PARLIAMENT OF THE REPUBLIC OF UGANDA

10TH PARLIAMENT

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE – CENTRAL GOVERNMENT ON THE REPORT OF THE AUDITOR GENERAL FOR FY 2016/17

Office of the Clerk to Parliament

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ABBREVIATIONS AND ACRONYMS

AC Assistant Commissioner
ACCA Association of Chartered Certified Accountants
AG Accountant General
AGM Annual General Meeting
ASYCUDA Automated System for Customs Data Analysis
ATM Automated Teller Machine
BFP Budget Framework Paper
BoQ Bills of Quantities
BoU Bank of Uganda
BTVET Business, Technical and Vocational Education Training
CA Continuous Assessment
CAES College of Agriculture and Environment Sciences
CAO Chief Administrative Officer
CBC Customs Business Centre
CCTV Close-Circuit Television
CDO Cotton Development Organization
CDS Central Depository System
CEO Chief Executive Officer
CESS Export Levy
CGV Chief Government Valuer
CHOGM Commonwealth Heads of Governments Meeting
CIF Cost Insurance and Freight
CIID Criminal Investigation and Intelligence Directorate
CMA Markets Authority Capital
CME Chief Mechanical Engineer
COCIS College of Computing and Information Sciences
COMESA Common Market for Eastern & Southern Africa
DCL Dairy Corporation limited
DDA Dairy Development Authority
DFCU Development Finance Company Uganda
DNs Delivery Notes
DPP Directorate of Public Prosecution
DRIC Divestiture and Reform Implementation Committee
DSCs District Service Commissions
DT Domestic Taxes
DTA Double Taxation Agreement
EAC East African Community
EACC East African Community Customs
EACCMA East African Community Customs Management Act
EALA East African Legislative Assembly
EARC East Africa Railways Corporation
EATTFP East African Trade and Transport Facilitation Project
ED Executive Director
EFT Electronic Funds Transfer
EGI E-Government Infrastructure

EIA Environmental Impact Assessment
ESC Education Service Commission
FAR Fixed Asset Register
FAR Financial and Accounting Regulations
FIEFOC Farm Income Enhancement and Forest Conservation
FINMAP Financial Management and Accountability Programme
FUFA Federation of Uganda Football Association
FY Financial Year
GoU Government of Uganda
GRN Goods Received Note
HR Human Resource
HTTI Hotel & Tourism Training Institute
IAC Internal Audit and Compliance
IAS International Accounting Standards
ICGR International Conference for Great Lakes Region
ICT Information and Communications Technology
IDA International Development Agency
IFMS Integrated Financial Management System
IFRS International Financial Reporting Standards
IICSP Integrated Intelligent Computer System Project
ILO International Labour Organization.
IPO Initial Public Offer
IPSAS International Public Sector Accounting Standards
IRA Insurance Regulatory Authority
ISP Internet Service Provider
IT Information Technology
ITFC Institute of Tropical Forest Conservation
ITMCo Iran Tractor Manufacturing Company
ITSC Interim Technical Supervisory Committee
IXP Internet Exchange Point
JBIC Japan Bank for International Cooperation
JLOS Justice, Law and Order Sector
KCC Kampala City Council
KCCA Kampala Capital City Authority
KIBP Kampala Industrial Business Park
KIU Kampala International University
KYU Kyambogo University
LAA Administering the Lease and Assignment Agreement
LANs Local Area Networks
LC Letter of Credit
LCs Local Councils
LDC Law Development Centre
LIST Lira Service Territory
LPO Local Purchase Order
LST Local Service Tax
LTO Large Tax Payer
M&E/MIS Monitoring & Evaluation/Management Information System
MAA Memorandum & Articles of Associations

