OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

REPORT AND OPINION OF THE AUDITOR GENERAL ON THE CONSOLIDATED GOVERNMENT OF UGANDA FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

DECEMBER, 2016
OFFICE OF THE AUDITOR GENERAL
KAMPALA, UGANDA

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ACRONYMS

ACRONYM	MEANING
BoU	Bank of Uganda
DMFAS	Debt Management Financial Analysis System
EFT	Electronic Funds Transfer
GoU	Government of Uganda
IFMS	Integrated Financial Management System
IPPS	Integrated Personnel and Payroll System
MoFPED	Ministry of Finance, Planning, and Economic Development
MoPS	Ministry of Public Service
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NPA	National Planning Authority
PFMA	Public Finance Management Act, 2015
PS	Permanent Secretary
PS/ST	Permanent Secretary/Secretary to the Treasury
TSA	Treasury Single Account
UCF	Uganda Consolidated Fund
UNCST	Uganda National Council for Science and Technology
URA	Uganda Revenue Authority
USD	United States Dollars
VAT	Value Added Tax

REPORT AND OPINION OF THE AUDITOR GENERAL

ON THE GOVERNMENT OF UGANDA CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying consolidated financial statements of Government of Uganda for the year ended 30th June 2016. These financial statements comprise of the Statement of Financial Position as at 30th June 2016, Statement of Financial Performance, Statement of Changes in Equity, Cash flow Statement together with other accompanying statements, Schedules, Notes and accounting policies.

Management's Responsibility for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officers are accountable to Parliament for the funds and resources of the Votes/Entities under their control. The Accountant General is also responsible for the preparation of Consolidated Financial Statements in accordance with the requirements of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2008, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended), and Sections 13 and 19 of the National Audit Act, 2008 is to audit and express an opinion on these statements based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISA). Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor's judgment including the assessment of risks of material misstatement of financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances but not for purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements. Except as discussed below, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of this report sets out my qualified opinion on the consolidated financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management and will form part of my annual report to Parliament.

PART "A"

Basis for Qualified Opinion

- **Mischarge of Expenditure – UGX.168,817,683,789**

  A review of the expenditures revealed that various entities charged wrong expenditure codes to the tune of UGX.168,817,683,789. This practice undermines the budgeting process and the intentions of the appropriating authority as funds are not fully utilised for the intended purposes. The practice also leads to financial misreporting.

- **Unaccounted for Advances –UGX.31,320,236,136**

  A total of UGX.31,320,236,136 advanced to staff to carry out activities in various entities remained un-accounted for by the time of audit, contrary to the Public Finance and Accounting Regulations. Delays in accounting for funds may encourage misuse.

- **Government Outstanding Commitments/Domestic Arrears**

  Although the Consolidated Financial Statements disclose an amount of UGX.2,254,390,826,628 as government outstanding commitments as at 30th June 2016, this is at variance with the amounts verified by the Internal Auditor General totalling to UGX.2,700,737,613,398, leading to a variance of UGX.446,346,786,770. Under the circumstances, I cannot confirm the completeness of the amounts reported in the consolidated financial statements.

Qualified Opinion

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements of Government of Uganda for the year ended 30th June 2016 are prepared, in all material respects, in accordance with the Financial Reporting Guide, 2008 and the Public Finance Management Act, 2015, of the Laws of Uganda.

Emphasis of Matter

Without qualifying my opinion further, attention is drawn to the following additional matters which are also included in part B of this report and my annual report to Parliament;

- **Contingent Liabilities - UGX.6,532,497,083,522**

  As disclosed in the statement of contingent liabilities, Government contingent liabilities are reported at UGX.6,532,497,083,522 up from UGX.4,892,599,283,368 the previous year. The trend appears unsustainable in the event that a significant percentage crystallizes into liabilities.

- **Classified Expenditure**

  As disclosed in note 7, a total of UGX.731,111,054,008 relates to classified expenditure. In compliance with Section 24 of the Public Finance Management Act, 2015 (Classified Expenditure), this expenditure is to be audited separately and a separate audit report issued.

Other matters

I consider it necessary to communicate the following matter other than those that are presented or disclosed in the financial statements that, in my judgment, are relevant to the users' understanding of the audit report.

- **Operationalization of the Contingencies Fund**

  I noted that the contingencies fund has not been operationalized, contrary to Section 26 (1) of the PFMA, 2015. Accordingly, in the absence of a functioning Contingencies fund, I did not carry out the required audit to enable me express an opinion on the accounts of the Contingencies Fund as required under Section 26(16) of the PFMA, 2015.

John F.S. Muwanga
AUDITOR GENERAL
29th December, 2016

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE CONSOLIDATED GOVERNMENT OF UGANDA FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2016

This Section outlines the detailed audit findings, management responses and my recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the Consolidated Government of Uganda Financial Statements for the year ended 30th June 2016 to enable me report to Parliament.

2.0 BACKGROUND INFORMATION

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, an Accounting Officer shall be responsible and personally accountable to Parliament for the activities of a vote.

