



THE REPUBLIC OF UGANDA

UGANDA REVENUE AUTHORITY

**MANAGING COMPLIANCE PROGRAM (MCP) TRADE
MARK EAST AFRICA (TMEA) FUND**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014
TOGETHER WITH THE REPORT AND OPINION THEREON BY THE
AUDITOR GENERAL

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
PPDA	Public Procurement and Disposal of Assets
URA	Uganda Revenue Authority
MCP	Managing Compliance Program
TMEA	Trade Mark East Africa
PFAA	Public Finance and Accountability Act
SSEP	Services Support Enhancement Project
CBSEP	Customs Business Systems Enhancement Project
ITSEP	Integrated Tax Systems Enhancement Project
IDeP	Infrastructure Development Project
AEO	Authorised Economic Operator
HRMS	Human Resource Management system
ASYCUDA	Automated System for Customs Data Analysis
CBC	Customs Business Center
UK	United Kingdom
BoU	Bank of Uganda
MoFPED	Ministry of Finance Planning and Economic Development
OSBP	One Stop Border Post
MoWT	Ministry of Works and Transport
NSSF	National Social Security Fund
EAC	East African Community

**THE UGANDA REVENUE AUTHORITY MANAGING COMPLIANCE
PROGRAM**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014**

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of the Uganda Revenue Authority Managing Compliance Program for the year ended 30th June 2014. The financial statements set out on pages 11 to 16 comprise of;

- Statement of Income and Expenditure
- Statement of Receipts by Source and Expenditure by Component
- Notes to the financial statements including a summary of significant accounting policies adopted.

Management's Responsibility for the financial Statements

Management is responsible for the preparation and fair presentation of the project financial statements in accordance with the Trade Mark East Africa (TMEA) guidelines and the requirements of the Public Finance and Accountability Act, 2003 (PFAA) and for such internal controls as management determines is necessary for the preparation and fair presentation of the Project financial statements that are free from material misstatements whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial 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 about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a reasonable basis for my audit opinion.

Part "A" of this report sets out my opinion on the 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.

Opinion

In my opinion, the project financial statements present fairly in all material respects the financial position of the Uganda Revenue Authority Managing Compliance Program (MCP) as at 30th June 2014 and the receipts and payments for the year then ended in accordance with the TMEA guidelines and the basis of accounting described under note 2 to the financial statements.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a long, sweeping horizontal line extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

12th December, 2014

**REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION**

PART "B"

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 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 above Project to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Managing Compliance Programme (MCP) is a four year reform programme that commenced in July 2011 following the closure of Modernization 1 Programme (Mod 1) and will close on 30th June 2015. The overall goal of the programme is to enhance voluntary compliance through excellent client service delivery while leveraging a professional workforce and appropriate technology. This programme is implemented under four projects i.e.

- **Customs Business Systems Enhancement Project (CBSEP)** whose goal is to simple, predictable and efficient customs services while leveraging staff professionalism and technology to facilitate international trade, foster regional integration and maximize voluntary compliance.
- **Services Support Enhancement Project (SSEP)** whose goal is to improve the quality of service in URA with an aim of promoting service excellence, client satisfaction and voluntary compliance,
- **Integrated Tax Systems Enhancement Project (ITSEP)** whose goal is to increase revenue realization through enhancement of systems to cater for Oil and Gas sector, enhance URA systems through secure and efficient integration and reduce cost of carrying out HR functions through the introduction of Human Resource Management System.
- **Infrastructure Development Project (IDeP)** whose goal is to improve infrastructure in the entire organization with an aim of improving service delivery.

3.0 MCP DEVELOPMENT PARTNERS

The Programme development partners include;

- GoU
- Trade Mark East Africa (TMEA)
- World Bank (WB)
- The Department for International Development (DFID)
- KfW
- International Monetary Fund (IMF)

4.0 ENTITY FINANCING

The managing Compliance Program received funding from Trade Mark East Africa (TMEA) and GoU during the year. While TMEA provided a sum of Shs.11,054,342, GoU released Shs.3,079,115,866 for the program. The total funding of Shs.3,413,969,060 (including prior year balance of Shs.329,105,596) constitutes 68.7% of the approved budget estimate of Shs.4,972,397,992. Of the Shs.3,413,969,060 released, Shs.3,145,462,256 was spent leaving a balance of Shs.268,506,804 as unspent at the end of the financial year 2013/2014.

