



**ANNUAL REPORT OF THE AUDITOR GENERAL
FOR THE AUDIT YEAR ENDED
DECEMBER 2016**

VOLUME 5

VALUE FOR MONEY AUDIT

THE REPUBLIC OF UGANDA



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THE AUDITOR GENERAL FOR
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LIST OF ABBREVIATIONS

ACE	Audit Control and Expertise Uganda
ACM	Advisory Committee Meeting
ACT	Anti-Malarial Artemisinin Combination Therapies
AMC	Average Monthly Consumption
ARV	Anti-Retroviral Medicines
BCC	Budget Call Circular
BFP	Budget Framework Paper
BoU	Bank of Uganda
BPA	Bukalasa Pedigree Albar cotton
CCA	Customer Care Assistant
CDO	Cotton Development Organisation
CG	Conditional Grant
CNOOC	China National Offshore Oil Corporation
COFTU	Central Organization of Free Trade Unions
COICOP	Classification of Individual Consumption by Purpose
CPI	Consumer Price Index
CSF	Credit Support Facility
CSI	Construction Price Indices
DEO	District Education Officer
DHO	District Health Officer
DLG	District Local Government
DOSH	Department of Occupational Safety and Health
E&P	Exploration and Production
ECG	Equalization Grant
EMHS	Essential Medicines and Health Supplies
ERP	External Reference Pricing
ERT	Energy For Rural Transformation
FDP	Field Development Plan
FEWs	Field Extension Workers
FUE	Federation of Uganda's Employers
G & G	Geological and Geophysical
G & M	Gravity and Magnetic
GEF	Global Environment Facility
GH	General Hospitals
HC	Health Center
HF	Health Facility
IA	Implementing Agency
IDA	International Development Agency

IDIPG	International Drug Indicator Price Guide
ILO	International Labour Organization
IMT	Inventory Management Team
INTOSAI	International Organization of Supreme Audit Institutions
IOC	International Oil Company
IPF	Indicative Planning Figure
JMC	Joint Medical Stores
LGFC	Local Government Finance Commission
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MEMD	Ministry of Energy and Mineral Development
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance Planning and Economic Development
MoH	Ministry of Health
MOLG	Ministry of Local Government
MoWE	Ministry of Water and Environment
MPS	Ministerial Policy Statement
MSD	Medicine Stores Department
MTEF	Medium Term Expenditure Framework
MTTI	Ministry of Trade Tourism and Industry
NARO	National Agricultural Research Organisation
NaSARRI	National Semi-Arid Resources Research Institute
NDA	National Drug Authority
NDP	National Development Plan
NITA-U	National Information Technology Authority of Uganda.
NMS	National Medical Stores
NOC	National Oil Company
NOGP	National Oil and Gas Policy
NOSH	National Occupational Safety and Health Policy
NOTU	National Organization of Trade Unions
NTR	Non-Tax Revenue
OPM	Office of the Prime Minister
OSH	Occupational Safety and Health
OSHMIS	Occupational Safety and Health management Information System
PAU	Petroleum Authority of Uganda
PCU	Project Coordination Unit
PDU	Procurement Disposal Unit
PEDPD	Petroleum Exploration Development and Production Department
PFI	Participating Financial Institution
PPDA	Public Procurement and Disposal Authority
PPE	Personal Protective Equipment
PPEI	Post Primary Education Institution
PPI	Producer Price Indices

PSA	Production Sharing Agreement
QA	Quality Assurance
RRH	Regional Referral Hospital
SESTC	Social Economic Statistics Technical Committee
SMOGP	Strengthening the Management of the Oil and Gas Sector, Project
SRA	Stringent Regulatory Authority
SSASHEW	Strengthening Safeguards, Safety and Health at Workplaces
UBOS	Uganda Bureau of Statistics
UCG	Unconditional Grant
UGCEA	Uganda Ginners and Cotton Exporters Association
UIRI	Uganda Industrial Research Institute
WHO	World Health Organization

OVERVIEW

This is Volume 5 of the Annual Report of the Auditor General to Parliament prepared under the Directorate of Value for Money and Specialized Audits. This Volume contains summary reports of the 8 Value for Money (VFM) audits undertaken during the Audit Year ending 31st December 2016. The summary reports contain findings, conclusions and recommendations made for each of the VFM audits undertaken. The detailed reports have been separately issued and copies are available on the OAG website (www.oag.go.ug) and can also be availed upon request from the Office of the Auditor General.

1.1 MANDATE

The mandate of the Auditor General to audit is spelt out under the 1995 Constitution of the Republic of Uganda (as amended) and the National Audit Act, 2008. Article 163 (3) of the 1995 Constitution (as amended) requires the Auditor General to:

- (a) Audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of like nature, and any public corporation or other bodies or organizations established by an Act of Parliament; and
- (b) Conduct Financial and Value for Money audits in respect of any project involving public funds.

Under Article 163 (4), the Auditor General is required to submit to Parliament annually a report of the accounts audited by him or her or under clause (3) of this Article.

The National Audit Act, 2008 (NAA)

Section 21 of the NAA grants powers to the Auditor General to carry out Value for Money audits for purposes of establishing economy, efficiency and effectiveness of the operations of any department, ministry, local government councils or any public organization.

1.2 VISION, MISSION AND CORE VALUES

1.2.1 VISION

The vision of the Office of the Auditor General is **“To be an effective and efficient Supreme Audit Institution (SAI) in promoting effective public accountability”**.

1.2.2 MISSION

The mission of the Office of the Auditor General is **“To audit and report to Parliament thereby make an effective contribution to improving public accountability and value for money spent”**.

1.3 DEFINITION AND FOCUS OF VFM AUDITS

A VFM audit is an independent and objective examination of whether government undertakings, systems, operations, programmes, activities or operations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Economy, efficiency and effectiveness (3Es) can be defined as follows:-

- **Economy** – Minimizing the cost of resources. The resources used should be available in due time, in an appropriate quantity and quality and at the best price.
- **Efficiency** – Getting the most from available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.
- **Effectiveness** – The extent to which the set objectives have been met and the intended results achieved.

These concepts (3Es) also encompass audits addressing environmental topics and equity.

Value for Money audits are conducted in accordance with International Organization of Supreme Audit Institutions (INTOSAI) standards. Those standards require that a performance audit should be planned, conducted and reported on in a manner, which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

In carrying out such an audit, the auditor takes an in-depth analysis of the conditions that are necessary to ensure that the principles of economy, efficiency and effectiveness can be upheld. These conditions may include good management practices and procedures to ensure the correct and timely delivery of services. Where appropriate, the impact of the regulatory or institutional framework on the performance of the audited entity is also taken into account.

1.4 AUDITS UNDERTAKEN

During the year, the Directorate carried out eleven (11) Value for Money audits in various sectors; eight (8) of which have been completed and form part of this volume. Three (3) of these eleven (11) reports are still in progress. Of the eight (8) reports completed, one (1) was a follow up of a previous audit - Production of Price Indices by Uganda Bureau of Statistics (UBOS).

Specialized audits of engineering nature were also undertaken. These included; eight roads/bridges projects under Uganda National Roads Authority; eight roads/bridges projects under Ministry of Works; and one civil works construction project under ATAAS (National Agricultural Research Organisation). The detailed reports were issued separately and these form an integral part of my Annual Report to Parliament. The audits undertaken included:

Value for Money Audits

- Management of Petroleum data by the Petroleum Exploration Development and Production Department under the Ministry of Energy and Mineral Development

- Construction and Rehabilitation of Secondary School Infrastructure under the Development of Secondary Education Programme (DSE) by the Ministry of Education and Sports
- Management of Procurement and Distribution of Essential Medicines and Health Supplies by National Medical Stores (A Study on Drug Pricing and Deliveries)
- Promotion of Cotton Production and Facilitation of Value Addition to Uganda's cotton by the Cotton Development Organisation
- Enforcement of Occupational Safety and Health activities at workplaces by the Department of Occupational Safety and Health under the Ministry of Gender, Labour and Social Development
- Implementation of Solar Energy Infrastructure in selected Education and Health Facilities under the Energy for Rural Transformation Project (ERT II), by Ministry of Energy and Mineral Development
- Financing of Local Governments in Uganda through Central Government grants and Local Government revenues.
- Follow up Report on Production of indices by Uganda Bureau of Statistics

Specialized Audits (Engineering)

Uganda National Roads Authority (UNRA)	
1	Capacity Improvement of the Kampala Northern Bypass (21km)
2	Rehabilitation works of selected national roads – Lot 4: Nansana - Busunju (47.6km)
3	Construction of the new Mbarara Bypass and reconstruction of the existing Mbarara Ntungamo section of Northern corridor route (36km)
4	Construction/ Re-construction of strategic Bridges in central region Lot 1: Kabaale Bridge
5	Rehabilitation of Kiryandongo – Gulu Road; Lot 1: Kiryandongo - Karuma – Kamdini road (59km)
6	Rehabilitation of Nebbi – Pakwach Road (54km)
7	Construction of Multiple Cell Box Culverts and Drainage Structures and rising 3km access road in swamp on Leresi-Budaka
8	Construction of Apak Bridge on Lira-Abim-Kotido road
Ministry of Works and Transport	
1	West: Rehabilitation of selected District Roads in Mbarara, Ntungamo, Ibanda and Buhweju Districts/ UGX 2,408,823,080
2	District Road Rehabilitation Unit – North: Rehabilitation of Selected District Roads in Gulu and Amuru/ UGX 3,064,724,555
3	District Road Rehabilitation Unit–East: Rehabilitation of roads in Mbale district/ UGX 682,432,525
4	District Road Rehabilitation Unit–Central: Rehabilitation of Roads in Luwero District/ UGX 1,665,185,800
5	Dredging and Re-alignment of River Namanve – Wakiso District - DRRU Central/ UGX 9,462,241,230
6	Construction of Saaka Swamp Crossing Between Kaliro and Palisa Districts Phase-II

7.	14 IDB funded bridges -Lot 1 (Balla, Abalang-3, Agali and Enget)/ UGX 7,173,486,300
8.	14 IDB funded bridges -Lot 2 (Nyawa and Kochi-2)/ UGX 7,129,593,700
ATAAS	
Lot 1	Ngezardi Station in Lira District and Nasarri Station in Serere District
Lot 2	Bugizardi Station in Bulambuli District
Lot 3	Nabuzardi Station in Nakapiripirit District
Lot 5	Kazardi Station in Kabale District
Lot 6	Bulizardi Station in Hoima District
Lot 7	Nafirri Kajjansi and Narosec, Entebbe Station in Wakiso District
Lot 8	MbaZardi in Mbarara and Kamenyamigo in Lwengo

1.5 STATUS OF AUDIT REPORTS SUBMITTED TO PARLIAMENT

The Office of the Auditor General has, to date, submitted 88 Value for Money audit reports to Parliament. Of the reports so far submitted, eight (8) are in respect of the audit year ending 31st December 2016. This volume, therefore, contains summaries of the eight (8) Value for Money Audit reports submitted for the audit year ending 31st December 2016.

Discussion of the Value for Money Reports by the Accountability Committees is still a challenge. Of the eighty (80) reports earlier submitted, twenty (20) reports have been discussed by the respective Accountability Committees.

The timely consideration by Parliament of the VFM audit reports would enable timely implementation of recommendations, prevention of repetitive irregularities, improved service delivery, guidance on policy formulation and review. This would lead to improvement of government systems and procedures. The

Office is engaging Parliament and other stakeholders to address the matter.

1.6 KEY ISSUES AND RECOMMENDATIONS

1.6.1 MANAGEMENT OF PETROLEUM DATA BY THE PETROLEUM EXPLORATION DEVELOPMENT AND PRODUCTION DEPARTMENT UNDER THE MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

Petroleum data refers to all the data relied upon by government, oil companies or other actors to determine the existing petroleum potential, extent of reserves, and amount recoverable. It comprises geological data, gravity and magnetic data, seismic data and well data.

Since the 1980s, government and private companies have been collecting petroleum data. Government collected preliminary geological and geophysical data to identify petroleum potential and market demarcated blocks. Following this, private oil companies came to conduct further reconnaissance studies, and later for oil exploration. In 2006, the discovery of oil in commercial quantities in Uganda triggered more activities in the upstream oil and gas industry.

Policies and regulations have been enacted, and exploration licenses so far issued to 3 (three) International

Oil Companies (IOCs); Total E&P, China National Offshore Oil Corporation (CNOOC) and Tullow. The oil companies have been involved in exploration and development activities in the Albertine Graben. As a result of the exploration and development activities in the Albertine Graben, the Minister of Energy and Mineral Development (MEMD) granted eight (8) Petroleum Production Licenses for oil fields in Exploration Area 2 (EA2) and Exploration Area 1 (EA1) to Tullow, Total and CNOOC as joint venture partners on 30th August 2016 marking the start of the production phase; the first oil is expected in the year 2020.

Data generated throughout the petroleum value chain must be properly managed because government relies on this data to understand the potential resource it has. This audit was therefore undertaken to assess whether petroleum data is acquired and submitted according to the law, and the extent to which data is verified, stored and disseminated by the Petroleum Exploration, Development and Production department (PEDPD) in an efficient and effective way.

KEY FINDINGS

- I. The oil companies did not fully comply with submission of reports relating to their drilling, exploration activities and operations as required. Delays and non-submission of reports results in an incomplete database which may reduce the effective use of the database in petroleum resource management.
- II. The statements of recoverable expenditure for Exploration Area-2 for the period 2014 and 2015 indicated that there were unapproved budget overruns of **USD 1million** arising from various activities related to data acquisition. Failure to manage costs results into probability of non-recoverability of costs by the International Oil Companies (IOCs) which may lead to arbitration. In case of recoverability, this will

result into higher costs of data acquisition than was expected.

- III. There was inadequate quality control and assurance undertaken by Petroleum Exploration Development and Production Department on well data and reports submitted by IOCs. Out of nineteen (19) files reviewed, thirteen (13) files did not show evidence of quality control checks. Similarly, out of the sampled ten (10) seismic surveys conducted, staff took part in the verification/ quality control process of four (4) seismic surveys. Consequently, failure to subject the data and reports to a quality control and quality assurance processes compromises the quality of the data.
- IV. Data storage and safety
 - A review of the current database of users and their responsibilities revealed a number of generic accounts. However, there was no formal list of users who are allowed to use these accounts. In addition, such user accounts were being used to delete, edit and create data in the production database. There was no segregation of duties regarding the Crane database. This may result in having unauthorized changes to the application logic to benefit a few users.
 - There was no offsite backup; the data storage tapes where data was backed up were all stored in the physical data storage room. Similarly, the Crane database was incomplete since it lacked data on seismic surveys and well drilling, including cost database, fluids, cuttings catalogue and rock samples catalogue. This has denied the department the benefits of a secure and centralized database and information sharing.

The inadequacies in ensuring proper storage and safety of both electronic and physical data, poses a risk of loss of data.

- V. Petroleum Exploration, Development and Production Department (PEDPD) did not have guidelines and procedures for data dissemination. Schedule 2 of Regulations on the sale of data has classified the data and costs thereof; however, there was no documented criterion for determining the rates for sale of data. The Metadata system that enables easy access to information by authorized users was not put in place thus key information about oil and gas activities was not easily availed to external stakeholders but rather to internal users.