MAAIF Ministry of Agriculture Animal Industry and Fisheries.
MALG Ministries, Agencies and Local Governments
MCCs Milk Collection Centres
MCP Managing Compliance Program
MDAs Ministries, Departments and Agencies
MEACA Ministry of East African Community Affairs
MI Micro Insurance
MICT Ministry of Information and Communications Technology
MoD Ministry of Defence
MoES Ministry of Education and Sports
MoFA Ministry of Foreign Affairs
MoFPED Ministry of Finance, Planning and Economic Development
MoGLSD Ministry of Gender Labour and Social Development
MoGLSD Ministry of Gender, Labour & Social Development
MoJAC Ministry of Justice and Constitutional Affairs
MoLG Ministry of Local Government
MoTWA Ministry of Tourism Wildlife and Antiquities
MoU Memorandum of Understanding
MoWT Ministry of Works and Transport
MSC Micro Finance support Centre
MTAC Management Training Advisory Committee
MTEF Medium Term Expenditure Framework
MTIC Ministry of Trade, Industry and Cooperatives
MTWA Ministry of Tourism ,Wildlife and Antiquities
MUBS Makerere University Business School
MUECCA (A) Makerere University Establishment of Constituent College Order Amended
MUK Makerere University
MUST Mbarara University of Science and Technology
MWE Ministry of Water and Environment
NBI National Backbone Infrastructure
NCAA Ngorongoro Conservation Area Authority
NCBS National College of Business Studies
NCC National Council for Children
NCD National Council for Disability
NCDC National Curriculum Development Centre
NCHE National Council for Higher Education
NCS National Council of Sports
NEC National Enterprise Corporation
NFA National Forestry Authority
NGO Non – Government Organization
NIC National Insurance Corporation
NIP Nakawa In-Land Port
NISF National Information Security Framework
NITA-U National Information Technology Authority Uganda
NLU National Library of Uganda
NPL Non- Performing Loans
NSSF National Social Security Fund

NTC National Teachers College
NTR Non Tax Revenue
NWC National Women's Council
NWSC National Water and Sewerage Corporation
OAG Office of the Auditor General
OPD Out Patients Departments
PAC Public Accounts Committee
PAYE Pay As You Earn
PFAA Public Finance and Accountability Act
PFAR Public Finance and Accountability Regulation
PIC Planning Investment Committee
PPDA Public Procurement & Disposal of Assets
PS Permanent Secretary
PS/ST Permanent Secretary/Secretary to the treasury
PwD Persons with Disability
TAI Treasury Accounting Instruction
UGX Uganda Shillings
UHI Uganda Heart Institute
ULC Uganda Land Commission
URA Uganda Revenue Authority
USD United States Dollar
WAN Wide Area Network
WRS Warehouse Receipt System

1.0 INTRODUCTION

Rt. Hon. Speaker and Hon. Members,

The Public Accounts Committee considered the Auditor General's report for Financial Year 2016/17 as mandated by Rule 171 (3) of the Rules of Procedure and Article 90 of the Constitution of the Republic of Uganda.

Article 163(4) of the Constitution 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.

The Constitution further mandates Parliament to debate, consider the report and take appropriate action within 6 months after submission of the report referred to in clause 4 above.

It is in this regard that the report of the Auditor General for the year ended 30th June 2017; Volume 2 (A) was presented and referred to the Public Accounts Committee for consideration.

2.0 METHODOLOGY

2.1 Meetings

The Committee held meetings with the Accounting Officers and staff of the entities below:

1. **DIRECTORATE OF ETHICS AND INTEGRITY**
2. **MINISTRY OF INFORMATION, TECHNOLOGY AND NATIONAL GUIDANCE**
3. **JUDICIAL SERVICE COMMISSION**
4. **JUDICIARY**
5. **MINISTRY OF JUSTICE AND CONSTITUTIONAL AFFAIRS**
6. **MINISTRY OF FINANCE, PLANNING AND ECON DEVT**
7. **DIRECTORATE OF CITIZENSHIP AND IMMIGRATION**
8. **DIRECTORATE OF GOVERNMENT ANALYTICAL LABORATORIES**
9. **MINISTRY OF AGRICULTURE, ANIMAL INDUSTRY AND FISHERIES**