The Accountant General is appointed as the Accounting Officer and Receiver of Revenue for the Consolidated Fund. He is responsible for establishing and maintaining a system of Internal Controls designed to provide reasonable assurance that the transactions recorded are within the authority and properly record the use of all public funds by the Government of the Republic of Uganda.

Accordingly, the Accountant General is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with the requirements of the Public Finance Management Act, 2015, and the modified cash basis of accounting.

The accompanying Government of Uganda Consolidated Financial Statements provide a record of the Governments' financial performance for the year 2015/16 and the financial position of the Consolidated Fund as at 30th June 2016, in accordance with the Public Finance Management Act, 2015.

3.0 AUDIT SCOPE

The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed on procedures as was considered necessary. In conducting my reviews, special attention was paid to;

a. Establish whether the consolidated financial statements have been prepared in accordance with consistently applied Accounting Policies and fairly present the revenues and expenditures of government for the year and of the consolidated financial position of the Consolidated Fund as at the end of the year.

b. Establish whether All funds were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.

c. Evaluate and obtain a sufficient understanding of the internal control structures of government, assess control risk and identify reportable conditions, including material internal control weaknesses.

d. Establish whether Management was in compliance with the Government of Uganda financial regulations.

e. Establish whether all necessary supporting documents, records, and accounts have been kept in respect of all activities, and are in agreement with the consolidated financial statements presented.

4.0 AUDIT PROCEDURES PERFORMED

The following audit procedures were undertaken;

a. Revenue

Obtained schedules of all revenues collected and reconciled the amounts to the entity's cashbooks and bank statements.

b. Expenditure

The entity payment vouchers were examined for proper authorization, eligibility and budgetary provision, accountability, and support documentation.

c. Internal Control System

Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period audited.

d. Consolidated Financial Statements

Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

5.0 Budget Performance

During the year under review, government realised domestic revenue amounting to UGX.11,647,894,758,562 out of the projected amount of UGX.11,568,500,000,000 representing a 100.68% performance. A total of UGX.539,222,128,067 was also realised from grants.

Further noted was that although a total of UGX.16,486,179,299,715 excluding external financing was appropriated for utilization by MDAs, government released a sum of UGX.15,888,866,420,812 excluding external financing to the MDAs to cater for their planned activities. This represents 96.3% of the approved budget.

6.0 FINDINGS

6.1 Categorization of Findings

The following system of profiling of the audit findings has been adopted to better prioritise the implementation of audit recommendations;

Table showing categorisation of findings

No	Category	Description
1	High significance	Has a significant/material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.
2	Moderate significance	Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.
3	Low significance	Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.

Accordingly, the table below contains a categorized summary of the findings that follow in the subsequent paragraphs of the report;

Table showing categorized summary of the findings

No	Finding	Significance
6.2	Unaccounted for Funds	High
6.3	Mischarge of Expenditure by MDAs	High
6.4	Government outstanding commitments/payables	High
6.5	Operationalization of the contingencies fund	High
6.6	Progress on the implementation of TSA	Moderate
6.7	Excessive Cash Withdrawals	High
6.8	Failure to collect funds due to the UCF	High
6.9	Implementation of PFMA 2015	Moderate
6.10	Harmonization of Government Reporting	High
6.11	Incomplete Consolidated Summary Statement	Moderate
6.12	Government Escrow accounts in commercial banks	High
6.13	Government contingent liabilities	High
6.14	Inadequate interface between URA systems and the IFMS	Moderate
6.15	Non deduction of withholding tax	Low
6.16.1	Advances to Staff Through Personal Bank Accounts	Moderate
6.16.2	Unauthorized Receipt of grants by MDAs	Moderate
6.16.3	Decentralized Payroll System	Moderate

6.2 Unaccounted for Funds – UGX.31,320,236,136

Included in the various consolidated expenditure lines is a total of UGX.31,320,236,136 that remained unaccounted by several MDA's at the end of the year under review. Under the circumstances, I cannot provide assurance as to whether the funds were put to proper use. This comprised of funds advanced to staff to carry out various activities in various MDAs. This is contrary to the Public Finance Management Regulations which require all such advances to be accounted within 14 days of the completion of the exercise, but in any case not later than 60 days. Delayed accountability for funds may lead to falsification of accountability documents. This matter has also been raised in my previous reports but has not been addressed by Accounting Officers.

Management explained that this is one of the conditions for rescinding an Accounting Officer's appointmentand that the Internal Auditor has been tasked to follow up on these cases and report to PS/ST for action.

I await the outcome of this management action on this matter.

Table showing Unaccounted for Advances-UGX.31,320,236,136

Name of MDA	Unaccounted for Funds/unsupported expenditures - UGX
Office of the Prime Minister	228,750,463
Ministry of Local Government	359,266,925
Ministry of Education and Sports	271,106,919
Ministry of Energy and Mineral Development	315,736,080
Ministry of Water & Environment	85,177,432
National Drugs Authority	44,516,339
Uganda National Roads Authority	6,334,861,669
Makerere University	882,316,616
Makerere University Business School	640,784,175
Uganda Police	21,980,468,000
Moroto Regional Referral Hospital	107,675,473
Uganda Embassy, Tehran	69,576,045
Total	**31,320,236,136**

6.3 Mischarge of Expenditure by MDAs – UGX.168,817,683,789

The Government Chart of Accounts defines the nature of expenditures for each item code. The intention is to facilitate better and consistent classification of financial transactions and also track budget performance per item. I noted that during the year under review, a total of UGX.168,817,683,789 was charged on items which do not reflect the nature of the expenditure i.e. mischarged, despite the fact that it has been pointed out in my previous audit reports. Mischarge of expenditure impacts on the credibility of the financial statements since the figures reported therein do not reflect true amounts expended on the respective items. It further impacts appropriateness of the future budgets since the reported actual figures are misleading.

