDA Act.

4.8 Supply, delivery, and commissioning of assorted ground handling equipment

Two Companies submitted bids for specialized motorized equipment used in ground handling of aircrafts. The Companies failed the preliminary stage (compliance),

however, the Evaluation Committee did not cancel the evaluation process. The contract manager was not appointed and the delivery was not witnessed.
Management responded that some of the compliance requirements in the evaluation form were found to be inapplicable to these International Firms and hence were not considered as grounds sufficient enough to terminate the procurement. However, currently, proper reviews are done of the evaluation criteria before it's issued out to ensure that the Criteria used is relevant and hence fully adhered to.

The policy of UNACL is that the initiator of a procurement is by default the contract manager. However, Management notes the anomaly that the contract manager was not formally appointed by any other separate instrument.
Management stated that the equipment was delivered and handed over to UNACL and was received by the Procurement and Ground Handling Managers.

Observations

1. There was gross violation of the PPDA Act. The Evaluation Committee should not have proceeded to appoint companies which failed the preliminary stage of compliance.
2. The Contracts Manager was not appointed and the delivery was not witnessed.

   The above points to possible collusion to defraud government.

Recommendations

The officials who were involved in this procurement should be held liable for flouting procurement laws.

4.9 Contract with DAS Air for management and safe custody of the Ground Handling Equipment

USD 8,620.7 vide payment voucher NoPV07/21/072 was paid to DAS Air as rent for the month of April 2021. Further to the above, a review of invoices revealed that DAS Air had billed Uganda Airlines a total of **USD 43,103.5** for the unpaid ground rent.

However, Uganda Airlines had not made any tenancy agreement with DAS Air and there was no handover report from Uganda airlines to DAS Air.

Management responded that no payment has yet been effected towards DAS Air for settlement of the storage charges. The Ground Handling equipment was eventually moved to the Storage Shed in November 2021 that Uganda Airlines constructed for this purpose. Management told the committee that they are finalizing the rent agreement with DAS for the period the equipment was in DAS Custody so that payment for the storage is made.

Observations

1. The Committee noted there was negligence on the part of Management and observed that without clear terms and conditions by which Uganda Airlines is keeping its ground handling equipment in the yard of DAS Air, there is a risk of conflict on who will be responsible in case of any damage or loss of equipment.
2. It was erroneous for UNACL to conduct financial transactions with DAS Air without a tenancy agreement.

Recommendation

UNACL should formalise the rent agreement with DAS within two weeks from the adoption of this report.

4.10 Purchase of vehicle for Southern Sudan Office through direct procurement

UGX 103,532,800 (USD 28,000) was paid to the Supplier vide payment voucher No. PV09/20/025 dated 04/09/2020. The Vehicle was purchased through direct procurement without proper justification.

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

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

Observations

1. UNACL flouted the PPDA Act and regulations.
2. The purchase of the vehicle for the Southern Sudan Office through direct procurement poses a risk that the vehicle was procured at a high price and may not be of the required quality and this is contrary to Section 6 of the PPDA Act.
3. The Committee learnt that this case was referred to the IGG for further investigations.

Recommendations

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

4.11 <u>Supply of inflight service equipment for Airbus</u>

Uganda National Airlines Limited made a contract agreement with M/s Ninesun manufacturing Limited for supply of inflight service equipment for Airbus at a contract amount of **USD 319,226.86**. The items were said to have been delivered to DAS Air. The Auditor General was not provided with evidence that the items were actually delivered, witnessed for quality and quantity, and handed over to DAS Air stores.

Management noted the lapse in document tracking and stated that UNACL now ensures proper filing of all documentation relating to procurements. However, they said the above items were fully delivered and subsequently dispatched for use in operations. Management informed the Committee that most of the officers in the Procurement Department had been suspended and some of the documents were not available.

Observations

1. The Committee notes that the supporting documents were neither availed to the Auditors nor to the Committee for verification.
2. The unclear terms and conditions in the procurement supplies/ contracts pose a risk that the items were not supplied and that they may go missing without

accountability in case they were supplied due to lack of a tenancy agreement with DAS Air for storage of Uganda Airlines equipment.