10. **MINISTRY OF INTERNAL AFFAIRS**
11. **UGANDA POLICE**
12. **UGANDA PRISONS SERVICE**
13. **MINISTRY OF LOCAL GOVERNMENT**
14. **OFFICE OF THE PRIME MINISTER**
15. **MINISTRY OF PUBLIC SERVICE**
16. **MINISTRY OF DEFENCE AND VETERAN AFFAIRS**
17. **OFFICE OF THE PRESIDENT**
18. **STATE HOUSE**
19. **MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES**
20. **MINISTRY OF WORKS AND TRANSPORT**
21. **MAKERERE UNIVERSITY BUSINESS SCHOOL**
22. **MINISTRY OF EAST AFRICAN COMMUNITY AFFAIRS**
23. **REGIONAL REFERRAL HOSPITALS**

2.2 Document Review

The Committee studied and made reference to the following documents;

(i) The Auditor General's Report for FY 2016/17

(ii) Additional documentation on the queries raised from each of the above sectors

3.0 HIGHLIGHTS OF THE REPORT

The committee noted the following salient issues;

3.1 SINGLE SPINE EXTENSION SYSTEM

The Government, through the Ministry, committed to provide support towards the implementation of the single spine agriculture extension system (SSES) in the medium term starting 2015/16 financial year in line with the reform of the National Agricultural Advisory Services

(NAADS) to create a unified single spine extension system. However, as pointed in my previous report, the initiative has continued to face challenges in obtaining the required personnel.

For instance, the Auditor General noted that the total planned number of staff to be recruited at District, Municipality and Sub county levels was 5,000. However, by close of the financial year 2016/2017 the number of positions filled was only 2,760 leaving a staffing gap of 2,240. The current extension to Farmer ratio is 1:1800 which is substantially lower than the recommended ration of 1:500.

He also observed that Local Governments were unable to attract some professionals like in Veterinary, Entomology, and Agriculture Engineering. Failure to provide agricultural extension services to farmers, more especially at the Sub County level hinders the Ministry from increasing agricultural production and productivity. Farmers are denied access to inputs procured, new technologies generated, training on utilization of inputs and services rendered by sector projects that require the extension system such as NAADS, NUSAF, etc.

The Accounting Officer attributed the situation to inadequate resource performance of the District Service Commission and lack of specific professions. There is need for government to prioritise and expedite the recruitment process to enable provision of extension services throughout the country in order to support agricultural production and productivity. This will in turn support the government's strategic interventions in Agriculture.

3.2 INADEQUATE PERFORMANCE OF THE INTEGRATED PERSONNEL AND PAYROLL SYSTEM (IPPS)

In 2010, Government began implementing the Integrated Personnel and

Payroll System (IPPS) at a contract price of USD. 4,437,817 as part of the Public Service Reform Program with the aim of putting in place an all-inclusive Human Resource Management system that would enhance accountability strengthen establishment controls and ultimately be a repository for all employment data pertaining to a public officer and pensioner.

The Auditor General noted that despite spending a total UGX.904.5million that is UGX. 188.2 million (2015/16) and UGX. 716.4 million (2016/17) on IPPS system costs, the IPPS still faced a number of technological and operational concerns; for instance there was no integration between IPPS and IFMS to date, and frequent reports of network challenges experienced by system users across government.

Furthermore, the IPPS modules to be implemented were payroll management, pension system, training Management, establishment control, leave Management, performance measurement, succession planning, time and attendance and recruitment Management. However, only payroll Management, pension Management and establishment control were operational.

The system challenges were mainly attributed to the failure to test the IPPS system compatibility with IFMS after completion of phase 1 as stipulated in the contract before implementing the system across government.

The implementation of IPPS system was not effective and did not yield the expected benefits.

Government should ensure that in future a proper needs assessment and feasibility study is conducted for the acquisition of a new payroll system in order to avoid wasteful expenditure.

