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OFFICE OF  
THE AUDITOR GENERAL  
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KAMPALA.

*VISION: "To be an effective and efficient Supreme Audit Institution (SAI) in promoting effective public accountability"*

*MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and value for Money Spent"*

IN ANY CORRESPONDENCE ON **DCG.248/349/02/17**  
THIS SUBJECT PLEASE QUOTE NO:.....

14<sup>th</sup> December, 2017

The Rt. Hon. Speaker of Parliament  
Parliament of Uganda  
**KAMPALA**

**AGRICULTURAL TECHNOLOGY AND AGRIBUSINESS ADVISORY SERVICES PROJECT  
(ATAAS) IDA CR.4769-UG FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup>  
JUNE 2017**

In accordance with Article 163 (4) of the Constitution, I forward herewith audited financial statements of Agricultural Technology and Agribusiness Advisory Services Project for the year ended 30<sup>th</sup> June, 2017 together with my report and opinion thereon.

John F.S. Muwanga  
**AUDITOR GENERAL**

- Copy to:
- The Permanent Secretary/Secretary to the Treasury
  - " The Executive Director  
National Agricultural Research Organisation (NARO)
  - " The IDA/World Bank
  - " The International Fund for Agricultural Development (IFAD)
  - " The Accountant General
  - " The Project Coordinator  
Agricultural Technology and Agribusiness Advisory Services Project





**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
AGRICULTURAL TECHNOLOGY AND AGRIBUSINESS ADVISORY SERVICES  
(ATAAS) NARO PROJECT FOR THE YEAR ENDED 30<sup>th</sup> JUNE, 2017**

**OFFICE OF THE AUDITOR GENERAL  
UGANDA**

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## LIST OF ACRONYMS

<b>Acronym</b>	<b>Meaning</b>
<b>ATAAS</b>	Agricultural Technology and Agribusiness Advisory Services
<b>NARO</b>	National Agricultural Research Organisation
<b>EU</b>	European Union
<b>GoU</b>	Government of Uganda
<b>IDA</b>	International Development Association
<b>ISA</b>	International Standards on Auditing
<b>MOFPED</b>	Ministry of Finance, Planning and Economic Development
<b>CGS</b>	Competitive Grant Scheme
<b>MTEF</b>	Medium Term Expenditure Framework
<b>PPDA</b>	Public Procurement and Disposal of Public Assets.
<b>UGX</b>	Uganda Shillings
<b>URA</b>	Uganda Revenue Authority
<b>US \$</b>	United States Dollar
<b>VAT</b>	Value Added Tax
<b>Wrks</b>	Works
<b>MAAIF</b>	Ministry of Agriculture, Animal Industry and Fisheries
<b>MTR</b>	Mid Term Review
<b>WB</b>	World Bank
<b>FYR</b>	Financial Year
<b>CR</b>	Credit
<b>MBAZARDI</b>	Mbarara Zonal Agricultural Research Development Institute
<b>ZARDI</b>	Zonal Agricultural Research Development Institute
<b>NAROSEC</b>	National Agricultural Research Organisation Secretariat.
<b>KaZARDI</b>	Kabale Zonal Agricultural Research Development Institute
<b>NAADS</b>	National Agricultural Advisory Services
<b>RT.HON</b>	Right Honourable
<b>SLM</b>	Sustainable Land Management

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
AGRICULTURAL TECHNOLOGY AND AGRIBUSINESS ADVISORY SERVICES  
(ATAAS) NARO COMPONENT PROJECT  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of the Agricultural Technology and Agribusiness Advisory Services (ATAAS) NARO component Project for the year ended 30th June 2017. The financial statements set out on pages 3 to 13 comprise of; statement of fund balance, statement of receipts and payments, statement of cash flows, statement of comparison of budget and actual amount, statement of special designated account activity, statement of special designated account reconciliation and Notes to the financial statements including a summary of accounting policies used.

In my opinion, the project financial statements present fairly in all material respects the financial performance of the Agricultural Technology and Agribusiness Advisory Services (ATAAS) NARO component Project for the year ended 30<sup>th</sup> June 2017 and the receipts and payments for the period then ended in accordance with the IDA guidelines and the basis of accounting described under note 1 to the financial statements.