KEY RECOMMENDATIONS

- I. The Ministry of Energy and Mineral Development (MEMD) through the Petroleum Authority of Uganda (PAU) should formulate guidelines for submission of well data, geological and geophysical data and reports (upstream activities); and put in place adequate mechanisms to monitor compliance with this requirement by IOCs.
- II. MEMD through PAU should formulate guidelines for purposes of streamlining the data verification and quality check process for well data.
- III. MEMD through PEDPD should formulate an IT information security policy and develop procedures for managing information security, including specifying the management of generic user accounts and segregation of duties.
- IV. MEMD through PAU should formulate a data management policy and strategy, and a disaster recovery plan.
- V. MEMD through the PAU should ensure that the data management system including the Crane database is fully updated to ensure effective dissemination of data to authorized users/potential investors.
- VI. The National resource databank should be set up for effective management of petroleum data.
- VII. MEMD through the PAU should develop guidelines for data dissemination including procedures on determining rates for the sale of data.

OVERALL AUDIT CONCLUSION

The shortcomings in the management of petroleum data by the Ministry of Energy and Mineral Development may affect the completeness of the data on the existing petroleum potential, extent of reserves, and amount recoverable thus reducing Uganda's ability to maximally exploit and benefit from its oil and gas resource potential. A thorough understanding of the resource base and its geographical distribution informs key decisions on the rate of exploitation and potential future revenues.

1.6.2 CONSTRUCTION AND REHABILITATION OF SECONDARY SCHOOL INFRASTRUCTURE UNDER THE DEVELOPMENT OF SECONDARY EDUCATION PROGRAMME (DSE) BY THE MINISTRY OF EDUCATION AND SPORTS

Provision of quality education has for long been one of the top priorities for the Government of Uganda. In order to achieve this, the government came up with a number of interventions aimed at, among other things, providing additional and better infrastructure for learning. One of such interventions was the Development of Secondary Education (DSE) programme. This programme provides infrastructure in form of classrooms, administration blocks, libraries, dormitories, toilets, and teachers' houses for both existing and new schools. The programme is implemented by the Ministry of Education and Sports through individual schools across the country with each of them playing separate but complementary roles.

The Office of the Auditor General undertook an assessment of the activities implemented under the DSE programme to ascertain if these activities are undertaken in a way which promotes efficiency and economy in the utilization of public resources while at the same time achieving the objectives of the programme.

The audit identified areas of weakness in the planning for programme activities, utilization of resources, procurement of contractors, and contract implementation that need to be addressed if the programme is to post better performance. Some of the key areas identified are:

KEY FINDINGS

- I. There was no detailed needs assessment undertaken by the Ministry of Education and Sports before implementing the programme. Consequently, there was no systematic way of identifying beneficiary schools from the pool of schools in the country, and the type of infrastructure to provide to these schools.
- II. The DSE programme lacked a detailed strategic plan detailing the long term targets of the programme and strategies for achieving these targets. Without clearly defined strategic goals, it became difficult to measure the effectiveness of the programme in addressing the sector infrastructure needs.
- III. There were cases where utilisation of programme funds was contrary to the guidelines: UGX 1.27 billion was diverted to other activities; UGX 509.6 million was never utilized/absorbed by the beneficiary schools, while utilization of UGX 338 million could not be explained.
- IV. A number of schools received funds but took more than 100 days to have contracts signed. In some cases, the duration between receipt of funds and contract signing was 200 days. These avoidable delays resulted in delayed realisation of programme targets.
- V. There were delays noted in completion of works. Furthermore, there was no evidence that the penalty clauses in the signed contracts were never invoked for non-adherence to the agreed timelines. In some cases works delayed for more than 100 days.
- VI. Some payments made to the contractors were not commensurate to the value of works executed. Payments were sometimes made for works that were not executed by contractors, which unnecessarily inflated the cost of doing work on one hand, while also denying the users of the facilities these needed items on the other.

- VII. Although the completed works were to a large extent still visually holding by the time of audit, there were also a number of cases where works executed had uncorrected defects. In some cases this was after the lapse of the defects liability period.
- V. The Ministry should expedite the process of reviewing the procurement modalities for contractors to avoid unnecessary delays.
- VI. The Ministry should strengthen technical supervision of on-going works to minimise cases of delayed completion of works, payments for unexecuted works, and paying for works that do not conform to the expected quality specifications.

KEY RECOMMENDATIONS

- I. The Ministry of Education And Sports should undertake a detailed needs assessment of the infrastructure needs of the country before embarking on implementation of Phase II. This should be supplemented by a systematic method of allocating resources amongst the competing schools.
- II. The Ministry should revise the form of engagement with the District Engineers in order to strengthen technical supervision of on-going works.
- III. The Ministry and the schools should desist from diverting programme resources to non-programme activities.
- IV. The Ministry should follow up cases of unabsorbed funds; and cases where the utilization of the disbursed funds could not be explained, with the aim of ensuring that these funds are utilized for programme activities.

OVERALL AUDIT CONCLUSION

The Development of Secondary Education (DSE) programme is one of the key government interventions to address the infrastructure needs at secondary school level. The overall programme objective of providing additional infrastructure for secondary schools has to a large extent been achieved. The shortcomings identified regarding management and supervision of signed contracts as evidenced by delays, and weaknesses in certification of works for payments should be addressed through strengthening supervisions of contract implementation processes.

1.6.3 MANAGEMENT OF PROCUREMENT AND DISTRIBUTION OF ESSENTIAL MEDICINES AND HEALTH SUPPLIES BY NATIONAL MEDICAL STORES (A STUDY ON DRUG PRICING AND DELIVERIES)

Over the years, government has emphasized the importance of efficient and appropriate procurement, storage and distribution of essential medicines and health supplies (EMHS) at all levels of the health management system to ensure effective nationwide delivery of the Uganda National Minimum Health Care Package.

National Medical Stores (NMS) was set up by the National Medical Stores Act 1993 (Cap 207) as an autonomous body responsible for procurement, storage and distribution of essential medicines and health supplies, to all public health facilities in the country.

In 2010, the Office of the Auditor General (OAG) undertook a value for money audit on the procurement and storage of drugs in which a number of shortcomings were observed such as failure to meet customer requirements, lack of proper procurement plans, lack of a clear coordination mechanism with third parties

in the area of procurement, and improper handling of expired drugs.

Following public concerns, the OAG undertook a risk assessment in 2016 which revealed that the health sector still faced challenges regarding drug pricing and deliveries to health facilities by NMS. Furthermore, an evaluation of the basic kit system in 2013 by the National Pharmaceutical Sector revealed that the majority of health facilities were either over or under supplied. The report further observed that although NMS had implemented district-specific kits for each of these levels of care to better match specific needs, procurement planning remains a challenge at health facility level.

It is against this background that OAG decided to conduct a value for money study to assess the extent to which NMS efficiently delivers EMHS in the right quantities at reasonable prices to public health facilities in Uganda.

KEY AUDIT FINDINGS

DRUG PRICING

Comparisons were undertaken between NMS prices and international and local market prices to assess the reasonableness of prices charged to Health facilities and the following was observed:

I. International Reference Prices Vs NMS Supplier Prices

- NMS procured all the thirteen (13) selected national tracer drugs at relatively lower prices compared to the International Reference prices. 69% of these drugs were procured at prices lower than the international prices by at least 50%.
- It was observed that in the majority of cases, the prices at which NMS procured Anti-Retroviral medicines (ARVs) from the approved local manufacturer during the period under review were higher than

the donated drug prices. The high prices mean fewer quantities are procured for distribution to health facilities with the available resources. This can result in increased donor dependency which exposes government to a risk of limited availability of ARVs in the event of withdrawal or expiry of donor funding.

- It was noted that 73% of the fifteen (15) selected most frequently ordered anti-cancer drugs were procured at a relatively higher price compared to the international median prices. Seven (7) out of the fifteen (15) drugs were procured at prices relatively higher than the international prices by more than 100%.

II. NMS prices Vs Joint Medical Stores (JMS), and Local Market prices for EMHS

It was observed that out of the thirteen (13) selected EMHS drugs, 77% were issued by NMS to health facilities at lower than the average market prices. Additionally, 92% were issued at a relatively lower prices compared to Joint Medical Stores prices.

III. Mark-up Charges

Significant variations were noted in the rates applied to the drug purchase prices in respect of handling fees to derive the issue prices to the health facilities.

PLANNING AND DELIVERY OF EMHS

IV. It was noted that owing to the budget constraints experienced by NMS and price variations, 94% of the selected seventy two (72) health facilities did not receive EMHS quantities as planned and ordered for in 2013/14 and 2014/15. 53% of the facilities did not receive the drugs that were planned and ordered for in the FY 2015/16. Furthermore, 93% received

less EMHS quantities than were ordered for during the three year period under review.

V. 94% and 90% of the selected seventy two (72) health facilities received EMHS quantities that had neither been planned nor ordered for in 2013/14 and 2014/15 respectively.

VI. Over 90% of the seventy two (72) selected health facilities received EMHS quantities in excess of what had been ordered for during the 3 years under review.

TIMELINESS OF EMHS DELIVERIES

VII. Whereas efforts were made to deliver EMHS in time, cases of delays were noted. Consequently, stock-outs of essential medicines and health supplies averaging (9-15) days were experienced by the selected health facilities thereby hampering service delivery.

KEY RECOMMENDATIONS

- I. The Ministry of Health should work closely with the local company to ensure that the objectives of the Memorandum of Understanding (MoU) to provide low cost pharmaceutical products are achieved. This will require compliance by government to the terms of agreement that give exclusive rights to the local manufacture for purchase of Anti-Malarial Artemisinin Combination Therapies (ACTs) and Anti-Retroviral Medicines (ARVs) since it was envisaged that increased economies of scale would drive prices down.
- II. Procurement of anti-cancer drugs should be opened up to all National Drug Authority (NDA) approved manufacturers/suppliers. Drugs on the NDA register should only be rejected if it can be demonstrated that they are of inferior quality. In addition, NMS should co-opt subject matter specialists (Uganda Cancer Institute and NDA representatives) on the evaluation committee for the procurement of anti-

cancer medicines. The procurement of SRA approved drugs should be undertaken in consultation with NDA.

- III. NMS should apply the 8% and 7% statutory mark up for EMHS and ARVs, respectively as provided for in the approved annual budgets and as required by the Entity's Financial Reporting Framework.
- IV. NMS should ensure that the survey reports and procedures are comprehensively reviewed to ensure accuracy.
- V. NMS should ensure that the prices communicated to health facilities at the planning stage reflect the running contract prices.
- VI. NMS should engage MoFPED and MoH to agree on a framework for bridging the financing gaps caused by volatility in exchange rates.
- VII. Changes in treatment policy and item specification should be properly planned and communicated in order not to impact on the procurement and supply chain.
- VIII. MoH should ensure that arrangements for supplies of emergency drugs are done in full consultation with NMS and the beneficiary health facilities to enable proper planning of procurement and utilization.
- IX. Procurement planning should be undertaken based on the disease burden other than the average monthly consumption so as to ensure the accuracy of planned drug quantities.
- X. NMS should automate the processes of planning, ordering, receipting, storage, distribution and delivery of orders so as to improve on timeliness of drug deliveries.
- XI. NMS should promptly resolve customer complaints in a timely fashion.

OVERALL AUDIT CONCLUSION

Whereas NMS purchased EMHS at lower prices relative to international market prices, anti-cancer drug prices were found to be on the higher side. Similarly, ARVs prices were found to be higher than the donated drug prices. Further, in comparison with market prices, NMS prices for EMHS were found to be generally lower than those of comparable providers. However, the excessive charge for the handling fees impacted on the prices charged to health facilities.

Therefore, except for ARVs and anti-cancer drugs, EMHS drug prices were found to be generally reasonable for the sampled drugs. Overall, health facilities experienced discrepancies in delivered quantities during the period under review.

Whereas efforts were made by NMS to deliver EMHS in a timely fashion, cases of delays were noted.

1.6.4 PROMOTION OF COTTON PRODUCTION AND FACILLTATION OF VALUE ADDITION TO UGANDA'S COTTON BY THE COTTON DEVELOPMENT ORGANISATION

Cotton has for long been one of Uganda's major cash crops and foreign exchange earners for Uganda in addition to contributing to the livelihoods of most Ugandans both directly and indirectly. This contribution has been through employment, contribution to GDP, fight against household poverty and promoting social stability. Cotton as a product starts with seed cotton from the farmers and can be transformed into many products such as lint, yarn, fabric and garments. It can also be used for edible oil, seed cake soap and linters.

The cotton subsector faced a number of challenges which affected production, profitability and productivity of the sector during the 1980s which subsequently resulted in its liberalization in 1994 and formation of the Cotton Development Organisation (CDO) to oversee all the activities of the sector and to ensure that the sector performs to its full potential.

The Office of the Auditor General undertook an assessment of the effectiveness of the measures undertaken by the Cotton Development Organisation to promote cotton production and facilitate value addition to Uganda's cotton. The audit identified areas that need attention if CDO is to realise increased cotton production and increased value addition. These include:

KEY AUDIT FINDINGS

- I. The sector's production potential as detailed in the strategic plan 2010/11-2014/15 was not realised. Actual lint production for example, was below target by 247,381 bales, 371,636 bales, and 406,907 bales in FY 2012/13, 2013/14 and 2014/15 respectively. Similarly, the actual total acreage under cotton production was below target by 77,500 acres, 168,000 acres, and 93,600 acres in 2012/13, 2013/14 and 2014/15 respectively.
- II. A number of interventions designed to facilitate value addition to Uganda's cotton remained unimplemented. Consequently, an average of ninety five per cent (95%) of all the lint produced in Uganda was exported without any form of value addition, and the envisaged sector earnings for both farmers and dealers in cotton products were never realised.

- III. A number of causes explain the above performance. These include non-prioritization of the cotton by government, limited investments in the cotton sector, inadequate production inputs, and limited coordination among key government agencies undertaking cotton related activities.

KEY RECOMMENDATIONS

- I. The Government should revise its strategic approach towards the cotton subsector especially in areas of value addition.
- II. Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) together with CDO should find alternative ways of empowering CDO to ensure that the sector production targets are set and underlying activities directly implemented and monitored by CDO rather than relying on private sector.
- III. CDO and MAAIF should review the arrangement between CDO and Uganda Ginners and Cotton Exporters Association (UGCEA) with a view of finding alternative ways of addressing the demand gap for production inputs which cannot be met by the private sector.
- IV. CDO should streamline the management of the buffer fund provided for procurement of buffer stocks by for example ensuring that guidelines are expeditiously approved, and detailed needs assessment is undertaken before replenishing the current stock.

OVERALL AUDIT CONCLUSION

The Cotton sub sector has to a large extent not achieved its full potential in regard to cotton production and value addition to cotton and its by-products. The sector can however perform better and achieve its strategic targets if the weaknesses identified such as non-prioritization of the sector, inadequate supply of production inputs, among others are addressed.

1.6.5 ENFORCEMENT OF OCCUPATIONAL SAFETY AND HEALTH ACTIVITIES AT WORKPLACES BY THE DEPARTMENT OF OCCUPATIONAL SAFETY AND HEALTH UNDER THE MINISTRY OF GENDER LABOUR AND SOCIAL DEVELOPMENT

Occupational Safety and Health (OSH) is defined as the science of anticipation, recognition, evaluation and control of hazards arising in or from the workplace that could impair the health and wellbeing of workers, taking into account the possible impact on the surrounding communities and the general environment¹. OSH therefore deals with the prevention of work-related injuries and diseases as well as the protection and promotion of the health of workers. It aims at the improvement of working conditions and environment.