3.3 DECENTRALIZATION OF PENSION MANAGEMENT

In Financial Year 2014/15, Government partially decentralized Pension Management with the Planning (budgeting) and processing of files done by MDAs and LGs. The implementation of the IPPS Pensions Module was effected on 1st October, 2014. The module was expected to have automatic transmission of results from the active payroll to the pension payrolls and immediate payment of Commuted Pension Gratuity (CPG) upon retirement, timely processing of retirement requests and improved accountability through regular system checks.

Pension and gratuity was decentralized with arrears amounting to UGX.199Bn which were disaggregated by votes and transferred to MoFPED. However, to date only UGX.7.4Bn (3.7%) of UGX.199Bn had been paid to 1,238 pensioners from 26 votes. Furthermore, a review of the report on the assessment of the effectiveness of the decentralization of pension Management revealed that only 37 districts were monitored during the financial year 2016/17.

The Management of the pension decentralization is not yet satisfactory. The pensioners are unlikely to receive their pension on time.

There is need for Government to empower the MDAs, and districts to streamline the pension Management process through capacity building and regular supervision. Management should also ensure establishment of a comprehensive pensioners' database, which should regularly be updated.

3.4 ESTABLISHMENT OF A ROAD CRASH DATABASE SYSTEM (RCDS)

The objective of Government to establish RCDS was to enable the establishment of a well-functioning reliable Road Crash Data System

(RCDS) that contributes to improved road crash data collection, analysis and utilization. The system would enable the Ministry of Works and Transport to make informed decision based on concrete evidence and be able to make specific interventions.

Accordingly, the MOW entered into a contract for consultancy services of USD. 1.83 million and Government was to contribute UGX. 685.3 million. At the time of writing this report, USD.1.5 million and UGX.483.9 million had been paid out to the consultant leaving an outstanding balance to the contract of USD. 375,074.80 and UGX. 201.4 million respectively. However it was noted that the Road Crash Data System (RCDS) had not been completed and therefore was not functional following cancellation of funding by the World Bank. In essence, it will require MoFPED to finance the project to completion.

The committee observes that equipment such computers and CPS devices procured for the project were in store un utilized.

There is a likelihood of loss of the investment funds earlier spent, as the final project outputs have not been achieved.

Non-completion of the project has deprived the Ministry of establishing an effective and well-functioning Road Crash Data System (RCDS) in Uganda that would serve all the different stakeholders in road safety like NRSC, UNRA, KCCA, MoWT, and Local Governments among others in providing a reliable database for future evidence-based road safety interventions and enhancement in Road safety research.

The Accounting Officer attributed the delay in completion and operationalizing of the Road crush Database system to lack of funds. There is a need for government to prioritize and allocate funds.

3.5 INADEQUATE FACILITIES FOR PEST CONTROL, SEED AND CROP CERTIFICATION

Section 11 of the Agricultural seed and plant Act, 1994 requires the Minister for the purposes of the Act, to establish a national seed testing laboratory under the National Seed Certification Service. The laboratory is meant to provide pesticide and residue analysis so that pesticides brought into the country is of the right quality and the ingredients conform to the industrial standards. Inspection of the department of crop inspection and certification, and pest control in Namalere revealed that the Laboratory was underutilized because certain components had not been supplied since 2010. Further, the Laboratory is not yet fully equipped to undertake analysis. The Laboratory also has missing equipment and reagents necessary for the analysis.

It was also noted that the post-entry quarantine station (PEQS), charged with the responsibility of ensuring that plants and plant products that have been allowed into the country do not pose any plant health concerns to the country is currently operational but with key inadequacies to handle this important function which greatly affects the crop sub-sector.

The inadequacies of the laboratory are due to various equipment shortcomings which include: Inadequate refrigeration capacity (temperature ranges), non- functional ice maker, inadequate capacity of autoclave machine, recycled consumables (which reduce accuracy of tests, substandard microscopes).

Lack of adequate laboratories for the department exposes the whole agricultural sector to risks of inferior crop varieties being imported into the country including failure to control the new invading pests.