I was informed by management that as the respective Accounting Officers provide explanations, the Ministry has developed a concept note to address the mischarges. This is still under internal discussions and once finalized, guidelines to all Accounting Officers on the matter will be issued. Government needs to further streamline the budgeting processes and to enforce strict adherence to the provisions regarding reallocation of funds, in order to have this practice contained.

I also await the outcome of this management action.

Table showing Mischarge of expenditure by MDAs-UGX.168,817,683,789

Name of MDA	Mischarge of Expenditure - UGX
Office of the Prime Minister	350,416,743
Ministry of Finance, Planning and Economic	51,891,596
Ministry of Internal Affairs	287,970,565
Ministry of Agriculture, Animal Industry and Fisheries	299, 836,985
Ministry of Local Government	4,112,552,119
Ministry of Lands, Housing & Urban Development	124,516,400
Ministry of Education and Sports	1,416,591,629
Ministry of Health	3,121,479,198
Ministry of Trade and Industry	310,702,545
Ministry of Energy and Minerals	511, 283,196
Ministry of Water & Environment	1,344,180,592
Ministry of Communication & ICT	68,693,022
Ministry of East African Affairs	158,364,846
Ministry of Tourism & Wild Life and Antiquities	216,560,092
Electoral Commission	813,827,886
Law Reform Commission	527,438,980
Cairo Mission	27,511,853
Uganda Aids Commission	132,886,739
National Planning Authority	35,825,588
Uganda National Roads Authority	150,486,219,673
Uganda Tourism Board	359,395,142
Uganda Registration Services Bureau	57,147,039
Diary Development Authority	6,686,869
Directorate of Public Prosecutions	102,654,370
Makerere University	317,227,405
National Agricultural Research Org	181,863,440
Uganda Police	730,722,737
Uganda Prisons	469,218,264
Local Government Finance Commission	138,296,054
Judicial Service Commission	34,227,104
National Agricultural Advisory Services	414,788,364
Public Procurement and Disposal Authority	28,293,180
Uganda National Bureau of Standards	322,204,458
Coffee Development Authority	65,212,796
Makerere University Business School	259,930,020
Uganda Bureau of Statistics	228,362,321
Ministry of Works and Transport	300,983,973
Uganda High Commission, London	771,351,931
Uganda Embassy, Copenhagen	168,418,087
Rural Electrification Agency	207,888,341
Uganda Industrial Research Institute (UIRI)	65,181,828
Total	**168,817,683,789**

6.4 Government Outstanding Commitments/Domestic Arrears

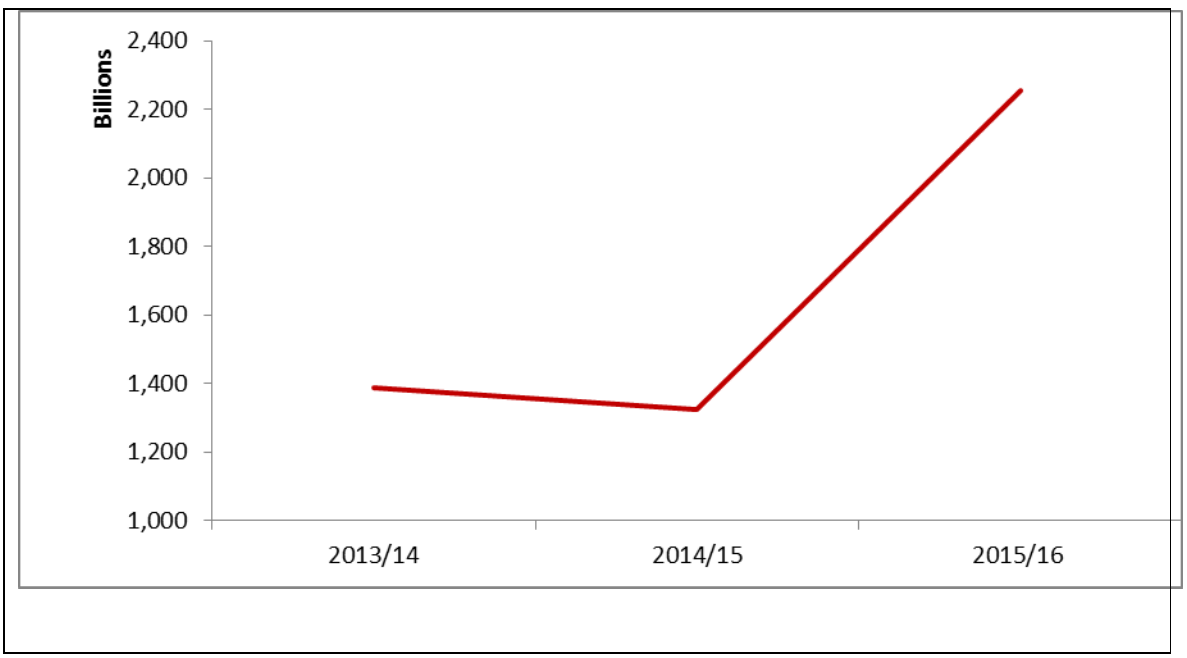
According to the commitment control system procedures, an Accounting Officer is supposed to commit Government only to the extent of available funds; in addition, in November 2016, the PS/ST issued a circular which prescribed the criteria to be met for arrears that can be recognized in the financial statements.