In Uganda, the Ministry of Gender, Labour and Social Development through the Department of Occupational Safety and Health is responsible for administration and enforcement of the Occupational Safety and Health Act, No 9, 2006.

Despite government efforts to improve safety and health of all workers in the country through funding

1 ILO Fundamental Principles of Occupational Health and Safety

enforcement of OSH activities, repealing of the Factories Act, 1964 that led to the enactment of the OSH Act, 2006 and statutory instrument No. 87 (2014), limited impact has been registered due to inadequate enforcement of the OSH Act 2006.

Although Uganda's economy has registered a number of achievements, various aspects of occupational safety and health (OSH) have not been adequately addressed. Management of the OSH issues at workplaces continue to be left unattended to by different sectors of government and private sector. Currently Uganda's labour productivity is the lowest in East Africa due to poor working conditions as one of the factors identified by the Social Development Sector Investment Plan II 2011/12 to 2015/16.

The Office of the Auditor General undertook a value for money audit on the enforcement of Occupational Safety and Health activities at work places by the MoGLSD, to identify the challenges faced, analyse their underlying causes and make recommendations to address them.

KEY AUDIT FINDINGS

Registration of Workplaces and Equipment Certification

- I. It was noted that out of the estimated one million work places in the country, only 756 were registered by the MoGLSD as at 30th June 2015. It was further noted that of the 756 workplaces registered, none was a government entity.

It was also established that 39 of the workplaces registered by the Department of Occupational Safety and Health (DOSH) from 2010 to 2012 had not renewed their certificates as at 30th June 2015 yet their statutory period of renewal had elapsed. There were also delays by workplaces to apply for renewal of their registration certificates.

- II. The statutory period for renewal for a number of equipment certified between 2012 and 2015 had elapsed as at 30th June 2015. There were also notable delays by workplaces to apply for renewal of their equipment certification.

Inspection and Monitoring of OSH Activities

Out of the estimated one million work places in the country, only 476 were inspected over the three (3) years under review, broken down as 212, 125 and 139 in the FY 2012/13, 2013/14 and 2014/15, respectively. It was further established that whereas the Ministry procured analytical and clinical laboratory equipment worth UGX 509,702,346 to facilitate inspections, and laboratory analysis and testing in April 2014, the Department has neither a designated analytical nor clinical laboratory for analysis and testing; and the Department has not fully trained the inspectors on the use of the equipment, given their complexity.

OSH Training and Sensitization

Although DOSH carries out sensitization through print and electronic media, breakfast meetings with media houses, commemorating world day for safety and health at work (28th April), and gazetting of the national OSH week before 28th April every year. It was noted that more emphasis is put on workplace registration which has resulted into limited awareness of OSH at the workplaces.

Coordination Mechanisms

- I. Out of 1,624 EIAs approved by NEMA during the 3 years under review, MoGLSD reviewed only 92

EIAs representing 5.7% of the reports, leaving 1,532 EIAs (94.3%) not reviewed.

- II. The Department of Occupational Safety and Health reviewed and approved only 75 building plans from Kampala, Wakiso, Entebbe, Mukono and Lyantonde districts, and realized UGX 67,700,000 from approval fees. It was also noted that there was a conflict of mandates in the OSH Act and the Physical Planning Act, 2010. While Section 42 of the OSH Act, 2006 requires all local governments and developers to submit architectural drawings/plans to the Department of OSH (DOSHS) for review and approval, the Physical Planning Act, 2010 does not provide for submission of these plans to DOSHS for review and approval.
- III. It was noted that there was limited information sharing between the three bodies regarding statistics of occupational-related accidents, diseases, injuries and fatalities. As a result the DOSHS did not have an up to date database relating to occupational accidents, injuries and diseases.

KEY RECOMMENDATIONS

- I. The MoGLSD should develop a comprehensive strategy to ensure that all workplaces are registered and registration certificates are renewed upon expiry. This strategy should provide for the following aspects among others:
 - Extensive and sustained sensitization about the importance of workplace registration and equipment certification;
 - Close collaboration with other government agencies to keep track of existing and new workplaces that require to register; and
 - Invoke the penalty clauses for non-compliance so as to ensure OSH

compliance at workplaces. Where the penalty is not punitive, the Ministry should bring up this anomaly for consideration when the OSH Act is being reviewed.

- II. Develop and implement a systematic risk assessment criteria to identify and assess OSH hazards, and prioritize workplaces for inspection to enable the Ministry provide assurance that the available resources are used to carry out the most critical inspections.
- III. Put in place mechanisms to maximize the number and impact of workplace inspections through informed planning for inspections and ensuring that feedback is given following inspections.
- IV. Enforce penalties and sanctions for non-compliant workplaces as indicated in the inspection reports. In addition, where the penalties are not deterrent, the Ministry should consider including this issue as it reviews the OSH Act.
- V. The MoGLSD should liaise with the Ministry of Public Service to fill the staffing gaps and also strengthen collaboration with other government organs namely, districts as these have labour officers who can be used to further enforce OSH through inspections and follow up.
- VI. The MoGLSD should develop a framework for OSH training, awareness and information sharing at all levels and also enhance cooperation with civil society organizations (NOTU, COFTU and FUE) to train and sensitize employers, workers and the general public in all aspects of OSH, rather than focusing only on registration to promote a safety culture of managing risks and hazards at work places.
- VII. The MoGLSD should also fast track the approval of the National OSH policy. This

will create awareness on how work-related accidents and diseases can be prevented and provide for equitable compensation benefits to those who are injured or contract occupational diseases.

- VIII. To enhance the current coordination efforts, MoGLSD should consider entering into memoranda of understanding with the various Agencies (NEMA, District local governments, Ministry of Health and Uganda Police) to spell out their roles, responsibilities and expectations in the workplace occupational and safety value chain.
- IX. The MoGLSD should follow up with stakeholders to ensure the implementation of resolutions made regarding registration of new workplaces and promotion of OSH through chain-linkage engagement and information-sharing.
- X. The MoGLSD, in collaboration with NEMA and District Local Governments, should plan for and review all EIAs and Architectural drawings/plans, respectively, in order to improve OSH measures, identify upcoming workplaces and collect NTR.
- XI. The MoGLSD should engage Ministry of Health and the Uganda Police Force to obtain up/to/date information relating to occupational-related accidents, diseases, injuries and fatalities so as to ascertain the trends of accidents, injuries and diseases which will enable it develop and implement interventions aimed at minimizing occupational accidents, diseases and injuries.
- XII. The MoGLSD should also establish a framework for a coherent and comprehensive National Safety and Health data management system.

OVERALL AUDIT CONCLUSION

The Occupational Safety and Health Act, 2006, was enacted by Parliament to provide for the right of persons to work under satisfactory, safe and healthy conditions. However, despite the existence of the Act, many workers in Uganda are not aware of their rights to a safe and healthy working environment and have remained exposed to unhealthy working conditions, faulty plants and equipment, dangerous civil works and constructions leading to ill health and death. Enforcement of the OSH legislation has not been effective due to inadequate awareness and sensitization on OSH standards, limited personnel and logistics, absence of the National OSH Policy and an OSH Laboratory to analyze exposure measurement samples and to test personal protective equipment. There is need for the MoGLSD to develop a framework for OSH training, awareness and information sharing at all levels as well as enhance cooperation with civil society organizations (NOTU, COFTU and FUE) to train and sensitize employers, workers and the general public in all aspects of OSH.

1.6.6 IMPLEMENTATION OF SOLAR ENERGY INFRASTRUCTURE IN SELECTED EDUCATION AND HEALTH FACILITIES UNDER THE ENERGY FOR RURAL TRANSFORMATION PROJECT II (ERT II), BY MINISTRY OF ENERGY AND MINERAL DEVELOPEMENT

The Energy for Rural Transformation Project II (ERT II) was a strategic effort by the Government of Uganda to provide infrastructure and functioning social services to promote growth and reduce poverty. The Objective of the ERT II project is to increase access to energy and Information Communication Technologies (ICTs) in rural Uganda.

The project had three components, namely: a) Rural Energy Infrastructure; b) Information Communications Technologies (ICTs), and c) Energy Development, Cross Sectoral Links and Impact

Monitoring. The Rural Energy Infrastructure focused on provision of rural electrification, renewable energy power generation, solar PV systems and energy efficiency. The Information Communication Technologies component focused on extending access to ICT services while the Energy Development, Cross Sectoral links and Impact Monitoring components aimed at providing support to the Project Coordination Unit and the implementing sectors of health, education, water, agriculture and local government².

The overall objective of this audit was to assess whether the planning and implementation of solar energy infrastructure under the Rural Energy Infrastructure component was properly undertaken to achieve the expected timelines, coverage and functionality of the infrastructure.

KEY AUDIT FINDINGS

- I. It was noted that 15 out of 40 schools sampled got solar packages worth USD 162,599 yet they did not meet the eligibility criteria. They were either connected to the grid before the installation of the solar, or were within close proximity to a low voltage grid line contrary to the set criteria. This was caused by gaps in the allocation criteria that left room for arbitrary selection of the beneficiaries.

It was also established that 8 out of 40 selected schools, and 2 out of 25 selected health centers under the implementing sectors of education and health, respectively, were provided with solar packages yet they had either incomplete, non-existent, or inhabitable buildings that could not support the installation of the solar packages. Thus, at the time of audit inspection in March 2016, some of the solar packages were still in boxes at the headmasters' offices while others were stored in places where they were prone to damage or theft.

- II. There were notable delays in the implementation of the solar infrastructure. Installations for solar infrastructure in educational institutions were to commence in January 2012 and end in December 2012. The solar infrastructure installations under Ministry of Health (MoH) were batched into four lots with varying commencement and end dates ranging from July 2009 to April 2013. It was however found that in some instances, installations of the solar infrastructure had been completed as late as 2014 after delays of over twelve (12) months under Ministry of Education and Sports (MoES) and MoH while in other instances no installations had been made at the time of audit inspection in March 2016.

- III. It was established that there were instances where the solar packages installed in the facilities were not functioning for various reasons. In some instances, solar systems worked for fewer hours than expected and caused the administration to withdraw some light bulbs, while others experienced system overload as a result of so many appliances being turned on.

In the selected 10 schools and 3 health centers, the contractors did not provide maintenance kits and spare materials like light bulbs, manuals were not left at the facilities, installation of lightning arrestors/conductors was not done, and in some cases irrationalized installation of energy packages was noted.

It was established that supplied equipment for example; batteries, panels, lamp holders, switches, among others in some schools had been vandalized.

² ERT II Operational manual, 2009, page 1

KEY RECOMMENDATIONS

The ERT II Project Coordination Unit in the Ministry of Energy and Mineral Development should:

- I. Ensure that, in future implementation of the program, the selection of beneficiaries is comprehensively undertaken by the implementing agencies in accordance with the clearly defined criteria. More guidance needs to be developed for the application of the established criteria. A weighting system could be introduced to avoid subjectivity in the selection process.
- II. Ensure that the implementing agencies of Education and Health closely monitor and enforce compliance of the needs assessment contract provisions, by specifically visiting the schools during the process of undertaking and reviewing the energy needs assessment, to ensure full delivery of the contractual outputs.
- III. Ensure that the necessary approvals from the funders of the programme are properly planned and obtained in a timely manner. In addition funds for contracts effectiveness should be made available to contractors within the shortest time after contracting.
- IV. Ensure that future solar package installations are properly monitored and maintained for proper and continued functionality.
- V. Ensure that the implementing agencies of Education and Health put in place asset replacement policies to ensure continued functionality of the infrastructure.
- VI. Ensure that adequate measures are put in place for protection of the installations
- VII. Ensure that maintenance of the infrastructure encompasses provision of maintenance kits to the schools and health

facilities to be able to effectively operate and maintain the solar infrastructure now and upon project closure.

- VIII. Follow up with the implementing ministries to ensure that the contractors contracted to put in place the solar infrastructure train and develop the capacity of the beneficiaries to install and maintain the solar packages.

OVERALL AUDIT CONCLUSION

Whereas the Ministry of Energy and Mineral Development has undertaken specific interventions aimed at increasing access to energy through provision of energy technologies under the implementing sectors of health and education, inadequate planning, beneficiary selection and energy needs assessment resulted in irregular distribution /installation of packages and un-installed packages. This has led to underutilization of energy output. In some instances vandalism was reported due to poor security measures. Inadequate contract management, monitoring and supervision, led to significant delays in implementation of the Project. It is hoped that with the implementation of ERT III, the lessons learnt will be applied to fulfill the objectives of the project.

1.6.7 FINANCING OF LOCAL GOVERNMENTS IN UGANDA THROUGH CENTRAL GOVERNMENT GRANTS AND LOCAL GOVERNMENT REVENUES

The Budgets of Local Governments (LG) in Uganda are funded through central government grants, local revenue collections, and in some cases borrowing and/or donations from development partners either directly to the Local Governments or indirectly through the sectors. Central Government Grants (Transfers) constitute the major source of revenues to Local Governments.

Central Government transfers comprise conditional grants, unconditional grants and equalization

grants. For locally raised revenues the LGs identify their own local revenue sources through enumeration, registration and assessment prior to carrying out local revenue collections.

Central Government grants to LGs contribute over 85% of financing to LG budgets with more than 90% of this funding coming in form of conditional grants. This heavy reliance on CGs for financing has left LGs with very marginal opportunity for local fiscal autonomy and discretion in resource allocation decisions. Besides there has been a notable reduction in the Local Government's own revenues, for example, in 2005 the Graduated Tax which was the predominant source of local revenue was suspended and later abolished in 2008.

Arising out of these concerns, the Office of the Auditor General undertook an audit with the objective of assessing the extent to which the current measures ensure equitable and adequate allocation of resources to LGs. The audit also sought to assess the extent to which local governments are exploiting their potential to generate local revenue.

KEY FINDINGS

I. ADEQUACY OF CENTRAL GOVERNMENT ALLOCATIONS TO LGs

- The planning process for financing of LGs has not been guided by comprehensive needs assessments but rather by Indicative Planning Figures (IPFs) as advised by MoFPED. The IPFs sent to LGs are pre-determined by individual sectors based on the previous financial year allocation. This has resulted in actual budgetary requirements for LGs not being clearly known for purposes of resource allocation.
- The allocation of Conditional grants to the Local Government by the sector is not in accordance with the formulae agreed upon with LGs and the Local Government Finance Commission (LGFC). Consequently, Local governments have not had the expected increments in conditional grants to match

the increase in the cost of delivering services in LGs and the growing needs.

- The allocation of Unconditional grant to LGs is not undertaken in accordance with the formulae prescribed under Article 193 (2) of the constitution. Consequently, the allocations have not enabled LGs to adequately finance their local discretionary priority needs or cater for the general price changes and the incremental costs of running services.

II. ENSURING EQUITABLE BUDGET ALLOCATIONS TO LGs

- There is a mismatch between development and recurrent expenditure allocations to LGs. Development expenditure received on average 14% of total allocations to LGs compared to 58% allocation at national level.
- Sectors were retaining the biggest proportions of their allocations despite devolving the responsibility of service delivery to LGs. The key service sectors of water, works, agriculture and health retained on average more than 80% of sector allocations at the centre.
- It was noted that the unit rate per pupil for UPE capitation grant allocation under the variable component differed from district to district. For the FY 2015/16, whereas the national unit average stood at UGX 7,349, the districts of Amudat, Kaabong, Zombo and Nakapiripit received a unit rate of less than UGX 6,000 while Mbarara district and Jinja municipality received a unit rate above UGX 10,000 per pupil.