3.6 CONSTRUCTION OF 14 BRIDGES IN NORTHERN UGANDA-IDB (LOAN NO. UG -006)

Government of Uganda received a loan from the Islamic Development bank (IDB) towards the construction of fourteen (14) small Bridges in the Northern and North Eastern of Uganda. The loan agreement was signed on 24th November 2008 and became effective in April 2009. After the revision of the contracts the completion date for the works was extended to 31st July 2017.

The Government of Uganda was to co-fund US$.1.185 million representing 10%, while IDB would contribute US$.10.642 million. The works were clustered into 4 lots implemented under the Ministry of Works and Transport.

However it was observed that Lot-4 was cancelled and funds to a tune of UGX.6bn were returned to the Bank due to non-performance. As a consequence, construction of Ajeleck, Opot and Ojanal bridges were not undertaken. This is an indicator that the project was not properly managed.

There is need for government to ensure proper due diligence is undertaken on contractors and supervision enhanced to avoid wastage of borrowed funds.

3.7 SUPPLY OF TEA SEEDLINGS TO FARMERS IN KIGEZI SUB REGION, BUHWEJJU AND KABAROLE FOR THE FINANCIAL YEAR 2013/2014

The Auditor General undertook a special audit of the supply of tea seedlings to farmers in Kigezi sub region, Buhwejju and Kabarole for the financial year 2013/14.

The audit focused on the preparation, distribution of tea seedlings and farm Management practices of farmers in the 5 Districts of Kisoro, Kanungu, Kabale, Buhwejju and Kabarole district. The following was observed:-

3.7.1 INAPPROPRIATE LAND TOPOGRAPHY

The slope of the land for tea growing is critical. According to best agronomical practices, the recommended slope should range between 10 to 20%. Any slope that is below 10% risks heavy water logging while any slope above 20% risks severe loss of soil by erosion which is detrimental to the proper growth of tea seedlings.

According to the 94 farms visited in the 5 districts, the gradient was too steep in some areas whereas some farms were located in deep swamps that were prone to waterlogging. I noted that the gradient slope of the sampled farms ranged from 2.53% to 78.38% which indicated that some farms had a gradient exceeding 20% which in this case was not suitable for tea growing. Out of a sample of 94 farms, 53 farms (representing 56%) exceed 20% acceptable gradient while 19 farms (representing 20%) were located in low lying areas that were prone to waterlogging (below 10% gradient). 22 farms (representing 24%)were in the acceptable range. I observed that the topography was not considered at all in selecting sites for tea growing as indeed some farms were lost due to water logging.

There appears not to have taken technical consideration in the growing of tea in the region. This is likely to affect the success of the programme which could lead to a substantial loss of investment in excess of UGX.100Bn so far invested into the programme since 2013/14 to-date.

Management should train and supervise the new extension workers in ensuring that in future, the tea seedlings are grown on suitable slopes and terrain for proper growth of tea. Technical considerations should be taken into account while implementing the programme.

3.7.2 UNACCOUNTED FOR ACREAGE AND SEEDLINGS

The Auditor General reviewed the supply of tea seedlings Vis-a-vis the acreage planted. The total estimated acreage of the 64 farms sampled was 937.517 acres in the 5 Districts. However, the measured acreage of these farms was 473.581acres resulting into additional acreage of 463.936 acres that could not be traced. It was noted that 4,440,507 seedlings were supplied instead of the recommended 2,369,333 seedlings resulting into excess supply of 2,071,174 seedlings valued at UGX.932 million at a market rate of UGX.450 per seedling. Further, I noted that 27,000 seedling supplied to the Zatwoshaho Joy to Bukinda seminary and Bukinda Parish, could not be traced to particular tea farmers in Kabale District.

There was no proper mechanism to verify the acreage prior to supply of seedlings. There is a risk that seedlings were supplied to non-existent farms.

Management should establish a mechanism of verifying actual acreage of land prior to distribution of the tea seedlings. This should be a basis for determination of number of seedlings supplied to the farmers and paid to the suppliers.

