

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE PUBLIC ACCOUNTS FOR THE FY 2007/8

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 Terms of Reference

The PAC examined the report by the Auditor General on the audited accounts of the central Government. As seen above, the Committee invited the Accounting Officers to submit written responses and appear in person to give their side of the story with respect to the audit queries. In carrying the examination, the PAC wanted to evaluate the effectiveness, efficiency and economic value of government projects and programmes; assess the consistency of budget outlays; and attend to issues of allegation of fraud, corruption, waste, abuse, diversions or any sort of abuse or misuse of public funds.

In the following paragraphs, the Committee reports on its observations and recommendations.

3.0 OUTSTANDING ADVANCES

The Auditor General (AG) reported that during the financial year (FY) 2007/8, advances totaling Shs 75,166,864,487 and £ 100,000 remained unaccounted for contrary to financial regulations which require all advances to be retired at the year end. The AG noted that the trend of outstanding advances had been on the increase as indicated in the table below;

Year ended 30th June	Advances Outstanding (Shs)
2006	8,678,034,207
2007	10,21,944,304
2008	75,166,864,487

The AG attributed the delays in accounting for advances to the laxity by the Accounting Officers who are supposed to enforce timely accountability and strengthen controls over advances. The Treasury Accounting Instructions provide guidance to Accounting Officers on management and accountability of advances. It for example enjoins the Accounting Officers to not advance more funds before accountability for the previously advanced monies has been provided and or eventual recovery on failure to account has been done.

The AG further cautioned that delays to provide accountability for advances may lead to falsification of accountability and hampers confirmation of whether the funds were utilized for the intended activities.

The Committee totally agrees with the sentiments of the AG. The Committee interacted with the affected Accounting Officers to explain why they were lax to enforce accountability of advances. The answers ranged from:

- *I have written to the concerned officers but have not responded positively;*
- *The money was advanced to the Accounting Officer of another Ministry;*
- *The Accountabilities were submitted by the concerned officers but out of a lapse, they were not presented to the resident auditors and therefore not verified;*
- *The activities for which funds were advanced had not yet been concluded (common response with research advances at public universities);*

The Committee was not satisfied with the responses on non - or delayed advance accountabilities. It thus recommends as follows:

1. The Accounting officers of the affected Ministries and Departments (details on page 7 and 8 of the report by the AG for the year ended June 2008) should be cautioned for their laxity in enforcing advance accountability.
2. The officers who failed to account should refund the money advanced to them.
3. The relevant criminal investigation institutions should study the delayed but submitted accountabilities to establish whether falsification of documents was committed with the view to prosecuting the affected officers.

4.0 DOMESTIC ARREARS

The Auditor General reported that the domestic arrears position as at 30th June 2008 for Ministries, Referral Hospitals, Departments and foreign Missions stood at Shs.378,141,885,574 (excluding pension) compared to Shs.209,986,752,340 as at 30th June 2007 hence an increment of 80%.

In the Ministries of Works and Transport, Justice and Constitutional Affairs, Office of the Prime Minister and Police, the increment was by more than 5 times.

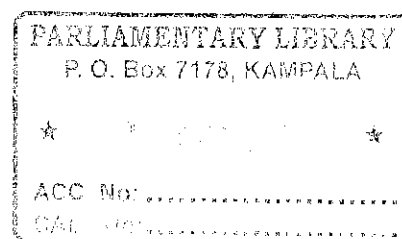
The AG further reported that arrears for public Universities and Uganda Management Institute amounted to Shs 44,886,137,153 as at 30th June 2008.

The AG further reported that some Accounting Officers were through use of manual orders or chits circumventing the Integrated Financial Management System (IFMS) which requires that all commitments should be made through the system and be made only when the availability of funds has been confirmed. Accounting Officers of State House, Ministry of Defence and Ministry of Tourism, Trade and Industry were the major culprits implicated in operating off the IFMS. The AG reported that commitments made manually were not disclosed in the financial statements hence understating the payables.

The Committee observed that further accumulation of domestic arrears ran contrary to the 2007 Uganda's debt strategy of clearing existing stock of arrears within 3 years; instituting measures to prevent diversion of budgeted arrears resources; and instituting measures to prevent new arrears creation.