III. THE POTENTIAL OF LGs TO RAISE LOCAL REVENUE

LGs have not fully exploited their potential to generate local revenue. For the three years 2012/13, 2013/14, and 2014/15, financial statements showed that the local

governments were not able to tap into key revenue sources and also had revenue shortfalls of UGX 83.6 billion representing 17.6% of projected revenues. The low revenue performance was attributed to the following:

- The existing laws and regulations governing local revenue management (domestic business registration, regulation and licensing) have not been updated to reflect current operations and thus are complicated, hard to administer and to comply with, and do not represent best practices.
- LGs have not done adequate enumeration, assessment, and registration in order to expand their local revenue base.
- LGs were not carrying out adequate mobilisation and sensitization for local revenue to improve tax compliance.
- Weak collection and enforcement mechanisms for property rates that resulted into uncollected/untapped property tax amounting to UGX 19 billion in the LGs that had property valuation registers. The potential for the other 23 selected LGs remained unknown due to lack of property valuation registers.

KEY RECOMMENDATIONS

- I. MoFPED should ensure a comprehensive assessment of needs at grassroots is done, prioritization undertaken and consolidation done through the various LG administrative units to sectors for consideration in determining funding priorities. The MoFPED in consultation with the Ministry of Local Government should strengthen the capacity of LGs and develop tools to facilitate compliance and monitoring.
- II. MoFPED should work with the Sector ministries to establish the unit cost of

delivering delegated services at LGs in order to facilitate proper planning and resource allocation. Resource allocation by MoFPED and sectors should be undertaken in accordance with the framework established for unit costs and agreed formulas.

- III. MoFPED should ensure that the formula prescribed under Article 193 (2) of the Constitution of the Republic of Uganda 1995 as amended is followed in order to achieve the objective of fiscal decentralisation.
- IV. MoFPED and MoLG should ensure that the sectors fully embrace the objectives of fiscal decentralisation by empowering LGs to implement development programs within their jurisdiction.
- V. The Ministry of Local Government should prioritize the review and update of the legal framework. This will require adequate consultations with Ministry of Justice and Constitution Affairs, the Law Reform Commission and other key stakeholders.
- VI. MoLG should invest in building capacity for Local Governments to adequately conduct enumeration, assessment and registration for improved local revenue performance.
- VII. MoLG should support LGs to come up with property valuation registers to boost local revenue collections.
- VIII. MoFPED and MoLG should set local revenue performance targets to Accounting Officers of LGs as part of their performance contracts in order to improve their involvement in revenue management.

OVERALL AUDIT CONCLUSION

Financing of local governments is critical to the success of the decentralisation policy. Overtime Government has made improvements in the level of financing of LGs through various policy reforms and increased central government transfers. In spite

of these efforts financing of Local Governments is still a challenge as it has not been matched with the increased demand and cost for services in LGs. The lack of comprehensive needs assessment and inappropriate application of the prescribed formulae for allocation of Central Government grants to LGs has resulted in increased funding gaps. The mismatch between development and recurrent expenditures, decreasing allocations for LGs relative to the sector allocations coupled with wide disparities in the unit costs of service delivery across various LGs points to inequitable distribution of resources.

On the other hand there exists huge potential for Local Governments to enhance their local revenues but owing to various weaknesses not much has been done to exploit that potential. Government needs to invest significantly in the enhancement of local revenues at the local government level.

1.6.8 FOLLOW UP REPORT ON PRODUCTION OF INDICES BY THE UGANDA BUREAU OF STATISTICS

The Office of the Auditor General undertook a Value for Money audit on the production of Price indices by Uganda Bureau of Statistics (UBOS) during the Audit year 2013/14 and a report was submitted to The Parliament of Uganda in March 2014. The major objective of the study was to evaluate the process of production of three categories of indices namely: Consumer Price Indices (CPI), Producer Price Indices (PPI) and Construction Sector Indices (CSI), in order to establish the extent to which they could be relied upon to produce credible statistics for decision making. In order to identify the value added by the audit, it was necessary to undertake a follow up of the implementation of Auditor General's recommendations by Uganda Bureau of Statistics.

KEY FINDINGS

UBOS undertook measures to address OAG recommendations by rebasing the CPI which improved the representativeness and coverage

of the sample, updated the weights to fit current expenditure patterns of households. The PPI was also in the process of being rebased. The measures undertaken improve the reliability of the CPI and PPI to great extent.

However, it was observed that the CSI had not been rebased. Rebasing would expand the scope of the CSI, improve representativeness of its sample using a newer and wider sampling frame and enable the collection of more reliable data on wages. It was also observed that UBOS had not yet undertaken studies to establish the difference between rural and urban prices and whether the 8 urban centres sampled adequately represented all urban centres in the country. Consequently, the significance of excluding rural prices from the computation of the National CPI is yet to be established.

OVERALL AUDIT CONCLUSION

Out of 23 recommendations made by OAG, 14 were fully implemented, 7 were in the process of being implemented while 2 recommendations had not been implemented by UBOS.

2 MANAGEMENT OF PETROLEUM DATA BY MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

2.1 INTRODUCTION

2.1.1 BACKGROUND

Petroleum data refers to all the data relied upon by Government, oil companies or other actors to determine the existing petroleum potential, extent of reserves, and amount recoverable. It comprises of geological data, gravity and magnetic data, seismic data and well data.

Since the 1980s, Government and private companies have been collecting petroleum data. Government collected preliminary geological and geophysical data to identify the petroleum potential and market demarcated blocks. Following this, private oil companies came to conduct further reconnaissance studies and later oil exploration. The discovery of oil in commercial quantities in Uganda in 2006 triggered more activities in the upstream oil and gas industry.

Policies and Regulations have been enacted, and exploration licenses so far issued to 3 (three) International Oil Companies (IOCs); Total E&P, China National Offshore Oil Corporation (CNOOC) and Tullow. The oil companies have been involved in exploration and development activities in the Albertine Graben. As a result of the exploration and development activities in the Albertine Graben, the Minister of Energy and Mineral Development (MEMD) granted eight (8) Petroleum Production Licenses for oil fields in Exploration Area 2 (EA2) and Exploration Area 1 (EA1) to Tullow, Total and CNOOC as joint venture partners on 30th August 2016 marking the start of the production phase; the first oil is expected in the year 2020³.

2.1.2 MOTIVATION

Exploration for new discoveries of oil and gas is competitive and is conducted in a highly technical and process driven fashion. To decide on which region to focus their exploration activities, exploration companies use seismic data to locate highly prospective regions. Without high quality seismic data, it is difficult to proceed

3 <http://www.petroleum.go.ug/news/62/Government-of-Uganda-Issues-Five-5-Petroleum-Production-Licences-to-Tullow-Uganda-Operations-Pty-Limited-and-Three-3-Petroleum-Production-Licences-to-Total-Uganda-BV>; accesses 10/11/16

to prospect maturation and eventual exploration drilling⁴. This is because companies have the option to explore where appropriate amounts and quality of seismic data can effectively reduce their exploration risk.

All data generated throughout the petroleum value chain must be properly managed because Government relies on this data to understand the potential resources it has. These can be leased out to developers. Data from previously explored areas can be revisited to identify any previously unidentified potential. Additionally, data is also used to estimate how much oil has been drilled, and thus determine or project Government revenue from the petroleum activities.

Since 1998 to date, over thirty (30) seismic surveys have been undertaken in Uganda, resulting in the acquisition of 7,254.6 line kilometres of two dimensional (2D) seismic data and 1,948.6 square kilometres of three dimensional (3D) seismic data⁵. Further still, one hundred and twenty (120) exploration and appraisal wells have been drilled in the country with one hundred and six (106) of these wells encountering oil and / or gas which translates into an unprecedented drilling success rate of over 85%⁶.

Failure to properly manage petroleum data would thus negatively impact on Uganda's ability to maximally exploit and benefit from her oil and gas resource potential. This audit was therefore undertaken to assess whether petroleum data is acquired and submitted according to the law, and the extent to which data is verified, stored and disseminated by PEDPD in an efficient and effective way.

4 Jim Keating, P (2011). Online website: <http://leadership-blog.nalcorenergy.com/significance-of-seismic-data-in-exploration/>; Retrieved on 14th July, 2016 at 12:34pm

5 MEMD (2015): Progress of Implementation of the National Oil and Gas Policy for Uganda; Pg.1

6 Progress of Implementation of the National Oil and Gas policy for Uganda 2014/15; and Interview minutes on entry meeting with Directorate of Petroleum – Midstream Department on 4th March 2016

2.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

Data management entails acquisition, processing, interpretation, storage and dissemination of data. This is done by government and/or the international oil companies (IOCs). PEDPD ensures receipt, verification, storage and safety of all data acquired, and authorizes any access to and dissemination of the data. In order to access the data, permission must be obtained from the Ministry and where required by law, a prescribed fee is charged before access.

Mandate and Legal framework for Management of Petroleum Data

The mandate of the Ministry of Energy and Mineral Development is, "To establish, promote the development, strategically manage and safeguard the rational and sustainable exploitation and utilization of energy and mineral resources for social & economic development."

The legal framework for management of petroleum data is derived from the Petroleum (Exploration and Production) (Conduct of Exploration Operations) Regulations, 1993; the Petroleum (Exploration, Development and Production) Act, 2013; Sale of Data Regulations, 2014; and the Production Sharing Agreements (PSAs).

The Petroleum (EDP) Act 2013 mandates Ministry of Energy and Mineral Development (MEMD) to acquire, process, and interpret geophysical, geological and geochemical data with a view of assessing the country's petroleum potential.

The Petroleum (EDP) Act, 2013 also allows Government to enter into an agreement in which investors/ oil companies acquire, process, and interpret petroleum data to guide their investment decisions. All data obtained under these agreements belongs to Government and the oil companies must submit it to Government as prescribed under Sections 148-150 of the Act. Section 151 governs

the provision of petroleum data to the public upon payment of a prescribed fee.

It should be noted that whereas the current Petroleum (EDP) Act, 2013 mandates the Petroleum Authority of Uganda to manage, monitor and regulate acquisition and use of petroleum data, the role of data management was being undertaken by the Petroleum Exploration, Development and Production Department (PEDPD) during the transition period of setting up the PAU.

Vision

The Vision of the Ministry is, “To be a model of excellence in sustainable management and utilization of energy and mineral resources”.

Mission

The mission of the Ministry is, “To ensure reliable, adequate and sustainable exploitation management & utilization of energy & mineral resources in Uganda.”

2.1.4 MEMD OBJECTIVES IN RELATION TO MANAGEMENT OF PETROLEUM DATA

The Ministry has 10 strategic objectives for the management of petroleum resources. However, management of petroleum data is covered under strategic objective two which is, “To establish and effectively manage the country’s oil and gas resource”⁷. This is to be achieved through continuously updating the country’s oil and gas resource database⁸ by establishing and maintaining a National Oil and Gas Resource Databank⁹.

Activities of PEDPD

- i. Approval of the IOCs’ work programmes and budgets for data collection.
- ii. Monitoring IOC data collection activities.
- iii. Receipt of data (from field monitors and IOCs).

- iv. Verification of data.
- v. Storage of data.
- vi. Dissemination of data.

Organization Structure

Petroleum data is managed by the Ministry of Energy & Mineral Development. The Ministry is headed by a cabinet minister who is assisted by two state ministers. The Ministry has 8 agencies under it which include the Petroleum Authority of Uganda (PAU) and the National Oil Company (NOC). The Ministry is composed of 3 directorates, among which is the Directorate of Petroleum. The Directorate of Petroleum is composed of three departments namely; PEDPD, Mid-stream Petroleum Department and Petroleum supply Department. The PEDPD is the one charged with the responsibility of data management.

2.1.5 AUDIT OBJECTIVE

The Audit objective was to assess whether petroleum data is acquired and submitted according to the law, and the extent to which data is verified, stored and disseminated by PEDPD in an efficient and effective way.

Audit Questions

- i. To what extent do the IOCs acquire and submit petroleum data and reports as prescribed by law?
- ii. To what extent are approved work programmes and budgets adhered to?
- iii. Is the data submitted by IOCs effectively verified by PEDPD?
- iv. To what extent is data effectively stored and safeguarded by PEDPD?
- v. Has PEDPD put in place initiatives to facilitate dissemination and access to relevant petroleum data by authorised users?

7 National Oil and Gas Policy for Uganda, 2008; Page 23

8 Ibid.

9 Ibid.

2.1.6 AUDIT SCOPE

The audit assessed how MEMD through the Directorate of Petroleum acquires, stores, processes and disseminates petroleum data. The audit focused on geological data, gravity and magnetic Data, seismic data and well data because the industry was in the exploration phase. All data considered relates to the Albertine Graben (Exploration Areas (EAs) 1, 1A and 2), where all the country's oil and gas resources have been discovered.

The audit focused on the period from 1998 to 2006 for gravity & magnetic data, the period from 2006 to 2014 for seismic data and the period from January 2013 to June 2016 for well data. This was in order to establish and assess the trend of implementation and enforcement of data management provisions by the relevant actors i.e. GoU and the International Oil Companies (IOCs).

2.1.7 SAMPLING

Samples were selected based on the Exploration Area, the period of data acquisition, and data type. Ten(10) out of thirty (30) seismic surveys were selected in the period 2006 to 2014. For the period 2013 to 2016, all thirty two (32) exploration & appraisal wells in the sample were selected. Samples selected were under Exploration Areas EA-1, & 1A, operated by Total Exploration & Production (E&P) and Exploration Areas-EA2 operated by Tullow Uganda Operations Pty Ltd.

2.1.8 DATA COLLECTION

Document review

Documents reviewed included the National oil and gas policy (NOGP 2008), The Petroleum Exploration Development and Production (PEDP) Act 2013, Reports by the petroleum directorate, among others with a view of obtaining an in-depth understanding of the audit area.

Interviews

The Audit team conducted ten(10) interviews with MEMD officials from the Directorate of Petroleum which is the lead directorate for petroleum data management. The interviews helped the team gain a comprehensive understanding of the processes involved in data management, roles and responsibilities of the key players and to put the entire audit area into perspective.

Physical inspection

Inspections of the data lab (centre) at Entebbe were carried out to establish how the petroleum data collected is stored and processed.

2.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Management of Petroleum Data

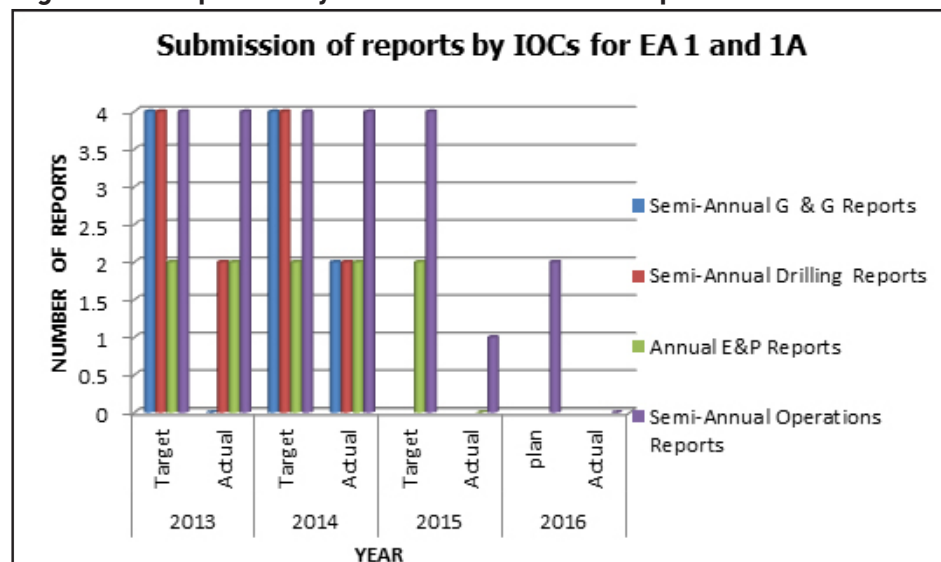
The Petroleum Exploration, Development and Production (PEDP) Act, 2013 mandates the Petroleum Authority of Uganda (PAU) to monitor and regulate exploration, development and production of petroleum in the country. During the transition period of setting up the PAU, the role of data management was undertaken by the Petroleum Exploration, Development and Production Department (PEDPD). The PAU was constituted and took up its roles/functions in September 2016.

