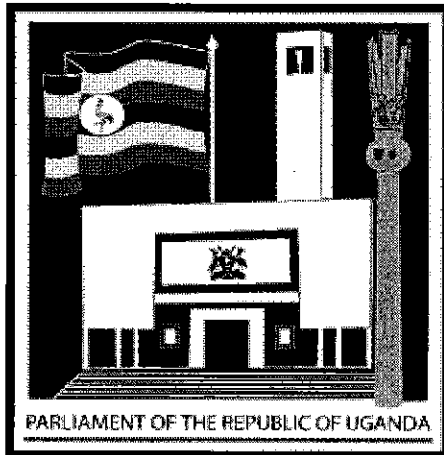


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REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE AUDITED ACCOUNTS FOR THE FY 2008/2009

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REPORT OF PUBLIC ACCOUNTS COMMITTEE ON THE AUDITED ACCOUNTS FOR THE FINANCIAL YEAR 2008/2009

1.0 Introduction

In accordance with Rule 148 (2) of the Parliamentary Rules of Procedure, Public Accounts Committee examined the audited accounts of Central Government Votes as reported on by the Auditor General. In the process of examining the Auditor General's report, the Committee interfaced with the Accounting Officers to hear their side of the story. The Committee noted that a number of areas remained as possible points of leakage of public funds. This report outlines weak accountability areas and proposes recommendations as below.

2.0 Procurement

The Committee noted that government departments continued to procure goods and services without heeding to the procurement law. The Committee was cognizant of the fact that procurement-related corruption had been sighted as the major form of corruption in Uganda by the World Bank.

The Auditor General reported that the PPDA Act and Regulations 2003 together with the guidelines issued from time to time by the Authority (PPDA) prescribe procedures for government entities to follow while undertaking procurement and disposal functions. Although compliance with the procurement procedures had improved, the following areas require further attention and improvements:-

2.1 Procurement Planning

Regulation 96 of the Public Procurement and Disposal of Public Assets Regulations requires a user department to prepare a multi annual, rolling work plan for procurement based on the approved budget, which should be submitted to the procurement and disposal unit to facilitate orderly execution of annual procurement activities. However, it was noted that a number of entities still lacked approved procurement plans while others had the plans that were not comprehensive. In addition, according to a report by the PPDA, 47 entities under Central Government had not submitted procurement plans for 2008/09 as at 28th April, 2009.

As would be expected, weaknesses in procurement planning increases the risk of application of inappropriate procurement methods and unnecessary delays in the procurement process which may lead to loss of public funds.

The Committee recommends that entities strengthen their procurement planning systems to ensure that all foreseeable procurement needs are adequately provided for within the annual budgets to enhance the efficiency and effectiveness of the procurement function.

The Committee further recommends that accounting officers who fail to prepare procurement plans should be disciplined.

2.2 Contract Management

The Committee noted that spending agencies still had problems with respect to contract management. Section 259 (1) of the PPDA regulations 2003, requires the user departments to nominate a member of staff with appropriate skills and experience to be the contract manager on any contract procured by the Entity. The contract manager is charged with the responsibility to manage and supervise the contract, ensure compliance with the regulations and keep proper records on contract performance. It was however, noted that most entities

did not adhere to this requirement and in some instances there was no documentation being kept on contract performance. This practice had often led to the execution of contracts contrary to the agreed contracts terms, delayed contract implementation and stalemate/ abandonment of projects.

The Committee recommends that any Accounting Officer who fails to adhere to the law by having contract managers properly appointed and tasked with the requisite responsibilities in accordance with the PPDA Act and Regulations should be disciplined.

3.0 Risk Management in Government

The Auditor General reported that while many government departments had developed long term and elaborate strategic plans, these departments lacked a risk management framework. Consequently, entities reacted to risks and effects on a reactive basis rather than trying to mitigate them.

The Committee noted that huge investments had been made as a result of strategic plans, but without risk management frameworks, these public investments could easily be wiped out.