The Committee interacted with the Accounting Officers of the affected ministries and departments to get an explanation on why they had continued to incur domestic arrears, and in some cases off the IFMS, and not disclosed in the financial statements. The explanation given was as follows:

1. need to procure critical services and goods that could not just be ignored.
2. zero budgetary provisions for critical expenditures like contributions to international organizations.



3. shortfall on the appropriated budget where funds finally released for programmes were far below than what had been programmed the basis of which parliament had appropriated the budget.
4. activities that cannot be controlled by the commitment control system such as the court awards, compensations, utilities, VAT payments relating to donor funded projects, gratuity and rent.
5. Inheriting debts from other organizations which transferred some of their responsibilities to the ministries now being queried. For example, this was the case with the Ministry of Tourism, Trade and Industry which inherited debts from two (2) institutions i.e. the Crested Crane Hotel and Tourism Training Institute and the Uganda Wildlife Training Institute which were transferred to the Ministry of Tourism, Trade and Industry from the Ministry of Education and Sports.

The Committee appreciated the dilemma of the variance between the released funds and the appropriated budget and how this induces domestic arrears. The problem is exacerbated by the requirement that accounting officers submit work plans and procurement plans together with their budgetary requests.

The Committee recommends that all procurements should be captured on the IFMS so that a complete picture of the domestic arrears position is obtained and verification of justifiable arrears is made and verified arrears consequently cleared.

5.0 UNSPENT CASH BALANCES

The Auditor General reported that financial statements indicate that at the year end, Ministries, Departments and Agencies had unspent balance totaling Shs.11,271,268,788 on their expenditure accounts which by law is remittable back to the Uganda Consolidated

Fund Account. Nineteen of the entities had over Shs.100 million held on the accounts while four of them had over Shs.1 billion. When the Committee interacted with the Accounting Officers, they attributed the unutilized balances to:-

- Late release of funds by Treasury which does not allow them to properly plan for their utilization.
- Un-presented cheques before the introduction of the EFT system.
- Funds allocated to protected items (utilities, taxes and salaries) in excess of their optimal requirements.

The Committee noted that in some cases, un-utilized balances were due to lack of absorption capacities and poor planning and budgeting on the part of the accounting officers.

The Committee further noted that some accounting officers were dilly dallying with remitting the un-utilized balances to the consolidated fund account by keeping the money on temporary accounts such as EFT General Account. Moreover, this account was not audited by the Auditor General and was not authorized by Parliament. Others like Local Government took long to remit the balances to the CFA (it remitted the un-utilized balances shs 183,403,778/= on 24 April 2009, barely two months to the end of the financial year).

The Committee did not understand why cheques could go stale or EFTS could remain uncleared indicating that either the AO were deliberately not informing the suppliers about the progress of their payments or they were writing cheques to non-existent suppliers as a way of skipping remittance of the un-utilized funds to the CFA.

The Committee also noted that in some cases, closed accounts at the end of the financial year would be operated by the Treasury and Bank of Uganda without the knowledge of the accounting officer.

The Committee recommends that Ministries and Departments should not be appropriated budgetary resources until they have shown evidence of remittance of un-utilized balances to the Consolidated Fund Account. The sessional committees and the Budget Committee should take keen interest in un-utilized balances whenever they are scrutinizing budget requests for MDAs.

6.0 BOARD OF SURVEY

A review of the consolidated report of the Board of Survey prepared by the Accountant General indicated that entities continued to keep a large number of items which were no longer useful. Included were quantities of drugs in nine of the eleven Referral Hospitals which pose a danger to staff and the general public. Many vehicles due for board off were found abandoned in workshops and other non-government premises exposing them to vandalism. In total 399 vehicles and 102 motorcycles were recommended for boarding off.

On interacting with the AOs, the Committee noted huge losses in the disposal of public assets. There seems to be collusion in the disposal of public assets to the detriment of public revenue. The following issues were observed:

- Delay in disposal of some assets leading in the loss of their salvage value and wastage of space;
- Not following PPDA guidelines in the disposal process;
- Absence of scientific method of estimating the market value of the assets to dispose of;

- Using the office of the chief mechanic officer to give values to motor vehicles when it should actually be the chief government valuer;
- Use of auctioneers on terms that are unfavourable to the public;
- Selling valuable public property at throw away prices. The Committee established that Government would have realized more revenue by selling the vehicles and other equipment to scrap companies.