3.7.3 FAILURE TO PROVIDE EXTENSION SERVICES

According to the project design, the lead Agencies were required to provide advisory services to the farmers, including among others farm siting, land preparation, planting of tea seedlings, weeding and pruning and water control, harvesting and transporting the tea leaves.

It was noted that NAADS paid UGX.1.4Bn to 2 Lead Agencies in the Districts of Kisoro and Kanungu to provide extension services to farmers. However, all the farmers interviewed indicated that no extension services were provided during the planning period.

Because of inadequate extension services, I noted that the quality of planting materials greatly deteriorated at the time of planting due to poor handling and long distances of transportation of tea seedlings in Buwheju, Kanungu and Kabale Districts. In most cases the nurseries were very far from the farms where the materials were to be planted leading to delays in delivery of seeds.

There is need for the programme to review its approach to providing extension services with a view to targeting the single spine programme under MAAIF, which is aimed at providing extension services to the country.

3.8 THE FALL ARMY WORM (FAW) ATTACK

Uganda was attacked by the Fall Army Worm (FAW) pest in the year under review and the damage it caused was visible country wide. Audit noted that a national task force was brought together; comprising members from the MAAIF, NARO, Uganda National Farmers' Federation (UNFFE), OWC to respond to the disaster. However, a review of the Ministry response to the FAW revealed inadequate funding to the emergency outbreak of the fall army warm.

The Ministry required UGX.4.11Bn to handle the emergency, however only UGX.2.1Bn was provided representing 51% of the required funds. Further, the appointment of this task force was never formalized; and thus operating without a legal framework despite the enormous task being critical to the sector.

Inadequate funding for the emergency activity resulted into losses to farmers and food insecurity to the nation. The informal nature of the task force and inability to fund its operations may hinder their performance, hence may lead to slow response to such attacks in the future.

Government should formalize and facilitate the task force to keeping abreast with the new developments in regard to the FAW so as to mitigate future invasions.

3.9 UNTITLED REFINERY LAND

Included in the financial statements of the Ministry of Energy and mineral development is an amount of UGX. 54.3Bn, relating to land acquired in Hoima District for the construction of the refinery. However, the land lacks a title owing to a court injunction[1] stopping the district Land Board from issuing land titles in the area.

Since government has plans of starting the construction of the refinery, this encumbrance may become an impediment to the process.

Management stated that it was in consultation with the Ministry of Justice to address the matter.

Bunyoro Kitara Reparation Agency Vs the District Land Boards of Hoima, Bullisa, Masindi, Kiryandongo, Kibaale, Kakumiro and Kagadi

3.10 UNCOLLECTED ROYALTIES FROM GOLD EXPORTS

The Mining Regulations, 2004 require that minerals obtained under a mineral right or under a mineral dealer's license may only be exported under an export permit granted by the Commissioner at the Directorate of Geological Surveys and Mines (DGSM) in the Ministry of Energy and mineral development. However comparison of Gold exports recorded by the directorate with the exports figures declared to customs and excise department of the Uganda Revenue Authority revealed the following anomalies;

• The Directorate of Geological Surveys and Mines issued Gold export permits for only 16.281 kilograms, compared to records from Uganda Revenue Authority, which indicated that 8,691 kilograms of Gold, valued at USD 339.09 million were exported from Uganda in the financial year 2016/17;

• The Gold exports permits for an exporter were supported by export permits from the Ministry of Tourism, Trade and Industry as opposed to being issued by DGSM (MEMD), which was contrary to the Mining Act, 2003. There was equally no evidence of payment of royalties on the exported gold.

The above implies that, during the financial year, the country lost revenue ranging from USD 3.39m to USD 16.95m in royalties from the undeclared gold exports and imports depending on the applicable rates of 1% and 5% for the imported or locally mined gold respectively.

Although Management admitted that the exporter does not make any declaration of gold exports to the Commissioner claiming they were offered a tax waiver by MoFPED, there was no evidence to this effect. A similar observation was made in my report for the previous year. Management stated that an Inter-Agency approach to resolve the matter has now been adopted.