The Committee recommends that each Vote should develop and implement a risk management strategy as a guarantee that public investments are secured. The Committee further recommends that a risk management strategy should be one of bases for budget appropriation.

4.0 Nugatory Expenditure

The Committee observed that government was paying huge sums as a result of settlement of claims for interest on civil works contracts and compensation arising from cancellation of

contracts. The Auditor General and indeed the PAC contends that these expenditures are avoidable if only government bureaucrats adhered to contractual obligations.

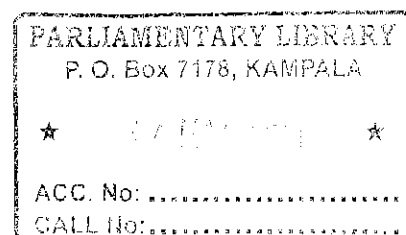
The Committee observed that certificates are not cleared in time, and in most cases, the Accounting Officers were pointing a finger at the Ministry of Finance for failing to release funds in time. In other cases, valid contracts were cancelled carelessly or with possible ulterior motives.

The Committee further observed that failure to settle claims in time or violation of the contracts were all signs of procurement breaches which cast doubt on the competence and integrity of public officials.

The Committee recommends that Accounting Officers who cause nugatory expenditure should be surcharged. The Committee believes that this measure will force the Accounting Officers to pay more attention to procurement process as an important management function.

5.0 OUTSTANDING ADVANCES

The Auditor General reported that shs 12,120,726,148/= and USD 32,723.14 remained unaccounted for during the year under review contrary to financial regulations which require that all advances should be accounted for by the year end. The Auditor General observed that delays in accounting for advances are caused by laxity by Accounting Officers to enforce timely accountability and strengthen controls over advances. The AG further observed that delayed accountability may lead to falsification of accountability.



The Committee received explanations from the universities that accountability for advances given for research purposes might be difficult to tender at the close of the financial year since the research period might not be based on a financial year.

The Committee appreciated the situation pertaining to research advances, but also observed that accountability does not mean that explanation is only given when all the funds have been utilized. At any time, the person who was advanced funds should be able to account for the funds. It does not need to be at the end of the research period, which can be after two financial years.

The Committee recommends that Accounting Officers who failed to enforce strict controls relating to management and accountability of advances should be compelled to refund the money.

6.0 EXCESS EXPENDITURE

The Auditor General reported that 25 Votes majority of which were Missions Abroad (15) incurred expenditure to the tune of shs 130,419,256,935/= which exceeded their approved budgetary provisions. These entities did not either declare and this used at source Non-Tax revenue, donor funding or appropriation in aid.

The Committee observed that these agencies allocated themselves resources without authority by Parliament.

The Committee recommends that Accounting Officers who exceeded their allocated budgets and had recourse to public funds without authority should be disciplined by the Secretary to the Treasury.

7.0 OVER EXPENDITURE

The AG reported that six entities incurred expenditure over and above the amounts approved for various items of expenditure. In other words, the accounting officers reallocated or vired funds to other items without authority in contravention of the Public Finance and Accountability Act, 2003.

The Committee observed that the practice of virement or reallocating funds from one activity to another defeats the purpose of legislative authorization of the activity based budgeting. The Committee recommends that Accounting Officers who vired funds without obtaining the requisite authorization should be disciplined by the Secretary to the Treasury.

8.0 DOMESTIC ARREARS

The Auditor General reported that there had been minimal progress in curbing accumulation of arrears. During the period under review, the arrears (excluding employee costs and finance costs) increased by Shs.15,363,517,206 from Shs.157,916,608,553 (2007/08) to Shs.177,280,125,759 (2008/09). The Office of the President had arrears of 2,459,575,913. Although funds had been released to clear the arrears over the years, many votes diverted some of the funds meant for arrears to clear current bills. The current position in comparison to the 3 previous financial years was as indicated in the table:

	2005/06	2006/07	2007/08	2008/09
Amount (Shs)	100,872,974,795	100,749,349,607	157,916,608,553	173,280,125,759

The Committee observed that the practice of incurring domestic arrears was another form of accessing public funds without the authorization of parliament. It also defeated the purpose of the facility of supplementary funding.