During the audit, I reviewed the trend of government outstanding commitments/domestic arrears for the past three (3) financial years since 2013/14 and noted the amounts have continued to escalate as seen in the table below;

Table summarizing government commitments

Financial Year	Pension arrears	Other Domestic arrears	Total Outstanding Commitments
2013/14	122,442,613,993	1,265,406,925,415	1,387,849,539,408
2014/15	216,738,848,444	1,108,490,291,820	1,325,229,140,264
2015/16	561,454,457,691	1,692,936,368,937	2,254,390,826,628

Graph illustrating trend in commitments



I noted that in a number of entities, Accounting Officers are paying for domestic arrears which previously were not disclosed nor budgeted for. In addition, whereas the consolidated financial statements put the figure of domestic arrears at UGX.2,254,390,826,628, the audited position of the Internal Auditor General puts the figure at UGX.2,700,737,613,398 as at 30th June 2016 leading to a variance of

UGX.446,346,786,770. I further noted that some entities did not fully disclose their arrears position as a result of the guidance. Under the circumstances, I am unable to confirm the completeness of the domestic arrears position, reflected in the consolidated financial statements.

The above scenario points to weaknesses in the commitment control system that continues to enable accounting officers to incur domestic arrears, as well as absence of a clear policy to entities regarding the treatment of arrears that do not meet the criteria set in the circular. I was informed by management that there was no full disclosure of prior year arrears by Accounting Officers. However, with full disclosure of verified arrears this Financial Year, they expect this to be addressed.

I have advised Government to review the current policies on commitment control with the aim of enhancing its effectiveness. In addition, Government should provide a clear policy on how to disclose arrears that do not qualify to be recognized in the financial statements.

6.5 Operationalization of the Contingencies Fund

Section 26 (1) of the PFMA, 2015, establishes a Contingencies Fund which shall, every financial year, be replenished with an amount equivalent to a half percent (0.5%) of the appropriated annual budget of Government of the previous financial year.

However, during the year under review, I noted that the contingencies fund was not operationalized. Accordingly, in the absence of a functioning Contingencies fund, I did not carry out the required audit to enable me to express an opinion on the accounts of the Contingencies Fund as required under Section 26(16) of the PFMA, 2015. Failure to operationalize the Contingencies Fund is irregular and undermines the purpose for which it was created. Furthermore, there is a risk that Government may fail to respond to contingencies/emergency situations as and when they occur.

Management in their response stated that the PFMA, 2015 provides for the funding of the Contingencies Fund to a level of 0.5% p.a. In theory, this fund is provided for given that it is a statutory and direct charge. But in practice, it is not possible to set aside funds when there are pressing issues. Previously, efforts have been made but the earmarked funds were reallocated during appropriation. I advised management to engage the concerned stakeholders to come up with a feasible solution for operationalizing the Fund.

6.6 Progress on the Implementation of TSA

In 2013, the government adopted the TSA, which was intended to be a mechanism where all collections and payments are channeled through a centralized bank account (or linked accounts) in Bank of Uganda. The TSA mechanism was well thought out and has led to the improvement of government financial management. In October 2013, the PS/ST issued a TSA operation plan for two phases that would ensure that within the initial phase, the TSA would have been implemented for Holding accounts, URA tax collection accounts, Non-tax revenues, Treasury General Accounts, and would be the mechanism to manage all government revenues and expenditure.

However, for 3 years following the deployment of TSA, I noted the following;

- A total of 179 out of 881 Government of Uganda accounts (i.e. about 20%) in Bank of Uganda were found not to be part of the TSA system. The majority of these accounts were District Local Government Salary Accounts. These funds are not swept back to the TSA at the close of the day's transactions.
- It was noted that a total of UGX.1,909,205,025,803 (or 8% of the total approved budget) had gone through the various non-TSA accounts as noted above.

Failure to fully adopt TSA in accordance with the plan affects the ability of government to realize the benefits associated with TSA. The failure to fully implement the TSA plan is due in part to the delayed rollout of the Integrated Financial Management System as well as challenges of incorporating donor payment conditions under the mechanism.

Management in their response stated that under the TSA Framework, they have; UCF and Petroleum Fund, Operational Holding Accounts, Revenue Accounts and Expenditure Accounts. The GOU strategy is to implement TSA in every entity where the IFMS is rolled out. The extension of the TSA to the remaining entities shall follow the intended roll-out of IFMS as planned over the next 3 years.