Management is advised to expedite investigation of the discrepancies with a view to recover the prescribed royalties.

3.11 DEFAULTS ON PAYMENT OF ANNUAL MINERAL RENT FEES

Section 106(1) and (2) of the Mining Act, 2003 requires exploration and mining companies to pay mineral rent fees annually. However, It noted that UGX. 2.71Bn in rent fees was outstanding as at 30th June 2017.

The failure to collect annual mineral rent fees by the Directorate may lead to loss of government revenue.

Management stated that it had written letters to the mineral rent defaulters and intends to publish their names. It has also communicated to both URA and the Solicitor General's office to follow up and prosecute the persistent defaulters.

I wait results of Management action in this regard.

3.12 UNDISTRIBUTED ROYALTIES

Section 98(2), of the Mining Act, 2003 requires royalties to be shared by the Government, Local Governments and owners or lawful occupiers of land. Review of records however revealed that various land owners were not paid the prescribed 3% of the repeated royalties amounting to UGX.354.3 million as at 30th June 2017.

The practice denies the landowners the revenues arising from use of their land, which potentially can affect the relationship between mineral right holders and landowners.

Management explained that although they had compiled a list of landowners entitled to share royalties, some landowners who were required to submit their bank details through the Chief Administrative Officers and proof of land ownership had not met the criteria.

The Auditor General advised Management to streamline and expedite the process of identifying the entitled landowners so as to effect the payment of royalties as stipulated in the law.

3.13 PRIVATE COMPANY

According to Section 98(1) of the Mining Act 2003, all minerals obtained or mined in the course of prospecting, exploration, mining or mineral processing operations shall be subject to the payment of royalties on the gross value of the minerals based on the prevailing market price of the minerals at such rates as shall be prescribed.

It was observed that by the end of the financial year 2016/17, a private Company had not paid royalties amounting to UGX. 679.6 million. This was caused by the failure by the directorate of geological surveys and mines to enforce payment.

Management stated that a notice of non-payment has been issued to the Company.

3.14 STANDARD GAUGE RAILWAY - LAND ACQUISITION

Government plans to undertake construction of standard Gauge Railway at an estimated development cost of USD. 12.8Bn. It has been observed that there have been delays in carrying out disclosure after securing approvals of the land assessment reports from CGV (Chief Government valuer) and effecting payments to the beneficiaries and this has affected the rate at which compensation is being made thus affecting provision of right of way for the construction of the SGR.

The delays were attributed to; • Delayed compensation: Out of 3,481 Project Affected Persons (PAPs) planned to be compensated in 5 districts, only 2,053 PAPs had been compensated at the time of audit constituting 59% with 41% outstanding.

• Delayed valuation; Valuation of PAPs in 4 districts had not been completed therefore the process of compensating the PAPs could not start.

• Slow rate of acquiring ROW; there were delays in acquiring Right of Way (ROW) for PAPs that had been fully paid up. Only 60km in Tororo and Butaleja districts had been demarcated considering that 59% PAPs in the districts had been compensated already.

Slow progress of the project increases costs as PAP's valuations tend to increase with each passing year.

Further, harmonization of implementation with partner regional states may not be achieved as it was noted that the partners were ahead of schedule, which may affect service delivery.

Government should ensure that the land acquisition process is expedited so as to enhance progress of the project in line with the regional partners.

3.15 EXPRESS PENALTY SCHEME (EPS)

Section 179 of the Traffic and Road Safety Act, empowers the Uganda Police Force to enforce the Express Penalty Scheme (EPS). The major objectives of the scheme were:-

- To have minor offences handled expressly to reduce the work load at Police Stations.

- To reduce congestion at the Police Station and Courts.

- To reduce inconveniences to motorists who commit offences which are considered minor in the Traffic and Road Safety Act.

- The scheme is also important for generating non- tax revenue for the Uganda Police and Government in general.