The Committee recommends that domestic arrears should be discouraged and where there is urgent need for procurement, a supplementary funding request be made to parliament or else, recourse be made to the contingencies fund.

9.0 BOARD OF SURVEY

The Committee noted with disappointment the way government was managing its assets and disposing of its stores. The Auditor General reported that S 84(1) of the Public Finance and Accountability Regulations, 2003 required the Accountant General to appoint a Board of Survey for each Ministry, Department and Agencies (MDAs) of the Government to survey the cash, bank balances, stores and non-current assets held by the Accounting Officers at the end of the financial year.

The consolidated report of the Board of Survey issued by the Accountant General for the period under review highlighted a number of weaknesses such as inadequate storage facilities, poor stores record keeping, untimely disposal of scrap assets including hazardous expired medical drugs, disposal of assets in less economic ways e.t.c.

The disposal of government vehicles was the most disappointing one. There appeared to be a tendency of deliberately grounding vehicles so that they can be sold as scrap to the public officers through their relatives. Government vehicles were parked in private garages for long so that they could be vandalized. There seemed to a racket of officers specializing in undervaluing the vehicles and other equipment. One officer, Mr Buyonga from the office of chief mechanical engineers office was at the centre of this racket. Auctioneers were also

very unscrupulous when disposing of government vehicles. In addition to selling them at slow away prices, even below the price offered by scarp dealers, proceeds from the sale were rarely handed over to the disposing entities.

The Committee recommends an overhaul of the procedure of disposing of public assets. Government vehicles even of newer year of manufacture were sold far cheaper than those in the market.

The Committee recommends that instead of selling vehicles at give-away prices, either the vehicles should be sold as scrap in kilograms or be donated to the jua kali workshops or technical and vocational schools for use by students in practical lessons.

10.0 GROSS TAX SYSTEM (GTS).

In order to control government expenditure on government imports, the government designed a gross tax system where all import taxes incurred by the Accounting Officers are paid for centrally by the Accountant General through the Gross Tax System. Despite the importance of the system in reducing delays of tax payments to the URA, weaknesses were observed as follows:

Budgeting

In the year under review, shs 382 billion was budgeted for as tax payments. However, by the end of the financial year, actual expenditure was only shs 44 billion. Seventeen Votes had zero percentage utilization.

The Committee found the performance of the GTS startling. The Committee observed that either:

- 1) There was underperformance at procurement level, or

- 2) Procurement budget was used for recurrent operations, or
- 3) The Accounting Officers did not do proper budgeting since tax component is a fraction of the procurement budget, or
- 4) The Accounting officers did not understand the GTS operation, or
- 5) The system was imposed on the Accounting Officer without sufficient consultation, or
- 6) The Accounting Officers used resources meant for other activities to pay for import taxes.

The Committee further observed that for Votes to request for funds and fail to utilize them denied other sectors the much needed funds to execute its programmes.

The Committee recommends that the Accountant General conducts an inquiry into the poor performance of the Gross Tax System despite its apparent advantages within three months, and proceeds to institute remedial measures.

11.0 PAYMENT OF UTILITIES IN GOVERNMENT INSTITUTIONS

Government introduced a system whereby the budget lines for utility expenditure are protected to avoid possible diversion of funds by MDAs. Funds were released quarterly by the Ministry of Finance and paid by Ministries directly to the utility companies. Under this arrangement, a number of MDAs made payments of substantial amounts to UMEME and National Water Sewerage Corporation but in a number of cases, the paying entities did not receive acknowledgment receipts from these service providers. It was further, noted that the entities did not make the necessary reconciliations to ascertain their indebtedness or establish the amount owed by the service providers in form of prepayments. In some cases, MDAs shared metres and outstanding bills were being apportioned amongst different entities. This practice made reconciliations at individual Ministry level difficult.