Management is advised to address all the challenges that are hindering the full implementation of the TSA. A revised implementation plan for migration to TSA should be prepared and approved and shared with all responsible stakeholders.

6.7 Excessive Cash Withdrawals – UGX.10.7Bn

I noted that there were incidences of excessive withdrawal of cash by various Government entities. This is contrary to the directive by the Secretary to the Treasury on Cash Withdrawals. An update to the circular dated 9th October 2013 set the withdrawal limit to a maximum of UGX.40 Million per month with the exception of eight votes.

My review of the Bank Statements for a sample of 76 ministries revealed cash withdrawals in excess of UGX.40 million per month by 49 of these entities even when these entities were not on the exempt list. A total of UGX.10.7bn was spent as cash in contravention of this limit. The cash limit was put in place as a measure to control cash related expenditures since cash is considered to have a higher risk of fraud or misappropriation.

Management in their explanation stated that the respective Accounting Officers have been requested to explain circumstances under which these excesses were incurred. Failure to provide satisfactory explanations shall lead to rescinding of appointment as an Accounting Officer in line with Section 11 of the PFMA 2015.

I have advised Treasury to add a layer of controls at the centre to avoid excessive cash withdrawals.

6.8 Failure to collect funds due to the Consolidated Fund

Section 29 of the PFMA, 2015, provides that revenue shall not be collected or received by a vote, state enterprise or public corporation, except where the vote, state enterprise or public corporation is authorised by an Act of Parliament to collect or receive revenue.

However I noted that contrary to the said provision, the following entities collected revenue and there was no evidence to suggest that they had remitted the funds shown in the table below to the Consolidated Fund;

Table showing entities that did not remit to UCF revenue collected

SN	Entity	Amount - UGX
1	Uganda Investment Authority	15,203,609,174
2	Uganda Communications Commission	7,145,134,692
	Total	**22,348,743,866**

In the case of UIA, there is no Act of Parliament in place which authorises them to retain any of the revenue collected as per the PFMA provision. I observed that in the case of UCC, Section 68 of the UCC Act as amended obliges the Commission to remit a half of all the levy charged to the Consolidated Fund and the balance to be shared between Information and Communication Technology Development and Rural communication in the ratio of one to one. I observed that in the year under review, a total of UGX.23,145,134,692 was due to the Consolidated Fund from levies by the UCC but only UGX.16,000,000,000 was remitted leaving an unremitted balance of UGX.7,145,134,692.

Failure to remit the funds violates the law and also exposes such funds to diversion and possible abuse, aside from depriving the GOU of revenue. I also noted that the same amounts were not captured as receivables in the consolidated financial statements, yet the two entities are not fully consolidated by Treasury.

In their response, management explained that there was no appropriation for these entities in the FY under review and as such their balances may not fall under the PFMA, 2015 provision. However, it should be noted that collection of revenue referred to in the PFM, 2015 relates to all Government entities.

Treasury is advised to increase its vigilance to ensure recovery of all funds due to the UCF.

6.9 Harmonization of Government Reporting and Implementation of IPSAS

Section 52 of the PFMA, 2015 requires the Accountant General to prepare consolidated annual accounts for government and local governments and a summary statement of the financial performance of public corporations. In order to achieve this, all the entities that are to be included in the consolidation must follow the same standards and timing of financial reporting.

I note that the entities for consolidation follow different reporting standards and timing. Some entities that had already adopted the full accrual accounting, have been forced to scale back to modified accrual basis of accounting, for purposes of reporting to the Accountant General, despite their laws/Acts that created them specifying otherwise.

As the Treasury continues to operationalize the provisions of the PFMA, 2015, these differences may hamper progress. Besides, in the absence of comparable financial statements;

- Benchmarking performance across different MDAs is not possible
- The consolidation process will continue to encounter challenges
- Performance measurement and comparison against other economies may not be possible.

Management explained that they have gradually enhanced the Financial Statements towards compliance with IPSAS and to a large extent the Financial Statements comply with IPSAS. Also, under the East African Monetary Convergence Protocol, a consultant was procured to evaluate the current status of IPSAS implementation and develop a road map. The draft IPSAS Implementation roadmap is available and is awaiting harmonization with other member states. Management also informed me that they have procured a consultant to review the Financial Statements with a view to enhance compliance to IPSAS.

I have advised Government to come up with a clear roadmap on how it plans to adopt a uniform financial reporting framework. Government should take into consideration the need to modify existing laws and regulations in order to comply with uniform reporting by MDAs while considering future developments and adoption of internationally comparable standards such as IPSAS.

6.10 Incomplete Consolidated Summary Statement of Financial Performance for Public Corporations and State Enterprises

Section 52(c) of the PFMA 2015 requires that the Accountant General prepares a consolidated summary statement of the financial performance of public corporations.

I, however, noted that financial records for only 34 out of the 70 state enterprises had been included in the consolidated financial statements provided for audit. This implies that the consolidated summary statement is incomplete and therefore cannot be relied upon.