**Basis for Opinion**

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs), the National Audit Act 2008 and the Audit Methodology of my Office. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of Project Management in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act 2008, the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these

requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Key Audit Matter**

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the period. I have determined that there are no other key audit matters to communicate in my report.

**Other Matter**

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Low Absorption of ATAAS Funds**

Section 2.3.3 of the NARO Financial Management Manual 2011 entrusts the function of approving work plans and preparing budgets for Public Agricultural Research Institutes with the management committee of each PARI.

A sample of 6 Public Agricultural Research Institutes revealed that out of the available funds of UGX.12,830,380,422 for the project activities, only UGX.11,221,366,915 was spent leaving a balance of UGX.1,609,013,507 unutilized representing 12.5% under-absorption.

Low absorption rates could lead to non-implementation of planned activities contrary to project objectives and unnecessary extension costs in case of project extension. Further, redundant funds at PARI's could be diverted to non-project activities leading to ineligible expenditures.

Management explained that to ensure efficient and effective use of disbursed funds, the Secretariat had instituted monitoring teams and availability of both financial and technical reports from the institutes before replenishment of subsequent quarters to ensure fast tracking of resource utilization.

I advised the Accounting Officer to ensure timely release of funds and implementation of all project activities as per the approved work plan. Further, all activities should be fast tracked to ensure full utilization before project closure.

- **Un-executed Planned Procurements-UGX.3,905,485,200**

A review of the entity planned procurement of works, supplies and services under the project estimated at USD.4,024,655 (UGX.14,488,759,000) revealed that planned procurements to the tune of USD.1,084,857 (UGX3,905,485,200) had not been initiated by the end of the financial year without any notification to PDU contrary to section 3 (3) of the PPDA (PDES), 2014 regulations that require a user department to promptly notify the procurement and disposal unit of any change in the procurement plan of the user department and mandates the Contracts Committee to approve the annual procurement plan and any updates to it.

It was further revealed that procurements estimated at USD.2,486,320 (UGX.8,772,020,000) had been partially executed by the close of the financial year 2016/17 with some contracts signed without any delivery while others were pending Solicitor General's approval. Failure to implement the planned procurements within the set project timelines exposes the project to a risk of failure to achieve project objectives as funds may be returned at project closure date. Further, low absorption hinders service delivery and financial loss in terms of commitment and interest fees to the World Bank.

Management explained that the procurement plan was submitted to the World Bank in July 2016 for clearance; however the clearance was made in January 2017 and thus the procurements could not be implemented. Procurements mentioned above were rolled over to FY 2017/18 and have finally been cleared by the bank.

I advised the Accounting Officer to ensure that the PDU fast tracks the pending procurements so that planned activities are undertaken within the next financial year.

- **Installation of Irrigation system at SLM Evaluation site Kawanda**

NARL Kawanda procured items worth UGX.68,783,600 for installation of an irrigation system at Sustainable Land Management (SLM) evaluation site in Kawanda during the financial year 2016/17. However, my inspection at the end of the financial year revealed that the irrigation system had not been installed as seen in the pictures below;

Project	Location	Amount	Items procured	Pictures
Installation of Irrigation system	Kawanda	41,162,600	-holding tank tower 3m -Multi jet Water flow meter:2.5m -Abstraction well:11m -Davey Engine SHP Pump:8m -HDPE Main pipe OD 90mm:21m -10,000 litres plastic tank -200m of HDPE 90mm main pipe -200M OF HDPE PIPE 50mm -300M OF LDPE Hose pipe 32mm	
		27,621,000		
	TOTA	<b>68,783,600</b>		

Failure to complete projects in the planned project timelines expose the entity to risk of under absorption of funds which affects service delivery. Further, unutilized installation equipment is exposed to a risk of damages and loss due to theft.

Management explained that the water tanks and the raisers had been installed and the assembling is in advanced stages.

I advised the Accounting Officer to ensure that the project is closely supervised to completion as soon as possible.