2.2.1 SUBMISSION OF REPORTS - WELL DATA

Section 148(6 (a) & (b)) of the PEDP Act 2013 requires IOCs to submit semi-annual reports indicating geological, geochemical and geophysical work carried out, including a summary of drilling activity, results obtained and annual reports indicating operations by the licensee in the year to which the license relates.

Through interviews¹⁰ and document review, Audit noted that IOCs did not regularly submit reports over the years. **(See Figure 1 below)**

Figure 1: Compliance by IOCs in submission of reports for EA-1 and 1A4

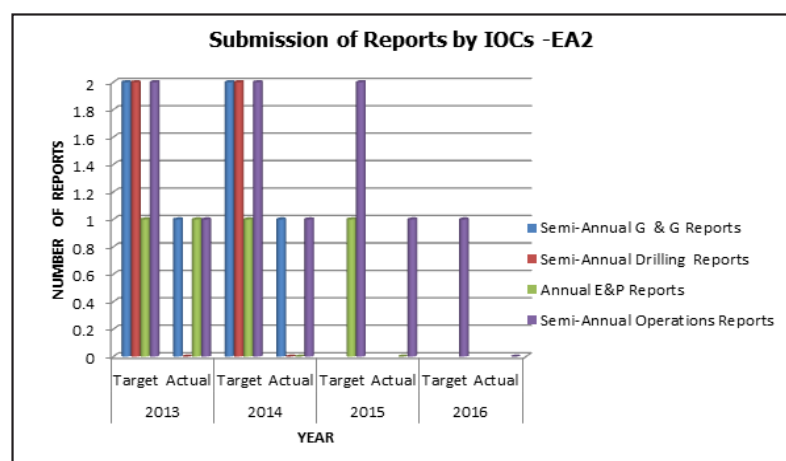


Source: Analysis of reports submitted by IOCs on operations under Exploration Area –1, 1A

In 2013, none of the four (4) required geological and geophysical (G&G) reports for exploration Area EA1 & 1A was submitted. On the other hand, all semi-annual operations reports were submitted. In 2014, out of four (4) reports expected from each of the drilling and geological and geophysical (G & G) activities, only two (2) of each was submitted. Since no exploration and drilling activities were undertaken in the period 2015 and 2016, IOCs were only required to submit annual and semi-annual operations reports however, none of these reports were submitted. Similarly, in 2016, none of the required semi-annual operations reports were submitted.

Audit further noted that in the exploration area EA 2, the IOCs did not fully comply with requirements regarding submission of reports in accordance with the PEDP Act 2013 **(See Figure 2 below)**

Figure 2: Compliance by IOCs in submission of reports for EA-2



Source: Analysis of Reports submitted by IOC on operations under Exploration Area –2

In the year 2013 and 2014, of the required number of two (2) of each of the G & G, and drilling activity reports expected, respectively, for Exploration area (EA 2), one (1) G & G report and no drilling activity reports were submitted. Annual operations reports were not submitted in 2014 and 2015. On the other hand, for each of the years 2013, 2014 and 2015 one (1) semi-annual operations report was submitted instead of the expected two (2) and no semi-annual operations reports were submitted in 2016.

This was attributed to the inadequate monitoring mechanism put in place by PEDPD to ensure compliance by IOCs. Through document reviews¹¹ audit noted that compliance reports used as a monitoring tool by PEDPD, only related to EA-1 & 1A, for the years 2014 & 2015, compliance reports for the year 2013 and 2016 for EA1, 1A, & EA 2 were not submitted. Audit further noted that there was a delay in the formulation of regulations governing upstream operations. While the PEDP Act was enacted in 2013, the Upstream General Regulations were formulated in June 2016; hence, PEDPD had no basis for enforcing compliance.

The delay or non-submission of reports relating to acquisition of petroleum data, results in an incomplete database. This may reduce the effective use of the database in petroleum resource management, implying that PEDPD may not possess all the required information/data necessary to evaluate the potential of the country's oil and gas resources.

Management Response

On the requirement stipulated in the PEDP Act 2013, section 148 (6) (a) and (b) regarding half-yearly reports, we concur with the Auditor General's observations that there were irregularities with the licensees to comply with the requirement, especially with the operator of EA-2. This is also evident in the compliance reports which are internal tools to track how licensees comply with the statutory instruments/legislations. For cases where the licensees did not comply with the legislations, a reminder letter was always written. Elaborate measures will be put in place for PAU to enforce so as to ensure compliance by IOCs/NOC.

Submission of Seismic Reports

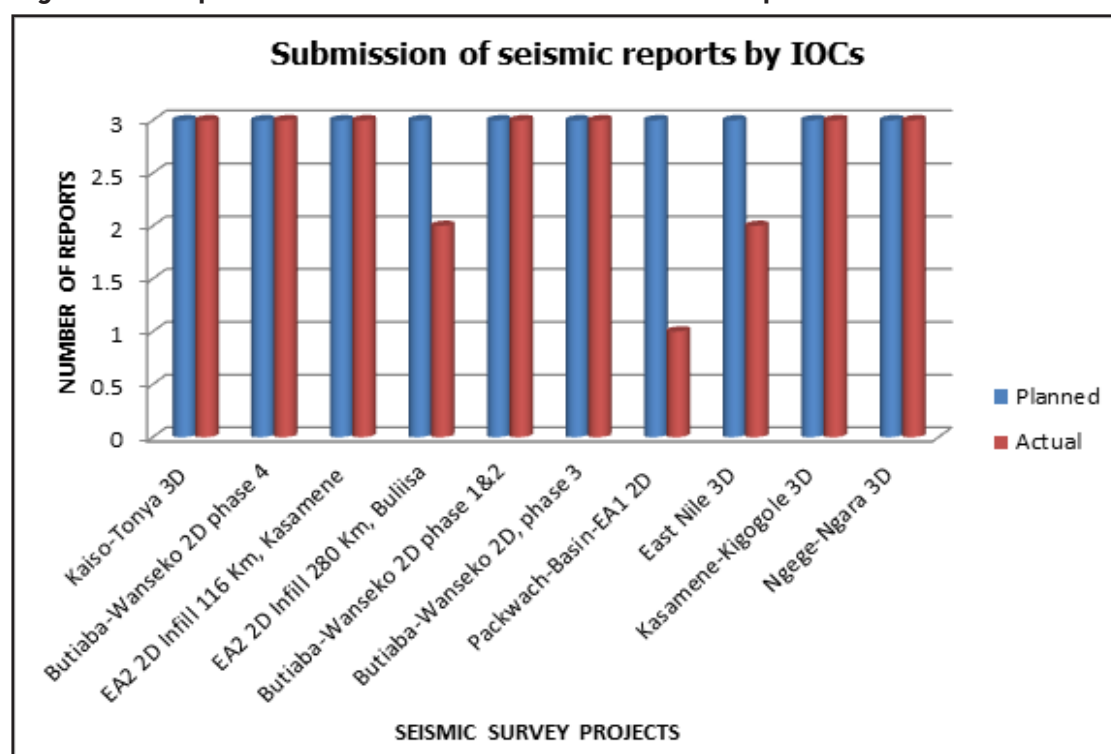
Sections 15, 16 and 19 of the Petroleum (Exploration and Production) (Conduct of Exploration Operations) Regulations, 1993 require submission of three types of reports relating to seismic activities, namely: Seismic survey report, seismic acquisition/completion report and Seismic interpretation report.

Through document review of files for the period 2006 to 2014 relating to exploration Area- EA1, 1A and EA2, audit established that out of the ten (10) seismic surveys projects seven (7) projects had all reports submitted. **See Figure 3.**

Audit, however, noted that out of the ten (10) seismic survey projects, one project had one (1) report submitted instead of the three (3) expected, while two projects submitted two (2) reports instead of the three expected.

11 Compliance reports

Figure 3: Compliance of IOCs in submission of seismic reports



Source: Analysis of reports on seismic surveys conducted by IOCs on operations under Exploration Area 1,1A & 2

This was attributed to the inadequate measures to ensure compliance, coupled with lack of guidelines for submission of geophysical data & reports (seismic surveys). The interpretation report for the East Nile 3D, could not be submitted due to on-going procedure of processing of raw data.

The delay or non-submission of reports relating to acquisition of petroleum data, results in an incomplete database, including information on the possible hydrocarbon locations. It should be noted that information on petroleum data is key to building the Government's geological understanding which serves to strengthen its negotiating position with investors.

Management Response

The hard copies of the reports for EA2 2D infill 280 Km Buliisa are available.

On the interpretation of the East Nile 3D, it is still on-going and when completed the report will be submitted. We concur with the Auditor General's observation on the delays in the formulation of Regulations which may have affected the regulatory functions of the Ministry in enforcing compliance.

Audit Comment

The hard copies of the reports for EA2 2D infill –Buliisa pertained to Seismic Acquisition/completion Reports and not Seismic Survey report in accordance with section 19 of the Petroleum Exploration and Production (Conduct of Exploration Operations) Regulations, 1993.

Work programmes/ Budgets

In line with section 10(2)(a) & (b) of the PEDP Act, 2013, PEDPD is required to ensure that IOCs adhere to the laws, regulations, PSA conditions and approved work programmes during acquisition and submission of petroleum data. All planned activities should be budgeted for and implemented in accordance with the work programme approved by the Advisory Committee.

Production Sharing Agreements require the Advisory committee to review and approve the annual work programmes and budgets, or any material amendment thereto, presented to the committee by the licensee which relates to development operations and drilling programmes.

Through review of the statements of expenditure, it was noted that there were no cost overruns for data acquisition under Exploration Area-1 & 1A. However, for Exploration Area-2 for the period 2014 and 2015, it was observed that there were unapproved budget overruns of **USD 1million** arising from various activities related to data acquisition (**See Table 1 below**).

Table 1: Budget overruns under data acquisition

YEAR	ACTIVITY	APPROVED BUDGET(\$)	ACTUAL EXPENDITURE(\$)	VARIANCE(\$)	% VARIANCE
2015	P&A WELLS	112,218	480,914	(368,696)	328.6%
	SUB-TOTAL	112,218	480,914	(368,696)	
2014	DRILLING WARAGA 3	8,982,190	9,009,015	(26,825)	0.3%
	KASAMENE P&A	4,846,968	5,464,801	(617,833)	12.7%
	SUB-TOTAL	13,829,158	14,473,816	644,658	
	GRAND TOTAL	13,941,376	14,954,730	1,013,354	

Source: OAG analysis of statement of recoverable expenditure 2014 and 2015

This was attributed to the limited measures put in place by PEDPD to monitor/track costs incurred by IOCs. There were no Chart of Accounts (CoA) to enable the licensees submit work-programs in a standard manner to aid categorization of costs and thus facilitate monitoring and tracking of costs.

This may result into IOCs incurring costs which may not be approved as recoverable, which may lead to arbitration. In case of recoverability, this will result in higher costs of data acquisition than was expected.

Management Response

The PSAs require the licensees to seek approved work programs and their associated budgets from the ACMs prior to undertaking any activity and require that the expenditure should be within the approved budget. The PSAs also require that the licensees should get approval for additional budget required prior to incurring the additional costs. Therefore, a cost overrun refers to a situation where no additional budget was approved by the ACM to over the additional budget needs.

The Ministry through PAU will develop a mechanism of empowering PAU to improve compliance with management systems.

Recommendations:

The Ministry through PAU should:

- Put in place an adequate monitoring mechanism to ensure compliance by IOCs. Internal monitoring

tools should be effectively utilised in tracking compliance of IOCs with statutory instruments/ legislations.

- Formulate guidelines for submission of well and geological data, as well as geophysical data and reports (upstream activities).
- Develop Chart of Account (CoA) to enable the licensees submit work-programs in a standard manner to aid categorization of costs and thus facilitate monitoring and tracking of costs.

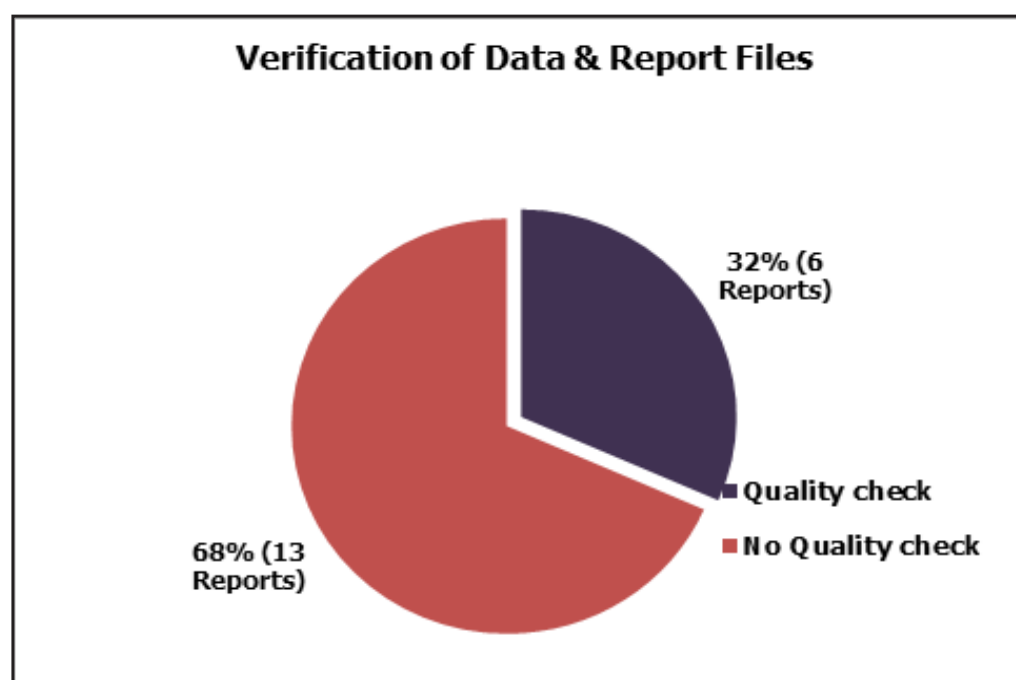
2.2.2 VERIFICATION OF DATA (QUALITY CONTROL & QUALITY ASSURANCE)

PEDPD is required to verify all petroleum data submitted by the oil companies for completeness and accuracy in accordance with best practice on petroleum data management. The data custodian verifies the data to ensure that it is readable, complete, and in the format required by PEDPD.

Verification of Well Data and Reports

Through review of files on well data, audit noted that there were inadequate quality checks undertaken on data and reports submitted by IOCs. Out of nineteen (19) files reviewed, thirteen (13) files did not show evidence of quality control and assurance checks. Verification reports documenting the results of the quality control process were not on file. **(See Figure 4)**

Figure 4: Verification of Data & Reports



Source: Document review of files on well data

This was attributed to the absence of verification guidelines/internal procedures to streamline the verification process¹² as well as inadequate supervision of the quality control and assurance process. Through document review¹³ and interviews¹⁴, audit also noted that there were no dedicated staff assigned the task of conducting quality control and assurance under data section.