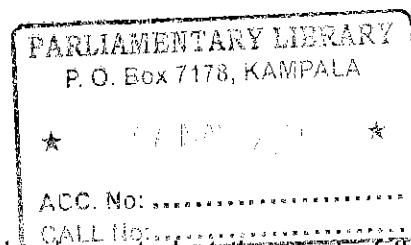
The Committee noted that some of the vehicles and other equipment which were being sold at throw away prices could be used in vocational training institutes for practical and hands on exercises.

The Committee recommends disposal of public assets should be reviewed to guard against unscrupulous public officials from fleecing the public, taking note that these equipment can be used in vocational colleges or fetch more money by selling them in kilogrammes to the scrap buying companies.

7.0 GROSS TAX SYSTEM

The Auditor General noted that the gross tax system was implemented at the start of the 06/07 financial year with the objective of facilitating timely payments of non resource taxes by government Ministries, Departments and Agencies (MDAs). Under the system taxes were appropriated under the respective votes, which then remit the full tax amounts released to them back to treasury-Gross Receipts Account.

When the votes incur legible expenditure, relevant documents approved by the Ministry/Department are then forwarded to Treasury where instructions are issued to Bank



of Uganda to transfer the equivalent amount to the Gross Tax Payments Account. A review of the Gross tax payment and receipt system revealed the following matters;

7.1 Budgeting

Budgeting for gross tax was not based on actual Vote requirements. As a result a number of Ministries, Departments and Agencies (MDAs) received funds on the tax item that could not be wholly utilized while others such as Information Communication and Technology (ICT) received less than their tax requirements and appropriation. In MDAs such as Office of the Prime Minister (OPM), Ministry of Agriculture Animal Industry and Fisheries (MAAIF), Defence, Local Government, Works and Transport and Energy and Mineral Development between 58% - 100% of the amounts allocated for gross taxes was not utilized and hence returned to Treasury. The practice defeats the whole purpose of budgeting.

The Accounting Officers explained that there experienced a problem of forecasting the optimal tax obligation that would fall due to a financial year.

The Committee noted that the system had streamlined the payment of taxes better than the previous systems. The Committee recommends that ministries should enhance their procurement planning and forecasting to ensure effective use of the gross tax system. Those accounting officers who failed to utilize their allocations or overshoot their allocations should be cautioned.

7.2 UGANDA REVENUE AUTHORITY RECEIPTS

The Auditor General reported that Ministries face a general problem of obtaining receipts from the Uganda Revenue Authority. Remittances by ministries of statutory deductions

relating to P.A.Y.E. and withholding tax to Uganda Revenue Authority were not supported with Uganda Revenue Authority receipts, a problem attributed to delays by URA to issue receipts. Management of Uganda Revenue Authority however attributed the problem to failure by ministries and the Treasury to provide adequate details of the Payee for whom remittances are being made so as to enable them (i.e. URA) process the acknowledgements.

The Committee invited the Commissioner General URA to explain why URA was not issuing receipts or was delaying to issue receipts. She explained that URA issues receipts within a maximum of three days, but cannot issue them to payees until the latter have supplied schedule of taxpayers for purposes of preparing their tax credit certificates. She informed the Committee that Accounting Officers were not enthusiastic in supplying the details of the respective taxpayers from whom the PAYE and withholding tax was collected.

The committee further noted that non-collection of receipts was a recipe for fraud and use of government taxes to clear private imports. For example, the committee discovered that the PAYE paid by the Ministry of Foreign Affairs was banked on STANBIC Account in Masaka. The Committee suspects the money was used to clear private goods imported through Mutukura, otherwise, why would money collected in Kampala be banked in a bank in Masaka? The Committee recommends that detailed investigations be carried out to establish why money paid in Kampala was banked in Masaka.

The Committee recommends that Accounting Officers should always immediately collect URA receipts and URA should enhance its communication and engagement strategy with the taxpayers to minimize any delays in issuing and collection of tax receipts.

8.0 PROCUREMENT

Government had during the last few years made reforms in the procurement and disposal functions both in Central Government and Local Governments. The overriding objectives of the public procurement reform were to improve service delivery, accountability and effective management of public resources. A review carried out on various Ministries, Departments and Agencies revealed the following challenges which still needed to be addressed in the procurement function.