- **Delayed Construction of Cattle Shed at Nakyesasa**

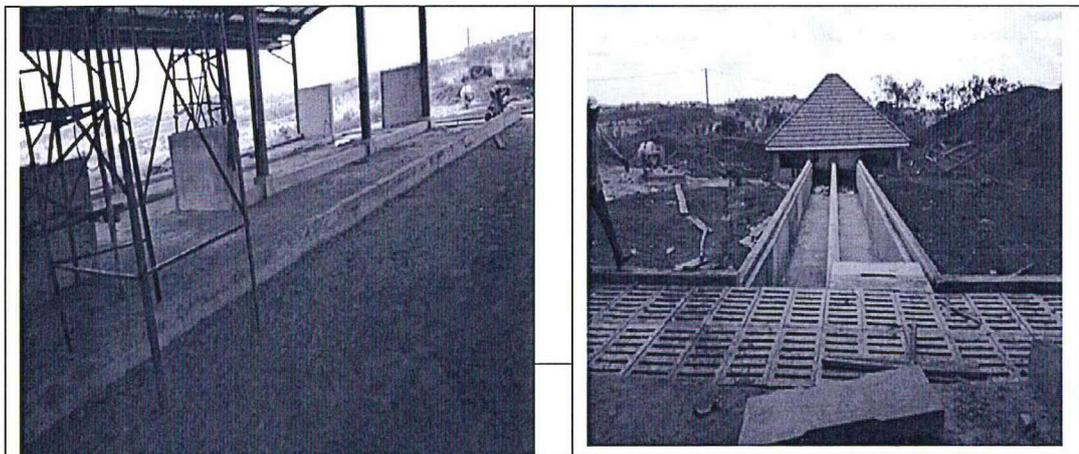
NARO entered into a contract with M/s Build Base Contractors Limited on 19<sup>th</sup> November 2015 worth UGX.3,940,353,624 for construction of a cattle shed at Nakyesasa, however the contractual amount was later revised to UGX.4,552,535,436 on 20<sup>th</sup> December, 2016. While the project start date was 14<sup>th</sup> January, 2016 and the original completion date was 14<sup>th</sup> April, 2016 this has since been revised to 14<sup>th</sup> August, 2017 with cumulative payments of UGX.2,759,837,155 by the 30<sup>th</sup> June 2017 to the contractor for the assessed completed works. My inspection of the facility revealed the following issues;

➤ **Delayed Completion of works**

By the time of audit inspection on 8<sup>th</sup> September, 2017, one month after expected end date, the project had not been completed and work progress was estimated at 72%. Both the consultant and management were concerned about the delay and there are limited chances of renewal of the contract.

➤ **Failure to start construction of Milking Parlor- UGX.3,008,832,866**

According to plans generated by the consultant the cow shed is supposed to be connected to the milking parlor, but its construction cannot be started before the completion of the cow shed. The funds for construction of the milking parlor were budgeted for in the financial year 2016/17, but have been pushed to financial year 2017/18 as management awaits for the completion of the cow shed. Delayed completion of the shed may lead to non-implementation of the milking parlor project. Photos are as below;



The project is exposed to a risk of non-completion of the construction before end of the ATAAS project slated for 31<sup>st</sup> December 2017 implying that the milking parlor project would as well stall.

Management explained that delays in the completion of the cowshed resulted from the various consultants and modifications of the unit to suit the local environment and being the first prototype in the country which required great precision and accuracy. Further, delays in completion were attributed to Importation of Cattle head locks from Denmark which shipment was delayed as a result of election period in Kenya. Management further explained that the head locks have since been received and fitted and the contractor is at practical completion.

I advised the Accounting Officer to ensure that outstanding works are completed as soon as possible or consider termination of contract.

- **Nugatory Expenditure on Cancelled CGS Projects-UGX.125,640,000**

NARO entered into an agreement with two Principal Investigators to carry out research under CGS funding in May 2014 for a period of two years. A review of documents availed concerning CGS projects revealed that the two projects were terminated after a transfer of UGX.125,640,000. This is nugatory expenditure since no results were achieved as per the signed contract. Further, no action was taken against the Institute which sponsored the two Principal Investigators as per the CGS guidelines and the contract. As a result of cancellation of the projects, funds were lost and no value for money spent.