¹² Interviews with PEDPD Staff

¹³ Structure for the Regulatory Unit -2014

¹⁴ Interviews with PEDP staff

Consequently, failure to subject the data and reports to a quality control and assurance processes may compromise the quality of the data and amounts to incompleteness of petroleum data.

Verification of Seismic Data and Reports

Through interviews¹⁵, audit further established that PEDPD does not conduct processing of raw seismic data. Audit, however, noted that PEDPD undertakes verification of processed seismic data using software such as Magma, seismic Unix and Petrel.

The processing of raw seismic data is undertaken by IOCs abroad and as a quality control mechanism, PEDPD staff took part in discussions with IOCs to determine methods and procedures to be undertaken during the processing of raw seismic data in four (4) of the ten (10) seismic surveys conducted. The 4 (four) surveys are; Butiaba-Wasenko 2D Acquisition phase 3, Kaiso Tonya 3D Acquisition, EA-2 2D Infill Bullisa Acquisition and East Nile 3D seismic EA1-1A.

Due to inadequate resources, processing of raw seismic data was not undertaken. As a result, the current practice of PEDPD solely relying on IOCs to process seismic data may compromise its ability to independently assess the quality of the data.

Management Response

We acknowledge that evidence of QA/QC procedures used for verification of some of the well reports and data was not documented on files. This was due to improvements in the IT/ICT infrastructure, which made it convenient for most of the responsible staff members to send actions through staff email system. In addition, we have standalone systems for data custodians to record datasets received together with any comments on the said dataset. It is a common practice that seismic data processing is undertaken at designated processing centres such as CGG, PGS, BGP, among others. Most industry players including IOCs/NOCs contract out data processing to such companies. It is also

not mandatory for licensees to accommodate Government officers to participate in seismic data processing. PAU will be strengthened to put in place guidelines and procedures for processes of verification of data and reports.

Audit comment

The information on the system, from the data custodians were not linked to the quality control & assurance process required on the well data & reports.

The standalone system and actions taken on specific tasks sent through emails should be indicated on the files as well, since instructions from supervisors were made on the manual files and not through emails.

Recommendations

The Ministry through PAU should put in place verification guidelines/procedures for purposes of streamlining the process of verification as well as supervision of the QC & QA process. Furthermore, PAU should allocate resources towards the processing of raw seismic data submitted by IOCs.

2.2.3 DATA SAFETY & STORAGE

Data Safety

Best practice on data management requires that security measures/ controls are put in place such that unauthorized users cannot access or alter data given its sensitivity.

Use of Generic Usernames

According to best practice, responsibilities for generic accounts should be assigned to specific users so that accountability can be established for transactions undertaken by the particular user.

A review of the current database users and their responsibilities revealed existence of generic accounts, namely: administrator, apps admin, boardroom and studio admin, however, there was no formal list of the approved users. In addition, a review of the audit trail revealed that such user

15 Interviews with PEDPD Staff

accounts were being used to delete, edit and create data in the production database. This was attributed to the failure by the department to prioritize the approval of the information security policy and procedures for managing information security.

Under the current circumstances the system poses a risk to unauthorized changes with no trail for responsibility and thereby compromising the integrity of information/data.

Management Response

We use Windows authentication offered by the active directory but not generic accounts as observed by the Auditor General. All the users on our system are documented and authenticated by integrated security in all front-end applications. The user accounts with create, read, update and delete (CRUD) rights highlighted above are actually operated by the same user serving in different roles in the data management system. The boardroom user account is only used to access system in the boardroom for presentation purposes. These are all approved users with login rights on our domain. Management takes note of the need to have an IT information security policy and procedures as means of managing information security.

Audit Comment

The generic accounts should be approved and assigned to specific users, such that accountability for transactions can be traced to a particular user. Under the current system there is no trail for responsibility.

Recommendations

The Ministry through the PEDPD should approve the IT information security policy and develop procedures for managing information security.

2.2.4 LACK OF SEGREGATION OF DUTIES ON THE CRANE DATABASE

Separation of duties between the system development and system administration teams in

information systems management is a fundamental control which ensures that no single person is in position to introduce fraudulent or malicious codes without detection. This is achieved by making sure that the systems/application administrator has no access to the source code. In addition, best practice requires the Information Technology (IT) section to have four (4) IT specialties namely; database administrator, systems administrator, systems analyst and systems programmer.

Through interviews and inspections, audit noted that there was no segregation of duties in the development and administration of the Crane database. It was noted that the person who developed and was still developing the Crane database, has the application, system and database administrator rights yet all these roles are contradictory and should not be carried out by a single user. It was also observed that the same person is responsible for application logic, initiating the changes to the application, coding the changes, testing the changes, approving the changes as well as integrating the changes into the production environment.

This was attributed to the manpower challenge currently being faced at PEDPD. Currently, PEDPD only has two (2) disciplines: a systems administrator and a database administrator¹⁶.

The above situation runs the department (PEDPD) a risk of having unauthorized changes to the application logic to benefit the person/a few users.

Managements Response

The Management considers Information Communication and Technology (ICT) and data management as enablers of enterprise/corporate business and, therefore, there are two distinct roles at the moment, namely: systems administrator and database administrator, for the ICT Infrastructure and Database Management System (DBMS), respectively. On the DBMS side, the developer has been serving several roles including DBA/ Applications Administrator and dB System Analyst/

Tester. These roles are not contradictory but are closely related and support each other because the binding link between them all is the application logic.

We take note of the Auditor General's finding and efforts are in place to build capacity of the relevant staff through specialized training in systems analysts, database administrators, geodatabase administrator, systems administrators, among others.

Audit Comment

Separation of duties between the development and system administration teams is a fundamental control practice and therefore the above roles should be segregated to avoid risk of fraudulent or malicious codes without detection.

Recommendations

The MEMD through PAU should ensure that the IT section has the required manpower to effectively manage the section.

2.2.5 PHYSICAL SAFEGUARDS

According to best practice, storage facilities should be kept secure with constant surveillance, restricted/authorized access¹⁷, fire suppression system¹⁸ with a power backup system to ensure security systems, air conditioning and other essential systems continue to operate in case of a power outage¹⁹. For magnetic tapes, contact with water should be avoided to prevent damage and information loss²⁰.

Through inspections of the core store and the physical data storage room, audit noted the following:

During audit inspections in November 2016, the physical data storage room was found to have controlled access using the biometric system and also had a functioning air conditioning system and thus its temperature was well regulated. It was however observed during this audit inspection that the fire extinguishers had expired in October 2016.

There was evidence that the roof of the physical data storage room was leaking since one of the boxes that contained tapes with data was stained. It was also observed that the space used for storage of documents and reports was inadequate. **(See Picture 1 below)**

17 <http://www.securedocs.com/blog/2012/12/virtual-data-rooms-vs-physical-data-rooms>

18 Digitising Contemporary Art : D6.2 Best practices for a digital storage infrastructure for the long-term preservation of digital files, by Sofie Laier Henriksen, Wiel Seuskens and Gaby Wijers (LIMA), May, 2013, page 33.

19 <http://www.tomsitpro.com/articles/physical-data-center-security,2-831.html>

20 Magnetic Tape Storage and Handling; A Guide for Libraries and Archives, by Dr. John W. C. Van Bogart Principal Investigator, Media Stability Studies National Media Laboratory, June 1995; page 23.


Picture 1: Physical data storage room

a.		<p>Left: Box affected by water from the leaking roof.</p> <p>Right: Data tapes inside the affected box.</p>
b.		<p>Documents and reports for petroleum data piled on the table because of inadequate shelf space</p>

Source: OAG Inspections

The core stores had two access doors however only one had a biometric system. The second door did not have controlled access and it was observed that its lock was broken. The air conditioning system was not working at the time of audit, and the fire extinguishers had expired and were due for service. Additionally, there was inadequate space for storage of the samples, cores and cuttings. **(See Picture 2 below)**

Picture 2: Core Store

	<p>Containers with crude oil samples stored on the floor due to lack of space in the shelves</p>
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Source: OAG Inspections

This was attributed to lack of prioritizing measures to ensure physical safety of the cores, cuttings and liquid samples. Furthermore, shortage of space was attributed to the inadequate infrastructure at the department.

Given the inadequacies in the safeguards, the physical security of the data is highly compromised and this poses a risk of loss of data.

Management Response

The Management would like to clarify that all measures will be put in place and will continue to adopt industry best practices in regard to data safety and storage. In addition, the Management has taken note of the finding and efforts are in place to set up the National Data Repository (NDR), core store and office building in Entebbe.

Recommendations

The Ministry through the PAU should adopt industry best practices with regard to data safety and storage. Furthermore, the Ministry should actualise its plans of setting up a National Data Repository and core store so as to create more space for storage of physical data.

2.2.6 OFFSITE BACKUPS

Best practice requires backup of physical or virtual files or databases be located at a secondary site, usually off the main site, for preservation in case of equipment failure or other catastrophe as part of a disaster recovery plan.

Through Interviews and inspections, audit noted that the offsite backup was not in place. Audit further noted that the data storage tapes where data was backed up were all stored in the physical data storage room.

This was attributed to failure to develop a disaster recovery plan and prioritize setting up an offsite backup system.

Absence of an offsite backup implies that in the event of a catastrophe/disaster on the Ministry facility in Entebbe, such as a fire outbreak, the

department stands to lose both the primary data and the backups which has very sensitive and costly petroleum information. This will make it difficult to recover the data hence affecting business continuity and planning.

Management Response

We note the Auditor General's finding. A Data Management Strategy is being developed with support from NPD/Odin considering that there exists an ICT Strategy. The draft ICT policy when put in place will be used for data management as well. Regarding the offsite backup, it is an ongoing process considering that the first step was accomplished when PEDPD joined the National Backbone Infrastructure (NBI). NITA-U and other service providers that offer offsite, disaster recovery and business continuity have been consulted. The plan to use NITA-U was suspended because of the big financial requirements towards space, storage, hardware and software as opposed to using the facilities at the Ministry Headquarters (Amber House) in a criss-cross manner.

Recommendation

The Ministry through PAU should formulate a data management policy and strategy and disaster recovery plan which includes setting up an offsite data backup system, in coordination with NITA-U.

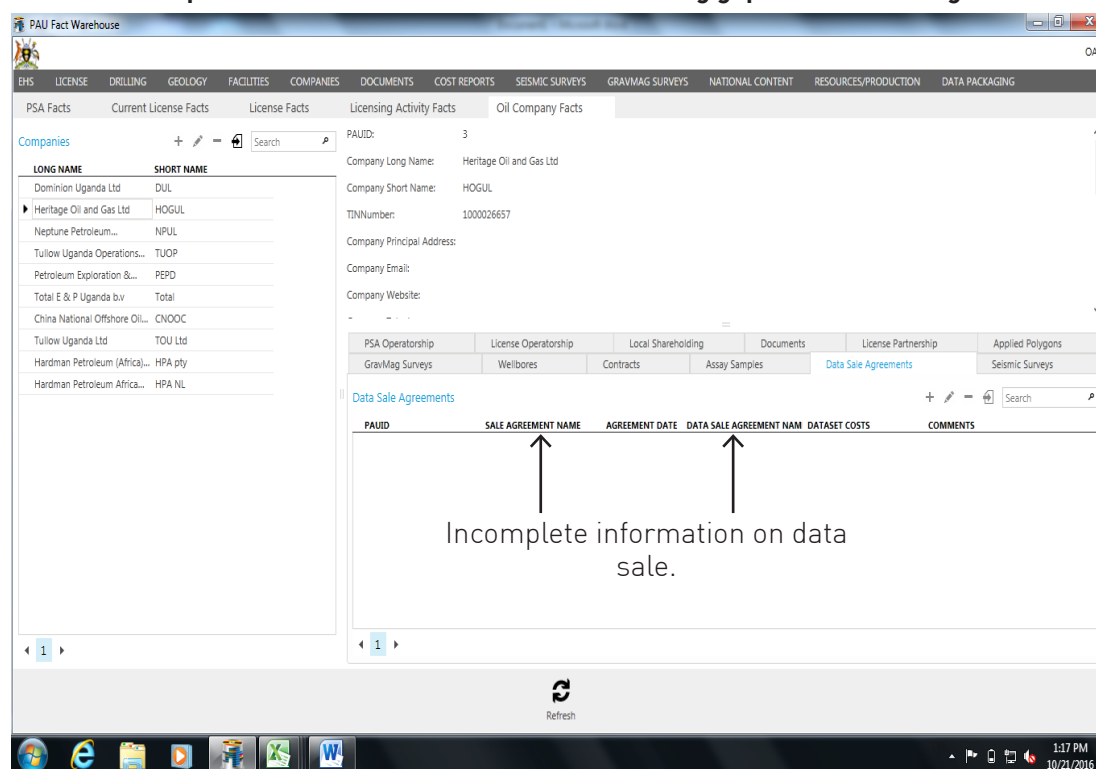
2.2.7 DEVELOPMENT OF THE CRANE DATABASE

According to Section 7.2.3(k) of the National Oil and Gas Policy, the Ministry through the department has the role of approving data management systems. Under the Strengthening the Management of the Oil and Gas Sector (SMOG) project, a database-the Crane database was developed to manage Uganda's petroleum exploration and production (E&P) data at a cost of **USD 220,591**.

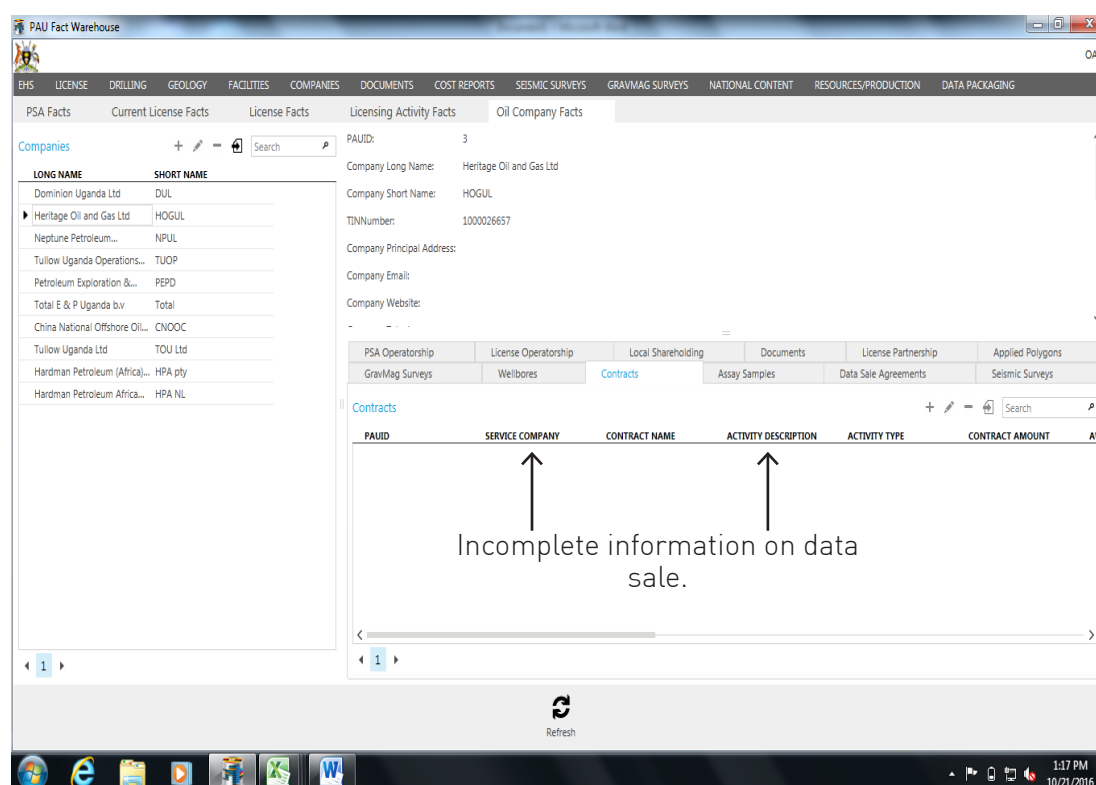
However, the objectives of developing the Crane database are yet to be fully realized as it was noted that the data on the system did not represent a complete picture of the activities/data that the department runs/has. Through interviews, audit

noted that data relating to seismic surveys and wellbores under the Crane database was not complete. Audit further noted, during inspections and document review, that although the core store database has four modules that is core data, fluids, cuttings catalogue, and rock samples catalogue, only the core data module was fully updated while the rest were not, and yet items under each module existed in the cores store. In addition, data relating to data sale agreements and contracts with oil companies was not complete thus this information could not be reviewed on the system as shown in **Picture 3 & Picture 4**.