8.1 Procurement Plans

Sections 96 -99 of the PPDA regulations require all entities to prepare annual procurement plans based on approved budgets to facilitate orderly execution of annual procurement activities. It was also a requirement that the plans were accompanied with a schedule of procurements required in their order of priority and timing. However, during the year under review, it was observed that various entities did not prepare these annual plans, while those entities which had the plans did not adequately follow them. Weaknesses in procurement planning increased the risk of use of inappropriate procurement methods by entities. Audit had advised the affected entities to properly plan for their procurements and have their procurement plans interlinked to the approved budget.

Most accounting officers indicated that in FY 2007/8, they relied on various departmental plans to act as their procurement plans. They admitted that shortage of staff and or incapacity in the procurement Unit contributed to the problem. The AOs indicated that in the subsequent Financial Years 2008/09 and 2009/10, this anomaly was rectified and procurement plans were prepared.

The Committee observed that lack of procurement plans was responsible for rampant misuse of public funds.

The Committee recommends that AOs who do prepare and follow the procurement plans should be relieved of their accounting function.

8.2 Staffing

Procurement and Disposal Units (PDUs) in government entities were established to assist Accounting Officers (among other functions) in managing and coordinating the procurement and disposal activities of the entity. However, it was noted that staffing of PDUs was inadequate in some entities. The most affected were the big Ministries/Departments whose procurements take a larger part of their budgets. The recommended structures for the PDUs in these Ministries could not adequately support the huge workload in the procurement function.

The Committee recommends that the functions of procurement and internal audit should be strengthened in the quest to improve public service delivery; and to this end, the office of the accountant general and the ministry of public service should address this matter.

8.3 Training of Staff

It was observed that a number of officers in user departments had not yet appreciated the procurement process as provided for in the PPDA Act and regulations. The most affected are missions abroad where Accounting Officers and staff handling procurement had not been exposed to the PPDA and Regulations. This had been identified as partly the cause of violation and breach of the procurement procedures.

The Committee recommends that the Treasury and PPDA should draw up a comprehensive programme for training procurement staff and especially Mission Staff in procurement.

9.0 OPERATING/ MAKING COMMITMENTS OFF THE IFMS PROCESSES

The AG reported that a number of Ministries including State House, Office of the President, Ministry of Defence, Ministry of Tourism, Trade and Industry still made commitments outside the IFMS through use of manual orders. Circumventing the IFMS allowed the Accounting officers to enter into commitments even when funds were not available. In majority of the cases, the commitments were not disclosed in the financial statements hence understating the payables.

The Committee observed that this practice was against commitment control procedures and resulted into further accumulation of domestic arrears.

The Committee recommends that Accounting Officers of the Entities that circumvented the IFMS to commit government should be disciplined.

10.0 AUDIT OF PROJECTS

An audit carried out on 103 projects funded jointly by the Government of Uganda and development partners indicated that

1. Shortfalls in counterpart contributions
2. Delayed accountability of funds advanced to project staff
3. Non-compliance with the Income Tax Act and the NSSF law whereby withholding tax and NSSF contributions were not deducted and remitted to the relevant statutory bodies

4. Inadequate monitoring and evaluation even when funds for monitoring activities would be released, no monitoring reports would be produced
5. Delayed implementation of planned activities leading to extension of project life and hence more administrative costs;
6. Poor stores management
7. Poor asset register

The Committee observed that whereas Government was always enthusiastic on sourcing external borrowing, there was no corresponding enthusiasm to ensure that the projects were implemented with competence and integrity.

The Committee further observed that unless there is a radical change in the way projects are implemented, the objectives for which they were designed would not be achieved, and the tax payer will carry the burden.

The Committee recommends that:

1. Government should negotiate for projects that are funded fully by the donors;
2. Project staff who failed to account in time for the advances received should be forced to refund the money;
3. Project managers who failed to comply with the income tax and NSSF laws should be disciplined;
4. Project staff who obtained money for monitoring activities but did not carry out the activity or produce reports should be investigated for possible prosecution with the offence of fraud;
5. Incompetent project managers who cause project overruns and fail to institute control measures and proper stores management should be retired in public interest.

11.0 Conclusion

The Committee urges the House to adopt its report.

I beg to report.