Management explained that the two projects cited were subjected to a thorough review process and emerged among the forty one (41) quality projects worth funding. During implementation, effective monitoring by the M & E and NARO management together with group workshop reviews tracked the progress of the two projects. However, unfolding results from investigations performed by these two projects revealed that the two were less likely to achieve their planned project deliverables. Such scenarios are typical to some investigations and the logical decision in this case was to stop these two projects in order to avoid further losses in seemingly failed projects. It is on this basis that NARO management decided to terminate these projects.

I advised the Accounting officer to re-assess the criteria used in appraisal of projects so that such scenarios are avoided in future. Furthermore, the implementing agencies should be held accountable by exploring ways of recovering the funds advanced.

- **Delayed environment compliance audit of ATAAS – UGX.250,366,500**

Chapter 2.1 of the project implementation manual states the Global Environmental Objective (GEO) as enhancing the environmental sustainability and resilience of agricultural production to land degradation and climate risks.

NARO entered a contract with JBN Consults & Planners on 15<sup>th</sup> July, 2016 for environment compliance audit of Agricultural Technology and Agribusiness Advisory Services (ATAAS) at a contact sum of UGX.250,366,500 on the civil works at Zonal

Agricultural Research and Development institutes (ZARDIs) with the objective of analysing how adequately the contractors had been able to manage the social, health, safety and environment impact from the project components with reference to national laws and World Bank safeguards policies.

I noted that most of the civil works at ZARD had been completed without the environmental compliance audit because the audit activity had been delayed. At the time of my audit in June 2017, only two projects were still on-going at the time the environment audit had been carried out. The consultant could therefore not adequately perform the task when most of the contractor's project staff and the Project consultants had left the sites. As a result of the delayed environmental audit, value for money could not be achieved and the consultant indicated this as one of the limitations they faced while carrying out the audit.

I advised the Accounting Officer that in future the environmental audits in future concurrently with the infrastructure constructions to ensure that environmental concerns are taken into consideration during implementation.

### **Management Responsibility**

Management is responsible for the preparation and fair presentation of the Project financial statements in accordance with the IDA guidelines and the cash basis of accounting as described under note 1 to the financial statements and for maintenance of such internal controls as management determines is necessary for the preparation and fair presentation of the Project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Project's ability to achieve its core objectives, disclosing, as applicable, matters related to the achievement of its objectives, unless management either intends to close the project or to cease operations, or have no realistic alternative but to do so.

Management is responsible for overseeing the Project's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

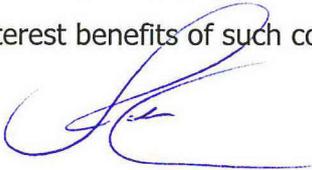
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Project to fail to deliver on its mandate.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

14<sup>th</sup> December, 2017

**REPORT OF THE AUDITOR GENERAL ON THE  
SPECIAL ACCOUNT OPERATIONS OF AGRICULTURAL TECHNOLOGY AND  
AGRIBUSINESS ADVISORY SERVICES (ATAAS) NARO COMPONENT PROJECT FOR  
THE YEAR ENDED 30TH JUNE, 2017**

**Opinion**

I have audited the special account statement of the Agricultural Technology and Agribusiness Advisory Services (ATAAS) NARO component project for the year ended 30<sup>th</sup> June, 2017 which is set out on page 7 of the financial statements.

In my opinion, Project management complied in all material respects with IDA rules and procedures and that the Special Account Statement for the Agricultural Technology and Agribusiness Advisory Services (ATAAS) NARO component project for the year ended 30<sup>th</sup> June, 2017 presents fairly in all material respects the account transactions and the closing balance as at 30<sup>th</sup> June 2017.

**Management Responsibility for the Special Account Statement**

Project management is responsible for preparation of the special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations and IDA guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

My responsibility is to express an opinion on the Special Account Statement based on my audit. I conducted the audit in accordance with International Standards on Auditing and the IDA guidelines on auditing. Those standards and guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the Special Account statement is free from material misstatements. I believe that the audit provides a reasonable basis for my opinion.



John F. S. Muwanga

**AUDITOR GENERAL**

KAMPALA

14<sup>th</sup> December, 2017

**APPENDIX I**

**FINANCIAL STATEMENTS**