The AG further observed that MDAs were making payments to the service providers without furnishing them with the details required by the providers to post the payments to relevant accounts. Such funds were possibly posted to suspense accounts of the service providers and the bills of the paying entities continued to accumulate. It is important that a system of ensuring proper reconciliations with these institutions is instituted to avoid loss of public funds.

The Committee observed that MDAs were overly enthusiastic in paying for utilities, sometimes without safety controls. The Committee recommends that a proper system be put in place to ensure that government pays for consumed utilities.

12.0 LAND TRANSACTIONS

The Auditor General reported on a number of land transactions during the year under review. The transactions related to land purchases; payment of compensation to land owners to free land for use by the public; and allocation of public land to investors.

The Committee noted that these land transactions fell short of legal requirements in the following manners:

1. Some of the purchased land had not been transferred into names of the Uganda Land Commission;
2. In some of the cases, the allocation of lands had not been transparent;
3. In some cases, not all of the compensated/purchased land was transferred to Government;
4. In some cases, government land had been encroached on;
5. In some cases, procurement of land had not followed the procurement laws and regulations;
6. In some cases, the investors had changed the agreed upon land usage;

7. In some cases, purchase of land was not initially planned.

The Committee recommends that all government land be surveyed, titled and secured. The Committee further recommends that all illegal encroachers on government land should be evicted. The Committee further recommends that public land allocation should be done in a transparent manner in the best interest of the country.

13.0 LOCAL SERVICE TAXES

The Committee noted that during the year under review, civil servants salaries had been deducted to pay local services taxes. However, there was no feedback from benefitting Local Governments. In addition, individual tax payers were not issued with receipts/tickets.

The Committee observed that this lack of accountability to the individual tax payers was a recipe for embezzlement of the collected local service tax.

The Committee recommends that benefitting local governments should provide acknowledgement of receipt of the local service tax, and in addition should issue receipts to each tax payer.

14.0 IMPLEMENTATION OF DONOR FUNDED PROJECTS

The Auditor General reported that most donor funded projects had encountered a number of challenges during their implementation phases, including:

- Inadequate or diversion of counterpart funding;
- Implementation delays;
- Low absorption capacities of donor funds;
- Inadequate Monitoring and Evaluation

The Committee observed that as a result of the above implementation challenges, the objectives for which these projects were designed would not be achieved. But most importantly, the cost of these projects would be astronomical in terms of penalties and commitment fees that Uganda would be forced to pay to the lenders.

The Committee further observed that at times, government accepted projects when it was not ready to bear the consequences which calls into question the integrity and competence of our project designers and negotiators.

The Committee recommends that any accounting officer who fails to successfully implement a project leading to losses to the public in terms of fines, penalties and commitment fees should be surcharged. The Committee believes this measure will force accounting officers to pay more attention to project management.

15.0 The Performance of the Office of the Auditor General (OAG)

The Committee would like to report that the OAG made the work of PAC a lot much better. The OAG had managed to produce its annual reports on time. All the meetings of PAC were attended by a representative from the OAG and PAC got expert advise from the OAG in the course of its work.

However, the Committee recommends that the Auditor General improves on its reporting format and detail. The Committee would love to see the AG drilling deeper and identifying suspects clearly, and proposing recommendations in consonant with the provisions of the relevant laws and regulations.

16.0 Appreciation

The Committee would like to express its appreciation to the support the Office of the Speaker and that of the Clerk rendered to it in the course of its work. Similarly, the Committee would like to express its gratitude to the development partners for the support it rendered to the Committee. In a special way, the Committee would like to thank those whistleblowers who provided the committee with information and the press who worked closely with the committee to expose those public officials who failed to provide effective management of public funds.

17.0 Conclusion

The Committee invites the August House to adopt the report of the PAC on the audited public accounts for the financial year 2008/2009.

I beg to move.