Management informed me that several of these entities still report before or after June 30th and they do not prepare timely and reliable management information to be used for GoU reporting purposes as at 30th June. After the expiry of the transition period provided by the law, all these entities shall report as at 30th June. Management has made an effort to remind them to submit Financial Statements.

I have advised Government to expedite the harmonization of the reporting dates as provided for in the law.

6.11 Government Escrow Accounts in Commercial Banks

All government bank accounts with public funds are under the control of the Accountant General and can only be opened with the authorization of the Accountant General as provided for by Section 33 of the PFMA, 2015.

My review of a sample of escrow bank accounts that received public funds revealed that several bank accounts were operated by commercial banks (refer to the table below for Escrow Accounts in operation). Whereas audit could not find justification on the criteria followed in choosing which bank to open an escrow account, public funds held in commercial banks affect macroeconomic policy implementation and cash management by government.

In instances, where government borrows from the domestic market; there is a likelihood that government ends up paying interest on its own funds. In addition, the maintenance of public funds in commercial bank accounts prevents the centralized monitoring of their usage and audit. Besides, the cost of management of escrow accounts may be exorbitant. For example; the annual account maintenance costs of the UMEME escrow account is USD.50,000 in the first year and subsequently USD.30,000 per annum and additional USD.30,000 for each time a drawing was made in the letter of credit.

It is important to note that a number of escrow accounts have been successfully operated in Bank of Uganda such as the Bujagali dam construction accounts.

Management explained that the opening of the Escrow bank accounts was done with the authorization of the Accountant General and the choice of a bank was determined by the lender.

I have advised Government to consider moving all public funds to the central bank for ease of monitoring, supervision, and management; Management promised to consider this in future negotiations.

Table showing Escrow Accounts in Commercial Banks

Account name	Currency
Min of Finance and Economic Development - Civil Aviation Authority Project Escrow account	USD
National Backbone and E-Government project phase III repayment reserve account	USD
CAA Entebbe expansion project escrow account – sales collection	UGX
MOFPED/Kampala- Entebbe airport escrow	USD
CAA Entebbe Expansion Project Escrow Account – Sales collection	USD
MOFPED/ISIMBA Hydropower project – Escrow account	USD
UEGCL/ISIMBA hydropower project – Escrow account	UGX
Uganda National Roads Authority – Kampala Entebbe Expressway Control	UGX
NITA – u/NBI project phase III escrow account (Sales Collection)	UGX
Uganda Electricity Generation Company Limited	UGX
Uganda Electricity Generation Company Limited Karuma Sales Collection Account	UGX
Uganda National Roads Authority – Kampala-Entebbe Airport Expressway Control	UGX
UMEME-UEDCL Escrow account	UGX
UMEME-UEDCL Escrow account	USD
UEGCL Escrow account	USD
UEGCL Escrow account	USD

6.12 Government Contingent Liabilities

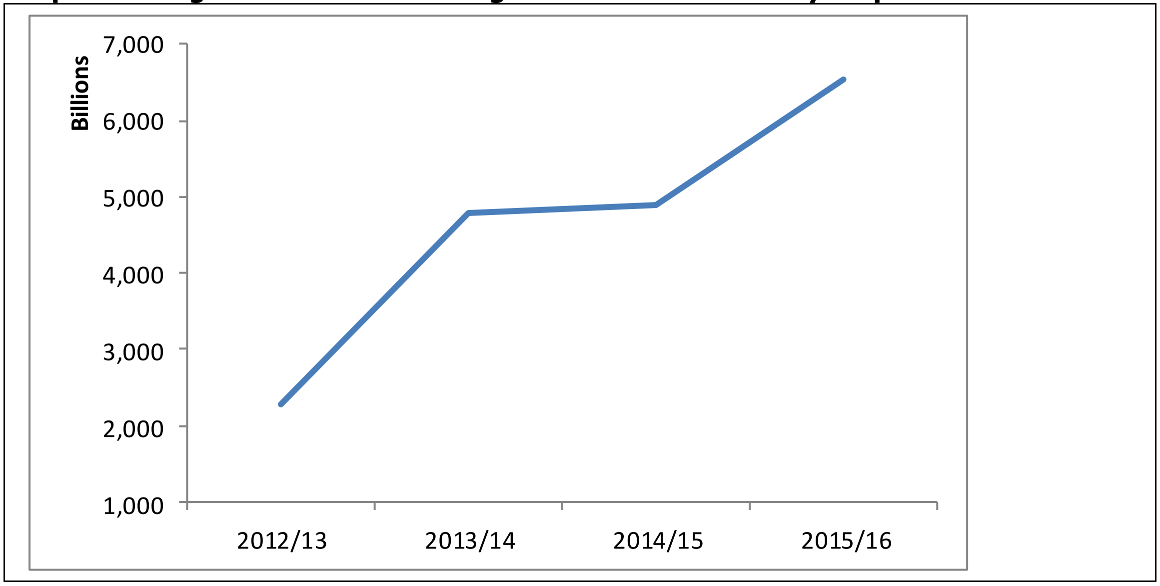
A contingent liability is a possible future cash outflow whose occurrence is dependent on an event which is not in the control by an organization. Including any amounts in contingent liabilities implies that management's assessment shows a possibility of a cash outflow in future.