5.0 PROJECT OBJECTIVES

The main objective of the project is to deliver strategic support to the EAC integration process. In delivering this support, TMEA aims to assist the EAC in;

- (i) Reducing transport and related costs along the key corridors in East Africa;
- (ii) Supporting EAC institutions to develop a comprehensive framework for regional integration;
- (iii) Supporting partner states to substantially increase the implementation of a comprehensive framework for regional integration'
- (iv) Engaging private and civil society to positively influence regional integration policies and practices for growth in trade.

6.0 AUDIT SCOPE

The audit was conducted in accordance with International Standards on Auditing and included a review of the accounting records, accounting policies used and agreed procedures as was considered necessary.

The Audit was carried out with regard to the following objectives;

- a. To express an opinion as to whether the financial statements for the year ended 30th June 2014 present fairly in all material respect the receipt and

payments of the project as well as the cash position and are in conformity with generally accepted accounting principles.

- b. To establish whether the MCP account has been maintained in accordance with the provisions of the credit agreement.
- c. To evaluate and obtain a sufficient understanding of the internal control structure of the project, assess control risk and identify reportable conditions, including material internal control weaknesses.
- d. To establish whether project managers are managing the project in compliance with the covenants contained in the financing agreements as well as Government of Uganda financial regulations.
- e. To establish whether all procurements of goods and services under the project have been undertaken in accordance with GOU procurement guidelines and procedures as specified in the PPDA Act 2003.
- f. To establish whether all necessary supporting documents, accounting records as well as books of account have been kept in respect of all project activities.
- g. Whether project activities have been implemented as stated in the work plans and budgets.

7.0 AUDIT PROCEDURES PERFORMED

The audit approach adopted followed risk based audit methodology and systematically considered the planning activities, the receipts, expenditure, internal control systems, procurement, fixed assets management, project reports and financial statements as per details below:

a. Revenue/Receipts

Obtained a schedule of all project funds provided by MCP and Government of Uganda and reconciled the amounts to the project's cash books and bank statements.

b. Expenditure

Reviewed the Project funding Agreement to ascertain agreed budget line activities for the MCP and GOU funding and checked whether funds had been utilized in accordance with the approved work plan.

Vouched transactions of the project in particular funding received and expenditures incurred during the period covered by the audit in order to establish that documentation in support of expenditure agreed with the amount and description on the payment vouchers and or applications, bank statements and was properly controlled and accounted for.

c. Internal Control System

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

d. Procurement

Reviewed procurement of goods and services for the project and reconciled with the approved procurement plan.

e. Fixed Assets Management

Reviewed use and management of project assets during the period under review.

f. Periodic Reports about project Activities

Reviewed the project agreement provisions, and reconciled it to the project activities during the period under review.

g. Project Financial Statements

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

8.0 FINDINGS

8.1 Over Expenditure

During the year under review, a sum of Shs.873,222,497 was budgeted to undertake the activities of the project, however, Shs.891,914,264 was paid causing an over expenditure of Shs.18,691,767. I did not obtain evidence authorising the re-allocation by both the development partners and the URA Board. The over expenditure could have affected the implementation of programme activities for the year.

I advised the Accounting Officer to always seek for authority from both donors and the URA Board before incurring any extra expenditure.

8.2 Payments of MCP Expenditures from the main URA Operations Account

The MCP programme is jointly funded by both GoU and development partners and all the programme activities are transacted through Bank of Uganda. It was however noted that the GoU project funds amounting to Shs.3,079,115,866 were not transferred to the project account but instead the funds were spent from the main URA operations account. I explained to management that commingling of funds is risky and may result into diversions.

Management explained that the above TMEA referenced account is strictly to facilitate the operations of the development partners and URA is not supposed to transfer its contribution to the donor account.

I advised the Accounting Officer to consider transferring all GoU MCP funding to one account for ease of accounting and audit.

8.3 Un-vouched expenditure from Modernisation and TMEA accounts

The MCP Programme came into operation in July, 2011 following the closure of the Modernisation Programme. However, the two bank accounts for the modernisation programme have remained active (2) years after the closure of the programme.

See table below;

Account Name	Account Number	Currency	Expenditure Shs.	Expenditure USD
URA Modernization Programme	3410088000003	UGX	16,836,800	
URA Modernization Programme	3410088400004	USD		17,494.64
Uganda Revenue Authority-Trade Mark East Africa	3410088400003	USD		127,144.87
Total			16,836,800	144,640

It was established during examination that some MCP expenditures worth Shs.16,836,800 and USD 17,494.64 were effected from the closed programme accounts as indicated in the table above. The supporting documentation were not provided for review. USD 127,144.87 was also spent from the TMEA account without the necessary supporting documentation.