Picture 3 : Snapshot of section in Crane Database showing gaps in Data Sale Agreements



Picture 4: Snapshot of section in Crane Database showing Gaps in Contract Data



This was attributed to the inadequate manpower required to upload data and information on the Crane database.

Failure to update the Crane database with all the necessary data/information results in inadequate data disseminated to authorized users.

Management Response

Management has noted the concern of the Auditor General about the Data Management/Crane Database and wish to clarify that Crane database is a reference database for storing metadata on the petroleum datasets. The Crane interface is extended to every user desktop on campus with segregation control with emphasis placed on permissions and authorizations.

Audit Comment

The Crane database was developed under the SMOGP project as the data management system envisaged to manage Uganda's Petroleum Exploration and Production (E&P) data, and not only as a reference database for storing metadata on the petroleum datasets. Further still, the petroleum datasets are not updated with the required information.

Recommendation

The Ministry through PAU should ensure that the data management system/Crane database is fully updated to ensure effective dissemination of data to authorized users/potential investors.

2.2.8 NATIONAL RESOURCE DATABANK

Section 148(4) of the PEDP Act 2013 provides for establishment of a National Resource databank by the Minister for the storage of petroleum data generated.

The National Resource data bank is also supposed to support the various phases of the petroleum sector (exploration, development & production phases), and support sharing of information among stakeholders at both national and international

level.

Through interviews²¹ and inspections it was noted that MEMD had not established a National Resource data bank. However, the Crane database set up by PEDPD is to be further developed to the level of the National Data repository/ National Resource data bank.

The delay in developing the data bank was attributed to the lack of equipment and software to operate the system, and inadequate IT skills required to manage the data bank.

The absence of a National resource data bank denies the department the benefits of a secure and centralized database and platform for information sharing on national and international level.

Management Response

Management has noted the concern of the Auditor General about the establishment of National Resource Data Bank and efforts towards the development of Crane database are some of the initial steps.

Recommendation

The Ministry through the PAU should set the National resource data bank/ National data repository to effectively manage Uganda's Petroleum data.

2.2.9 DATA DISSEMINATION

Data Accessibility

Section 151 (1) of the PEDP Act 2013 requires that information regarding petroleum activities be made available to the public. Best practice on petroleum data management requires that Metadata should be in place to facilitate easy access to petroleum data by authorized users.

Audit noted that dissemination of petroleum data undertaken by PEDPD was inadequate, it was established that key information on oil & gas activities should be availed to authorized users and potential investors through the Crane database.

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Interviews with PEDPD Staff

However, the Crane database was not fully updated and information was only available to internal users. In addition, through the systems inspections, audit noted that the Metadata system that would have enabled easy access to information by authorized users such as potential investors and government agencies was not put in place.

This was attributed to the incomplete Crane database and lack of technology and software to set up the metadata system.

Audit further noted that during the licensing & bidding process, PEDPD disseminates petroleum data through presentations to potential investors. Through interviews, it was noted that towards the end of the bidding process in 2015, data dissemination to investors was halted due to the expiry of the license for the software/ technology used for disseminating petroleum data.

This resulted in limited data accessibility by authorized users and potential investors.

Sale of Data

Section 8 of the PEDP (Sale of Data) Regulations, 2014, requires that petroleum data be issued to applicants upon confirmation of payment of the fees and signing of a confidentiality agreement.

Audit established that prior to the year 2014, there were no established rates for the sale of petroleum data. However, schedule 2 of the 2014 sale of data regulations now classifies and indicates a cost of the data.

Through interviews²² audit noted that, there were no documented criteria for determining the rates for sale of data. The PEDPD at times benchmarks with other oil producing countries. Whereas audit acknowledges that benchmarking is vital in this sector, it would be more practical if PEDPD came up with documented criteria regarding the same. This is critical as PEDPD embarks on the survey of other areas such as the Hoima basin whose rates are not reflected in the regulations.

This was attributed to the lack of guidelines/ procedures for determining the rates for sale of data.

Absence of the guidelines/ procedures for determining rates on sale of data creates possibility of over/undervaluation of the Data.

Management Response

Prior to 2014, there were no legally established rates for the sale of petroleum data however, the Ministry used to package data and sell it to potential investors. When the issue of illegality regarding data sale was raised by the Auditor General, the Ministry consulted both Ministries of Justice and Constitutional Affairs and that of Finance, Planning and Economic Development for their technical advice and solution. This resulted into the above said Regulations. Regarding guidelines/procedures on determining rates for the sale of data these are not documented but different sources of information on applicable rates are used.

Recommendations

- The Ministry through PAU should develop guidelines on data dissemination, to ensure effective dissemination of petroleum data and information.
- PAU should acquire the necessary technology and software to enable data/ information accessibility to external authorised users. The Metadata system should be put in place to ensure ease of access to data.
- Procedures/criteria for determining rates for sale of data should be documented.

22 Interviews with PEDPD Staff

3 CONSTRUCTION AND REHABILITATION OF SECONDARY SCHOOL INFRASTRUCTURE UNDER THE DEVELOPMENT OF SECONDARY EDUCATION PROGRAMME (DSE) BY THE MINISTRY OF EDUCATION AND SPORTS

3.1 INTRODUCTION

3.1.1 BACKGROUND

Following the introduction of the Universal Primary Education in 1997, enrolment in primary schools soared from 2.7 million to over 7 million pupils. This mass increase in enrolment at primary level had very serious implications as pupils transited into secondary education in large numbers. This exerted pressure on the existing infrastructure and created additional need for infrastructure at secondary school level. This prompted the sector to undertake strategies of how to enhance access to secondary education as a way of sustaining the gains under the UPE programme. Among these strategies was the implementation of the Development of Secondary Education (DSE) programme to address the emerging infrastructure needs.²³

3.1.2 MOTIVATION

Education is critical for building human empowerment as an end and as a means to deliver economic progress²⁴. Because of this, deliberate strategies have been undertaken by the government to improve access to secondary school education. Despite these interventions, the sector still faces challenges of insufficient infrastructure such as classrooms, sanitary facilities and teachers' houses, laboratories, and dormitories.²⁵

Review of reports on implementation of similar projects and programmes implemented by the Ministry of Education highlighted issues that could arise and affect the performance of the DSE programme. The Auditor General's report on the ADB IV project, for example, revealed weaknesses such as delayed contract

²³ Status of the department of Secondary education-2003

²⁴ Millennium development goals report for Uganda 2015 Pg 25

²⁵ National Budget Frame work Paper FY 2013/14-2017/18.

execution, inadequate quality of works, among other observations.²⁶

No value for Money assessment has ever been undertaken on the Development of Secondary Education (DSE) programme. Therefore a number of performance weaknesses could continue undetected by management.

It is against this background that the Office of the Auditor General decided to undertake review of the implementation of DSE programme by the Ministry of Education. In addition the review also intended to identify the causes of the performance gaps noted and suggest possible recommendations to address these identified gaps.

3.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

The Development of Secondary Education programme is an infrastructure development programme implemented by the ministry of education under the Department of Secondary Education. The programme started in 2001 as Rehabilitation of Secondary Project. It focused on expanding facilities in existing rural secondary schools, providing additional facilities in secondary schools, and construction of seed schools in sub counties without any form of secondary school. Following an internal review in 2003, the project changed to Development of Secondary Education Programme.

Legal Framework and Statutory mandate.

The activities of the Programme are implemented as part of the mandate of the Ministry of Education as derived from the Education Act. The Act mandates the Ministry to provide for, support, guide, regulate and promote quality education to all persons in Uganda for national integration, and

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OAG report on ADB IV project June 2014

for both individual and national development²⁷

Vision and Mission:

The programme serves to achieve the MoES Vision and Mission as summarized below:

Vision: “Quality and appropriate Education and Sports services, for all”

Mission: “To provide technical support, guide, coordinate, regulate and promote quality education, training and sports to all persons in Uganda for national integration, development and individual advancement.”

3.1.4 OBJECTIVES OF THE PROGRAMME

The programme is aimed at providing additional infrastructure for secondary schools to address the infrastructure needs at secondary level.

Activities carried out under DSE

The programme activities include;

- Expanding facilities in existing rural secondary schools.
- Provision of additional facilities in secondary schools.
- Construction of seed schools in sub counties without any form of secondary school.

Organizational Structure

The DSE programme is implemented by the Ministry of Education in collaboration with local governments, and the beneficiary schools.

3.1.5 FUNDING

During the financial years 2012/13, 2013/14 and 2014/15 a total of shillings 27.9 billion was disbursed to both schools and the Ministry of Education for implementing DSE activities as analysed in Table 2 below.

Table 2; Showing Funds disbursed for construction of schools under the DSE

Period	2012/13 (Billion)		2013/14 (Billion)		2014/15 (Billion)		Total (Billion)	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Disbursements to schools	8.9	5.7	8.9	8.9	8.9	8.9	26.7	23.5
Disbursements to MoESTS	2.0	2.0	1.2	0.8	1.7	1.6	4.9	4.4

27 MoESTS write up on the secondary sub sector January 2013

3.1.6 AUDIT OBJECTIVE

The overall audit objective was to assess the measures undertaken by the Ministry of Education to improve secondary school infrastructure through the Development of Secondary Education Programme.

Specific Audit objectives

The specific objectives of the audit were to ascertain whether:

- Adequate planning was undertaken for programme in order to deliver infrastructure needed by students at reasonable cost, and in a time.
- Programme funds were utilised and not diverted to other none DSE activities.
- Procurement processes were undertaken in a timely manner and with due regard to economy.
- The processes of contract implementation/management ensured that facilities are delivered at reasonable cost, within reasonable time and with acceptable quality.
- The completed facilities were put to use and if there is maintenance plan to the completed facilities.

Audit questions

- Did the Ministry of Education plan for DSE programme to ensure that it delivered high quality infrastructure, at reasonable cost, and it time to the schools that needed it?
- On what activities did the schools and the Ministry of education utilize the disbursed fund?
- Did the schools undertake procurement of contractors in a way that ensured there are no unnecessary delays?
- Did the procurement processes identify contractors to undertake the works at the least cost without compromising quality?
- Did the contract implementation/management processes ensure that facilities are delivered within reasonable cost, time, and acceptable quality?
- Were the completed facilities put to use, and plans of maintaining the completed facilities put in place?

Audit scope and approach

The audit focused on the measures taken by the Ministry of Education through DSE to improve secondary school infrastructure in selected secondary schools. The study focused on interventions undertaken in the three financial years of 2012/13, 2013/14 and 2014/15.

3.1.7 SAMPLING

The main focus of the audit was on the activities undertaken by the Ministry of Education through the Development of Secondary Education programme.

The team stratified the country into four regions of West Nile/northern region, Central region, north east/eastern region, and west/south western region.

Samples were based on an analysis of the total amount of funds disbursed to schools in particular districts using data obtained from the Ministry of Education. Total disbursements to each individual school, district and region over the three years were then computed. Using these totals, average disbursement for each

region were computed and all districts whose total disbursements were above the average disbursement for a given region were grouped into a sub strata. Three districts were randomly chosen from each sub strata and this yielded a total of 12 districts namely Gulu, Kitgum, Oyam, Bugiri, Kamuli, Katakwi, Masaka, Rakai, Gomba Isingiro, Ntungamo, and Kabale. All beneficiary schools in these 12 districts were selected accounting for thirty (30) of the sampled schools. One additional school was added to the sample as a request was from the Ministry of Education. This yielded a total of 31 schools sampled.

3.1.8 DATA COLLECTION

The following data collection methods were used to gather evidence:

Audit Objective	Data collection Method
To ascertain whether adequate planning was undertaken for programme in order to deliver infrastructure needed by students at reasonable cost, and in a time.	The team conducted interviews with officials from the Ministry of Education and the head teachers of the sampled schools. In addition the team also reviewed documents such as ministerial policy statements, and work plans.
To ascertain whether programme funds were not diverted to other none DSE activities.	The team reviewed financial management records as payment vouchers, cashbooks and bank statements that detail the utilization of the disbursed funds. The team also interviewed bursars and head teachers of the sampled schools.
To ascertain whether procurement were undertaken in a timely manner and with due regard to economy.	The team reviewed procurement records such as evaluation reports, records of solicitation of contractors, and bids.
To ascertain whether the processes of contract implementation/management ensured that facilities are delivered at reasonable cost, within reasonable time and with acceptable quality.	<p>The team conducted interviews with the school construction management committees, head teachers, district engineers and engineering assistants from the ministry of education. The team also reviewed contract management records such as progress reports and minutes of site meetings.</p> <p>The team also conducted physical inspections of completed facilities and undertook quantity verifications of quantities of works undertaken</p>
To ascertain whether the completed facilities were put to use and if there is maintenance plan to the completed facilities.	The team carried out physical inspections of the completed facilities to establish the level of utilization. In addition the team interviewed the head teachers to ascertain the level of utilization of the completed facilities.

3.1.9 DATA ANALYSIS

To support the findings and conclusions the team analysed both qualitative and quantitative data obtained. This was done to establish trends, relationships and in other cases to explain certain observations. Qualitative data collected was summarized, grouped and compared in order to contextualize findings and their causes.

3.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section presents the audit findings, conclusions drawn from the findings and recommendations made for the improvement in implementing the Development of Secondary Education Programme.

3.2.1 DESIGN OF THE PROGRAMME

Review of the design of the DSE programme revealed areas that need attention if the programme is to

achieve its intended objectives. Some of the key areas are:

- In coming up with the Development of Secondary Education Programme, the Ministry of Education never undertook detailed needs assessment to reliably estimate the infrastructure needs of the country, guide in resource allocation and distribution of the available resources amongst the competing schools. This needs assessment would be instrumental in developing strategies to systematically addresses the infrastructure needs of the different schools. Due to lack of a needs assessment, there is no clear way of identifying beneficiary schools and in some cases type of infrastructure to provide.
- The DSE programme also lacks a detailed long term (strategic) plan detailing the long term targets and strategies for achieving these targets. Targets to achieve are set on an annual basis at the point of budgeting depending on the available resources. Without clearly defined strategic goals and targets, it becomes difficult to measure the effectiveness of the programme in addressing the sector infrastructure needs.
- In deriving the total project costs for particular projects, (the total disbursements to a particular school for a given project), the Department of Secondary Education uses estimated unit costs of undertaking particular works as provided by the construction management unit. These costs are however not realistic since they are not based on a detailed needs assessment, detailed engineer's estimates, and they ignore incidental costs of construction such as costs of supervision, taxes, and preliminaries. This may result in over or under allocation of resources.
- According to the programme design, the technical supervision of ongoing workings

should be undertaken by the district engineers with the support of Ministry of Education engineering assistants. Audit, however, noted that there is no formal engagement between the Ministry and the local governments, which creates ambiguity in terms of responsibilities regarding scope and responsibility for supervision. As a result the district engineers are not actively involved in the supervision of works.