A trend analysis of accumulation of government contingent liabilities over a 4-year period indicated an upward trend as indicated in the table;

Table showing amounts included in the accounts for contingent liabilities

Financial Year	Amount (UGX)
2012/13	2,275,442,213,858
2013/14	4,784,569,306,022
2014/15	4,892,599,283,368
2015/16	6,532,497,083,522

Graph showing increments of contingent liabilities over a 4-year period

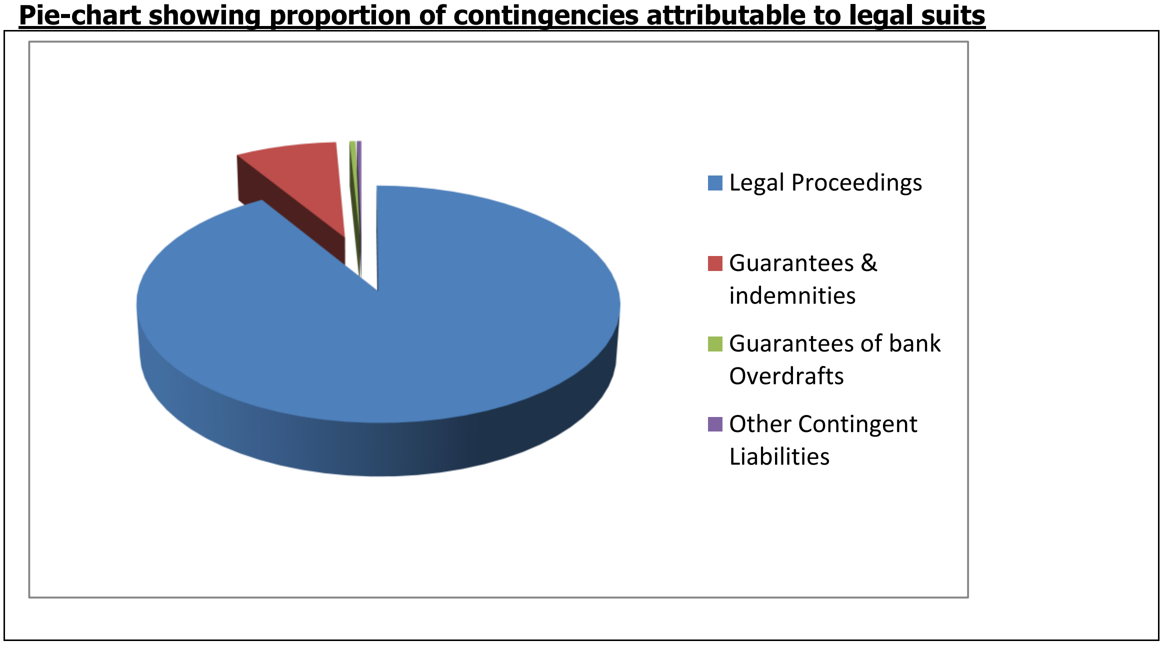


My further analysis of this liability indicated that majority of the amounts i.e. over 90% are as a result of the legal proceedings lodged against government. The analysis in the table below refers;

Table showing proportion of liabilities attributable to legal suits

Financial Year	Amount (UGX)	Legal Proceedings (UGX)	Percentage (%)
2013/14	4,784,569,306,022	4,331,391,650,991	91%
2014/15	4,892,599,283,368	4,385,151,257,436	90%
2015/16	6,532,497,083,522	5,961,148,244,653	91%

Pie-chart showing proportion of contingencies attributable to legal suits



Although I pointed out this matter in my previous reports, the contingent liabilities have continued to rise by more than UGX.1.6 Trillion in this year alone, which if left unchecked, may get to unsustainable levels. In the event that all these liabilities crystalize, Government will have to spend substantial amounts which is likely to adversely affect the implementation of other government programs.

Management informed me that Government now intends to decentralize court awards to be part of their MTEF to eliminate the incentive of these court awards. In addition, the PFMA, 2015 Section 39 introduced a criteria and more stringent conditions for government to guarantee loans which is expected to check the accumulation of contingent liabilities. I have advised Government to seriously look into the causes of the accumulation of contingent liabilities with a view of curtailing further growth.

6.13 **Inadequate interface between URA systems and IFMS for proper tax management**

Most of the Government expenditure is made to suppliers and service providers who are paid through the IFMS. Although the IFMS is configured to automatically deduct WHT due, the system cannot deal with other tax heads such as VAT and corporation tax directly due to the nature and timing of when they become due and how the tax is calculated and accounted for.

However, I noted that the access to the IFMS given to URA is not sufficient to enable them fully track taxpayers incomes earned from transacting with Government through the IFMS. For instance, my review of a sample of IFMS payments revealed that 117 taxpayers who received government payments worth UGX.14,196,378,727 made false declarations of VAT in their monthly VAT returns by excluding output tax (sales) thus creating a loss to government of UGX.2,555,348,171. In addition, a number of suppliers signed contracts with Government and got paid VAT inclusive amounts, when they were actually not registered. The continued failure for URA to have the appropriate access is leading to loss of revenue to Government.