It has been noted that enforcement under this scheme is inadequate. Tickets are currently issued manually to traffic offenders throughout the country. Lack of computers with internet connectivity in almost all stations outside Kampala and issuing tickets to offenders manually makes it difficult for traffic officers to reconcile with URA EPS defaulters.

Because of the challenges noted above, revenue has not been collected as anticipated. Over the past 10 years, revenue from penalties to a tune of UGX.52.6Bn has remained outstanding.

Many offenders have continued to default after realizing that Police could not follow up on unpaid tickets, therefore the outstanding amount is likely to increase.

The Police Force should strategize to ensure effective implementation of the EPS.

3.16 OUTSTANDING COURT AWARDS AND COMPENSATIONS

Unsettled court awards and compensations amounted to UGX.676.8Bn. The outstanding amount in Court awards and compensations had been accumulating over the last five financial years from UGX. 54.Bn in 2011/2012 to UGX. 676.82Bn in 2016/17.

Because of the unpaid court awards, interest amounting to UGX.168Bn has accumulated. In certain cases, the interest had more than doubled the principle amounts.

3.17 NUGATORY EXPENDITURE

Government during the period under review paid UGX.2.74Bn as payments for delayed settlements of obligations arising from contracts for Construction Services, Court awards. This expenditure is considered wasteful as the expenditure could have been avoided had these been settled in time.

The payments are to continue in the near future as a number of the obligations have not been fully settled and there are no concrete plans to clear these obligations.

There is need for government to have a central database where Accounting Officers will be submitting the status of these obligations so that Government can plan better in terms of prioritizing for settlement and also monitoring the causes of these avoidable expenditures.

Section 35 (1) of the Value Added Tax Act, and the project funding agreements require VAT to be paid by the Ministry/ Department as Government counterpart funding. In addition the income tax Act, 1997 (as amended) Sections; 119 and 116 require entities to deduct withholding tax and PAYE respectively. Section 123(1) requires the entities to remit the withheld taxes within fifteen days following the month in which deduction was made. Examination however revealed that various entities contravened the tax laws by;

Section 8 (1) of the National Planning Authority Act 2012, states that the Authority shall be the National Coordinating body of decentralized planning. Section 8 (5) of the same Act states that a Ministry or a sector shall prepare a plan, and submit it to the Authority b) whose duty shall be to harmonize all plans for Ministries or Sectors for purposes of formulating a National Plan. c) The Authority also uses the entity Strategic Plans to assess d) their individual performance.

A review of the summary status of strategic plans submitted by sectors and MDAs revealed that fifty one (51) entities with a budget of UGX.4.483 trillion lacked strategic plans.

It was therefore difficult for the Authority to assess the entity's performance. In the absence of individual Strategic Plans, the entity may not be able adequately prepare the Sector Development and National Development Plans.

The practice not only denies the government revenue for funding the national budget but also attracts penalties and fines which further constrain the cash flows of the affected entities. Failure to settle the taxes may also adversely affect future project financing in the case of donor funded projects.

The entities should ensure that the respective tax obligations are settled without further delay as required by the tax laws. For donor funded projects, the projects ought to liaise with the Ministry of Finance, Planning and Economic Development to ensure that adequate counterpart funding is provided to settle taxes as required in the financing agreements.

3.18 LAND MANAGEMENT WEAKNESSES

The Ministry of Lands, Housing and Urban development is responsible for promotion of registration, administration, regulation and valuation of Land in the country. The Ministry undertakes this role through various methods including; the client charter, strategic plan, policy statement and various laws. It also performs its duties in liaison with Uganda Land commission in the case of Public land.

Examination of performance of its roles revealed a number of weaknesses that require redress and these include; delays in processing land registration documents ranging from 13 to 134 days contrary to the prescribed period of 2 to 20 days, low level of registration of land which is as low as 5% in rural areas, delay in completion of revision of land policies, laws and regulations whereby the respective bills prepared in 2013/2014 still remain as drafts.

The Ministry lacks a land value data bank which would provide indicative property values for the purpose of assessing various fees such as stamp duty.