Without supporting documentation, I could not justify their inclusion in the financial statements.

I advised the Accounting Officer to close the redundant accounts and transfer the balances is any and also account for the unsupported payments.

8.4 Staff Training and Development

Shs.1,590,645,703 spent under the MCP programme for trainings, workshops and conferences was reviewed and the following noted:

8.4.1 Lack of bonding agreements with reference to specific trainings

It was noted that Shs.1,150,641,364 was spent on 29 staff from project funds to undertake training during the year, however, the staff involved did not sign the bonding agreement contrary to Section 4.4.3 of the HRM Manual.

There is a risk that the amounts spent may be wasteful in case staff trained choose to leave the authority immediately after training prior to utilizing the specialized skills and knowledge acquired to benefit the Authority.

I advised the Accounting Officer to ensure that the staff that undergo training sign bonding agreements for purposes of ensuring that the authority benefits from their acquired specialized skills and knowledge.

8.4.2 Lack of evaluation reports indicating relevancy and suitability of trainings

Best practice requires that training needs cover specific performance shortfalls, where it is apparent that management/peer coaching and guidance is not sufficient. Best practice also dictates that management should evaluate the course content to ascertain suitability of the objectives of the training and those of the organization.

However, there was no evidence to indicate that specific performance shortfalls were identified and attempts to coach, mentor and guide by management were not sufficient. In addition, management did not evaluate the training course content and verify the suitability of the same to the recommended staff in line with matching the skill shortfall/gap.

A case in point is the oil and gas trainings that are not specifically skewed at taxation of the oil industry but management of the oil industry. There is a risk of training staff in fields which may not be necessarily/relevant in meeting the goals of the organization.

Management explained that training recommendation is done by Head of department and submitted to HR division for authorization before the form is submitted to Commissioner General for approval.

I have advised the Accounting Officer to put in place training evaluation committees to identify the training needs and evaluate suitability of courses.

8.5 Lack of baselines for key performance indicators

Article 9(c) of the financing agreement requires URA to establish the baselines for the key performance indicators detailed in the monitoring and evaluation plan and submit quarterly reports. There was no evidence provided to show that this was done. It was therefore not possible to carry out the project performance assessment and evaluation. It was explained that baselines are in place where applicable for outcome and impact level indicators in the programme.

It should be noted that it's key for any project to establish base measures for each key milestone. Otherwise key performance measurement tools like the work breakdown structure (WBS) for cost estimation and control cannot be used by the project monitoring team.

I have advised the project manager to come up with baselines for key performance indicators of this project for purposes of carrying out performance assessment, monitoring and evaluation.

8.6 Review of the MCP implementation status report

Review of the MCP project implementation revealed the following as having been achieved:

- A total of 269 Clearing Agents given platform to operate.
- 193 URA staffs and 246 Clearing Agents were trained in ASYCUDA World.
- 450 staffs and 250 operators were trained in ECTS.

However, I noted the following accountability gaps:

- There was no register/list on file to enable proper identification of the specific (269) Clearing Agents that were given the platform to transact.
- The list provided for the operators trained had only 21 participants out of the 250 indicated above.
- There was no list/register indicating the number of Clearing Agents who were trained in ASYCUDA World.
- According to the URA staff attendance list for the Authorized Economic Operator trainings, some of the listed staffs did not attend while others not originally on this list were allowed to train and their names recorded in pen just below the typed list.
- Out of the 269 Clearing Agents provided with a platform to operate, 23 and 19 were not trained in ASYCUDA World and ECTS.

The above shortfalls may impede the achievement of some of the objectives intended by the project.

I advised the Accounting Officer to always ensure that the above accountability gaps identified are dealt with.

8.7 Items not in the procurement plan

It was noted that procurements worth Shs.59,424,000 regarding publicity (promotional items and TV advertisements) could not be traced to the overall procurement plan provided by the PDU. This was contrary to regulation 96 of the PPDA which requires user departments to have all their procurement plans included in the procurement plan;

Procuring items which are not on the procurement plan indicates poor planning and budgeting by management and this hinders orderly execution of annual procurement activities.

I advised the Accounting Officer to always ensure that all procurements are incorporated into the current year procurement plan so that procurement activities are executed in an orderly manner.

FINANCIAL STATEMENTS