Management explained that URA has access to the IFMS. Though data from the IFMS is extracted from the system and given to URA, they require an automated interface where they can directly pick information about unclassified transactions from the IFMS without human intervention.

I advise the Ministry to work out modalities aimed at interfacing e-tax with IFMS for purposes of enhancing tax collections.

6.14 Non deduction of withholding tax

Section 120(1) of the Income Tax Act requires all Ministries to withhold tax from suppliers at the rate of 6% of the aggregate sums. Further, section 124(1) of the Act requires a withholding tax agent to remit the tax within fifteen days after month end. The control to withhold taxes was automated within the IFMS system and is centralized.

However, I noted that a number of suppliers were being paid without deduction of withholding tax, and in other instances, WHT remained a payable. See table below for examples;

Table showing entities that paid without deduction of withholding tax

SN	VOTE	Amount - UGX
1	Ministry of Works and Transport	225,237,670
2	Diary Development Authority	34,958,212
3	Ministry of Agriculture	161,906,117

This control is centrally controlled and failure to deduct WHT automatically was attributed to relaxation of the control on the system for given suppliers. It should be noted that URA maintains an up-to-date list of all exempted suppliers on their website, therefore a change of status does not need entity intervention. The practice leads to loss of revenue to Government.

Management explained that they had earlier taken action to enable WHT on all suppliers except those exempted by URA. These are reviewed every 6 months by URA and therefore require half yearly updates which require extra vigilance to pick changes from URA and that they will re-instate this mode. However, it is also incumbent upon the respective Accounting Officers to ensure that they withhold tax from all eligible suppliers and update supplier exemption status.

The Accountant General is advised to fully centralize this control to avoid further loss of revenue by Government.

6.15 Other cross-cutting issues noted during audit of MDAs

The following cross-cutting matters have been observed while undertaking audits of Ministries, Departments and Agencies (MDAs) during the year under review;

6.15.1 Advances to Staff through Personal Bank Accounts - UGX.2,318,973,072

Despite my recommendations in previous reports advising Accounting Officers to stop the practice of advancing funds through personal bank accounts, I however, noted that during the year under review, various entities advanced a total of UGX.2,318,973,072 onto personal bank accounts. This is not only contrary to the accounting regulations but also exposes government funds to a risk of loss since staff may be tempted to divert such funds to personal gain, given that the entities do not have any control over such funds deposited into personal bank accounts.

Management explained that these have been significantly reduced and will further be decimated with the implementation of E-Cash. A Contract was awarded and the system's requirements have been finalized with the integrator. This system is expected to be operational by end of December 2016.

Table Showing Advances to personal Staff Accounts

Name of MDA	Advances to Staff Through Personal Bank Accounts
Ministry of Local Government	1,566,532,824
Rural Electrification Agency	416,467,650
Uganda National Bureau of Standards	171,415,944
Directorate of Ethics & Integrity	164,556,654
Total	**2,318,973,072**

6.15.2 Unauthorized Receipt of Grants by MDAs

My review of some of the individual financial reports for MDA's revealed that they continued to receive grants from Development Partners that were not reported in the consolidated financial statements of Government and are therefore unknown to Treasury. This may imply that funds were solicited on behalf of GoU without the involvement of the Minister responsible for Finance, and are therefore unknown to the Ministry. This creates risks of; double financing by both GoU and donors; abuse of funds by recipients; uninformed allocation of GoU funds and the risk of using GoU funded activities to account for donor funds and/or vice versa. It also implies that the total of Grants reported in the consolidated financial statements is understated and misleading.

Management explained that whereas some MDAs have been receiving funds without the approval of the Minister for Finance, as part of implementing the new law, this issue has been emphasized and all Accounting Officers sensitized on the need to budget and seek Minister's approval before obtaining any grant. The Hon. Minister has since written to all Accounting Officers to that effect. I await the outcome of this initiative.

6.15.3 Decentralized Payroll System

Although the decentralized Salary Payment system introduced by government resulted in positive results including timely salary payments, reduction of ghosts, prompt inclusion on the payroll of newly appointed staff and fully assigning payroll responsibility to Accounting Officers; the continued manual interface between the IPPS and the IFMS was again manipulated by some fraudulent individuals at several MDAs, to fraudulently effect changes on the payrolls released from the IPPS before payment through the IFMS. This practice, therefore, continues to lead to loss of public funds.

Management explained that under the decentralized payroll system, any changes to payment files after upload into the IFMS is a responsibility of the Accounting Officer and where these changes result into fraud, government has taken action, including interdiction as investigation is concluded with the view of prosecution. Effective this financial year, all sites are using the interface for payroll transactions and management is also working on the full integration of the IPPS and the IFMS. Government needs to consider undertaking further review of the decentralized salary payment system, with an aim of further enhancing its effectiveness and addressing the weaknesses that have led to the fraudulent practices by some MDAs and Local Governments.

I have advised Government to consider putting in place more effective mechanisms to track the performance of these MDAs with regard to the implementation of audit recommendations, including where necessary, sanctioning Accounting Officers who fail to adhere to any such recommendations leading to loss of government funds.

7.0 FINANCIAL STATEMENTS