Recommendations

1. **The Auditor General should carry out a Special Audit into the purchase of the said equipment.**

2. **Management should enter into a formal understanding on the terms and conditions of storage by DAS Air.**

4.12 Failure to seek approval from NITA-U for procurement of IT software

UNACL concluded the procurement of a contractor for the provision of an Enterprise Resource Planning (ERP) software solution at a contract sum of **USD 1,066,910** (VAT Exclusive) as well as the provision of an integrated Passenger Service System at a contract sum of **USD 1,234,441** (VAT Exclusive). The procurements were conducted and finalized without seeking the necessary approval from NITA-U as is required by Section 4(d) of the NITA-U Act which mandates NITA-U to regulate and enforce standards for IT hardware and software equipment in all Government Ministries, Departments, Agencies and Parastatals.

Management responded that the IT systems referred to are specific to the aviation industry; may not be readily available with NITA-U and have to follow industrial best standards regarding system requirement specifications which are subjected to compliance assessments by the aviation industry regulators.

A consultant (BDO) was procured to assist UNACL in the selection of some IT applications. BDO contacted and obtained quotes from Microsoft Dynamics 365, SAP, and Oracle for the ERP solution.

The service providers for the Integrated Passenger Service System are only 3 that is Amadeus, SABRE and Gabriell. SABRE and Gabriell could not suit UNACL needs and the only option left was Amadeus which is why UNACL took it on.

Observation

1. The Committee observes that failure to seek the approval could result in the procurement of ICT software which is below standard, procurement of software which NITA-U has already developed or acquisition of software that is not compatible with the general Government ICT requirements, hence duplicating efforts and potentially wasting resources.
2. It was an omission by Management to eliminate NITA- U from the approval processes, which omission was conceded by Management.

Recommendation

NITA (U) should inspect the software equipment that was procured within a month from the adoption of this report to ensure that it complies with the required IT standards.

4.13 <u>Supply of Critical Spare Parts for Business Class Seats for A330-800 Neo (USD 146,230.72)</u>

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

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

Recommendation

The Auditor General should conduct a special audit to establish all the facts regarding this transaction.

4.14 Failure to maintain Contract Management Files

From the 20 procurements sampled, the Auditor General noted that neither was there appointment of contract managers nor were there contract management files. The procurements were made in different currencies amounting to (for each currency): **Euro 212,050.67, Kenya Shillings 12,253,905.74, USD 109,803,962.54 and UGX 347,242,879**

The practice of UNACL is that the initiator of a procurement is by default the contract manager.

Management acknowledged the anomaly that contract managers were not formally appointed by any other separate instrument.

Observations

1. Regulation 52(2) of the PPDA Contracts regulations provides that where a contract is of high value or is complex, or forms part of a larger project, the accounting officer shall assign the contract to a contract management team with the same responsibilities of a contract manager.

2. Failure to appoint a contract manager and absence of contract management files implies that this particular procurement is shrouded in mystery. It is therefore difficult to assess the performance of the contract or whether there was value for money.

Recommendation

1. **The then Accounting Officer should be held liable for failure to follow the law on procurement.**
2. **The Auditor General should conduct a special audit to establish the facts regarding the 20 sampled files and whether there was value for money.**

4.15 Lack of a Staff structure

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

This affected proper planning and budgeting for staff costs. As a consequence, the Company incurred an excess expenditure of UGX 4,919,238,464 (USD 1,333,008) on salaries and staff expenses.

Observations

1. The Committee observed that the salaries paid to some categories of staff were exorbitant at a time when the Airline was making losses. In the Financial year under review, the total wage bill was **UGX 14.3 billion** compared to the previous year where the wage bill was **UGX 7.2 billion**. The wage bill of the unapproved staff structure is one of the costs causing a financial burden to UNACL.
2. There were disparities in salaries of staff holding the same positions for example; Director Maintenance earns **UGX 80 million**, Director Flight Operations **UGX 47 million** and Director Commercial **UGX 40 million**. Some Cabin Crew staff earned **UGX 4 million** while others earned **UGX 2 million**. There was no justification for the differences in these amounts.
3. On examination of the Curriculum vitae of senior staff, the Committee noted that some top officials lacked the minimum qualifications. For example, Ms. Regina Tebasiima – Ag Commercial Director had **only** an A Level Certificate as her highest qualification.

   The CEO – Ms. Jennifer Bamuturaki does not possess the required academic qualifications stipulated in the Human Resource manual. The requirement for the CEO is a Bachelors Degree, and a Post Graduate Diploma/Masters. She only possesses a Bachelor's Degree in Social Work and Social Administration (SWASA).