- Supervision of the works is mainly done by the Ministry of Education engineering assistants who are over stretched and cannot regularly supervise the works. The Ministry of Education has a total of 41 engineering assistants for all the 113 districts. This implies that one engineering assistant supervises all Ministry of Education works (primary, and secondary school constructions) in at least three districts. The ideal scenario would be to have an engineering assistant for each district. In addition, audit noted that the funds allocated for supervision are inadequate.

Management response

- A new project profile has been developed and submitted to MoFPED. The current DSE project will exit the PIP and is to be replaced by DSE phase II which will run from 2017/18 to 2022/23 with specific targets. The new project is yet to be approved by DEC of MoFPED.
- The budgetary allocation to each school under the project is based on the school specific estimated cost as submitted at the time of the request. This is because the Ministry had adopted the demonstrated needs modality of needs assessment which is unique to each school. This modality was adopted because of the funding constraint where no provision was made in the budget

estimates to facilitate a comprehensive needs assessment exercise. On submission to MoES, the construction management unit would then review the indicated school estimates using standard rates pertaining at the time. This would however be based on desk review. The challenge has been that in several instances schools would submit incomplete information or at times with incomplete structural drawings especially for rehabilitation works. Therefore it has always been very difficult to come up with accurate cost estimates.

The sector has therefore noted this anomaly that the continued use of school own generated estimates results in cases of over or under budgeting and has been one of the reasons why construction works were not completed in time. Therefore as an intervention it has been agreed that a detailed process of needs assessment, design, and costing of the required bills items will be undertaken prior to allocation of funds and budgeting.

- The Ministry notes with great concern the issue of re-enforcing supervision of the progress of works in the schools. The Ministry has since increased the number of engineering assistants from 32 to 41 and further provided them with facilitation funds on a quarterly basis. The frequency of site supervision has shown remarkable improvement. Further synergies are to be built with existing staff in the local governments.

Conclusion

Inadequate programme designs and execution modalities affects the implementation of programme activities. This in turn affects the achievement of the programme objectives.

Recommendations

- The Ministry should expedite the process of needs assessment before embarking on the implementation of Phase II of the programme. In addition, the Ministry should develop a more realistic and accurate costing mechanism to guide allocation of resources for the programme activities.
- The Ministry should revise the form of engagement with the District Engineers in order to strengthen supervision of on-going works. The engagement should be formalised through for example Memorandums of Understanding with the districts which clearly spell out the expectations and responsibilities of each party.

3.2.2 UTILIZATION OF DISBURSED FUNDS

Guideline 4.0 of the MoESTS guidelines for utilization of funds under DSE states that “funds must not be diverted to any other purpose other than the one specified by the Ministry without written permission from the accounting officer MoESTS.” It is also good practise to ensure that funds appropriated and disbursed to various expenditure votes are utilised within the specified period to realise the intended purpose. From a review of payment records, audit noted that:

- UGX 1.27 billion was diverted and used for activities that were not related to the DSE programme activities. **Table 3** below highlights cases where audit noted diversions of programme funds to other

activities.

Table 3: Highlighting cases of diversion

Entity	Total amount diverted (UGX)	Audit comment	Effect
Katakwi High School	29,841,636	Funds were used for exam invigilation, allowances and refreshments.	As a result of this the school owes the contractor.
Bukinda Senior Secondary School	27,081,710	Funds were spent by the head teacher on other school activities	These funds could have been used for completion of the hall
Ministry of Education	1,221,393,347*	Funds were used for activities not related to construction of schools	These funds could have provided extra infrastructure in the schools or for monitoring construction activities.
Total	1,278,316,693		

Source; OAG analysis of payment records for FY 2012/13, 2013/14 and 2014/15

*UGX 1,221,393,347 is the total cumulative diversions for the period under assessment.

- Audit also noted cases where disbursed funds were never utilised. Funds amounting to UGX 509,674,696 were not utilised due to delays in procurement, low absorption capacity of the schools, and slow progress of works. Table 4 below highlights cases noted where disbursed funds were not utilised.

Table 4: Highlighting cases of under absorption of disbursed funds

Entity	Amount (UGX)	Audit comment	Effect
Lapono Seed School (Agago district)	322,853,208	Due to delays in the procurement of contractors, the funds were still unutilised by the end of the FY 2012/13. The funds were returned to the consolidated fund.	Construction works meant to be completed within a one year period have remained incomplete three years later.
Bukinda Secondary School (Kabale)	33,777,641	These funds remained unutilised due to lack of capacity by the school to absorb the disbursed funds.	The multipurpose hall for which these funds were disbursed still remains incomplete.

Ngariam Seed Secondary school	14,869,453	However during subsequent budgeting the total expenditure was less than periods, the funds were reinstated and total receipts by 14.8M. This balance activities were executed as planned. However strict adherence to the approved work plans will be followed.
Total	338,269,599	

Source; OAG analysis of payment records for 2012/13, 2013/14, 2014/15

- Furthermore the Ministry allocated UGX 1.2 billion for compensation of owners of the land on which Bukhooli College in Bugiri district is located. UGX 814.6 million was disbursed to Bugiri District local government in 2012/13 for this purpose.

Out of this disbursement UGX 316.4 million was paid out to persons claiming to be the bona fide owners. It was later discovered that these were not the owners of the land therefore they were irregularly paid. These funds had not been recovered by the time of the audit.

The balance of 498.2 million was transferred to the Government Asset Recovery Account on recommendation by the Inspector General of Government following investigations into the circumstances surrounding the land compensation.

Although these funds were disbursed the purpose for which they were disbursed was never fulfilled. The Ministry indicated that there was a follow up to ensure that the funds are recovered given that the purpose for which they were disbursed was not achieved.

Management response

- Diversions were occasioned by the inadequate releases on some of the items yet there were urgent commitments made by the sector to execute these activities.

- For cases where the utilization of funds could not be explained, the respective head teachers have been required to explain the utilization of the funds.

- Bugiri district has been required to recover all the funds that were paid to wrong claimants.

- The sector has re-planned the completion of Lapono seed school in FY 2017/18. In addition the Ministry has tasked Bukinda SS and Kisozi SS to provide contract appraisal and ensure that these contracts are completed. In the event that the contract periods have expired the schools will be required to re tender the incomplete works.

Conclusion

Failure to utilize resources for programme activities and according to the utilization guidelines issued negates the intention for allocating these resources the programme.

Recommendation

The MoES and the schools should desist from using DSE money for non DSE activities. The Ministry should in future compel all schools to provide accountability for funds disbursed before receiving subsequent disbursements at stipulated in the utilization guidelines.

3.2.3 TIMELINESS OF THE PROCUREMENT PROCESS

In order to achieve timely delivery of services, procurement processes must be undertaken in a manner that ensures that the best service providers are identified in a timely manner.

Audit noted that a significant amount of time is lost

by the schools between the date of receipt of funds, and the actual undertaking of the construction works. From an analysis of the time between the date of receipt of funds and the date of contract signing, audit observed that some schools held funds on their accounts for more than 300 days before contracts with service providers were signed.

These avoidable delays were attributed to the practice of commencing the procurement process after the schools have received funds. In other cases the delays were as a result of time spent between the Ministry of Education and Schools seeking or making clarifications on some issues about the projects to be implemented. These delays result in delayed realisation of programme outputs and objectives.

Management response

The school based procurement modality is currently being reviewed to ensure that there is no time loss. Part of the review is focusing on advance procurement so that contracts are signed as soon as funds are disbursed and received on the school bank accounts. The review process also includes issuing construction guidelines early enough before the commencement of the new financial year.

Recommendation

The Ministry should expedite the process of reviewing the procurement modality for contractors to address the causes of the delays. This should be followed by training for the respective head teachers on how to undertake the procurements.

3.2.4 TIMELINESS OF PROJECT COMPLETION/ TIME PROGRESS OF THE PROJECTS

The special conditions of contracts contained in the contract agreements, clearly spells out the completion periods of the various works and in the event of noncompliance the penalties to be enforced

Audit noted that the works in eleven (11) out of the 31 sampled schools were not completed and handed over in time. In addition, there was no evidence that the penalty clauses in the signed contracts were ever invoked for noncompliance with the agreed timelines.

These noted delays were attributed to a number of reasons such as inadequate capacity of the contractors, delayed disbursement of funds to the schools by the Ministry since funds are released on a quarterly basis, and in the other cases weaknesses in supervision of on works.

Delays in completion of works results in delayed achievement of programme objectives and consequently leads to delayed service delivery.

Management Response

The Ministry of Education notes that part of the reasons as to why contractors are unable to finish on time is because of inadequate releases and budget shortfalls. This is however being addressed through a thorough needs assessment and issuing of cost estimates before commencement of the budget cycle.

Recommendation

In addition to addressing the inadequate releases and budget shortfalls, the Ministry should enhance supervision of works to ensure that contractors adhere to the completion times stipulated in the contracts. The penalty clauses in the signed contracts should also be invoked in cases where works have delayed.

3.2.5 QUANTITY VERIFICATION

Special conditions of contracts signed by the schools for works to be undertaken specify that, a statement of the estimated value of works executed shall be submitted on completion of the works. The contract supervisor shall check the statement and certify the amount to be paid to the contractor.

During field inspections, measurements for quantities were undertaken and compared with the certified quantities of a sample of bill items. It

was established that payments amounting to UGX 181,662,584 were made for items that were either non-existent at the time of the audit, or total payments made exceeded the contract sum as summarised.

These over- payments were attributed to inadequate supervision of works which resulted in certification of incorrect quantities of works executed.

Recommendation

The Ministry should follow up these cases and ensure that these works are executed or ensure that these funds are recovered from the contractors for non-executed works.

3.2.6 QUALITY OF THE COMPLETED STRUCTURES

The contract agreements signed by the schools specify the quality of works required by way of specifications (General and Particulars) in reference to every item in the Bills of Quantities.

During the course of the field inspections, audit observed that the completed works were to a large extent still visually holding. However some quality deficiencies (defects) were observed on some items of the completed works in seventeen (17) of the thirteen (31) schools visited.

These quality deficiencies were attributed to weaknesses in supervision, poor workmanship of the contractors, substandard materials, and in some cases failure to adhere to the guidelines in the technical specifications hand book given by the Ministry of Education.

These quality deficiencies affect the life span and design strength of the facilities, and may also affect the utilization of the facility in the long run. This also results in additional costs of rectifying these defects once the defects liability period is over.

Management response

The construction management unit of the Ministry is to undertake a site specific verification of all defects before end of January 2017 and come up with a list of defects to be attended to by the contractors as a matter of urgency.

In the meantime, schools have been required to invoke the relevant clauses of the contracts relating to failure to attend to defects. The schools have further been advised not to pay any retention funds to a contractor who has not attended to the defects.

Conclusion

Failure to achieve the expected quality specifications for facilities can result into faster deterioration of the completed structures and increased maintenance costs.

Recommendation

The Ministry should strengthen supervision of on-going works to ensure that completed works conform to quality expectations. In cases where defects are observed during defects liability period, the contractor should be compelled to rectify the defects before end of defects liability period and payment of retention.

3.2.7 UTILIZATION OF FACILITIES AND POST CONSTRUCTION

For any programme to deliver value for money for the investments made, the completed facilities must be used to serve the purpose for which they were constructed. There should also be plans in place to maintain the facilities to keep them in useable condition for their intended design life.

Audit noted that most of the completed structures were being utilized by the beneficiary schools except for a few isolated cases such as in Amwa where the staff house was abandoned, and in Kabuwoko and Kitgum Matid where the bathrooms were narrow. There was however no clear maintenance plans for ensuring that these facilities are regularly maintained.

Conclusion

Non-utilization of the constructed facilities defeats the objective for which the structures were put in place and renders funds invested a waste.

Recommendations

The Ministry of Education should allocate resources towards regular maintenance of completed structures.

3.3 VALUE FOR MONEY ASSESSMENT

Audit undertook an analysis of the performance of each of the individual schools in undertaking the construction/rehabilitation works with regard to economy, efficiency and if the objectives of the interventions have been achieved.

Economy: To assess economy the following parameters were considered: the reasonableness of the cost estimates for undertaking the works, and the cost differences of delivery of similar works across the different schools.

Efficiency: To assess efficiency, the following parameters were considered: adequacy for the overall planning for the infrastructure, utilization of the disbursed funds, efficacy of the procurement processes, progress of works against time, sufficiency of controls for certification and payments for executed works, and the adequacy of the supervision and monitoring of contract implementation.

Effectiveness: To assess the effectiveness of the interventions undertaken, the following parameters were considered: quality of the works delivered, and the utilization of the completed structures.

Assessment of the individual school performance was done using an assessment tool that was agreed on with the key stakeholders during the planning of the audit. The scores of each school is highlighted in Table 6 below:

Table 6: Highlighting the individual performance of the schools

Beneficiary School	ECONOMY Max-15	EFFICIENCY Max-50	EFFECTIVENESS Max-35	OVERALL SCORE Max -100
Kitgum Matidi	6	37	30	73
Lapono Seed School	2	14	16	32
Lukome SS	4	27	26	57
Koch Ongako SS	2	41	30	73
Amwa Comprehensive	6	9	8	23

Makobere High School	6	41	26	73
St. Barnabas Karujanga Ss	4	31	26	61
Bukinda Ss	2	3	8	13
Rweikiniro SS	2	26	16	44
St Peters SS Rwera	4	31	16	51
Kabingo New Seed	4	20	24	48
Endiinsi High School	2	20	26	48
Buwunga SS	6	39	24	69
Namasagali College	2	19	16	37
Kabukye SS	6	31	24	61
Ngariam seed ss	0	14	24	38
Kapujan community	6	39	24	69
Katakwi High	4	24	24	52
Kisozi Seed School	0	25	16	41
Mpenja SS	6	35	24	65
St Leonard's SS Maddu	6	38	16	60
Kako Ss	6	33	29	68
St. Anthony SS Kayunga	6	44	24	74
Kyakago Ss	0	26	24	50
Kabuwoko Ss	6	20	8	34
Kyotera Central	6	20	24	50
St Adrian Kasozi	0	32	16	48
Kira Secondary School	4	30	29	63

Source: OAG assessment of the performance of the individual schools.

****Three (3) of the sampled schools were not scored because no construction was done at these schools as detailed below:

School	Reason
Kitgum High School	There was no construction works because the funds disbursed from the ministry were never not received at the school
Bukhooli College	The funds disbursed were used for compensation of land owners.
Kyayi wisdom	The funds disbursed were used for procurement of the school by the ministry not actual construction.

Grading of performance

Using the scores above the schools were graded into categories of "Satisfactory", "Fairly Satisfactory", and "Not Satisfactory" using the following criteria.

Overall score Ranges	Grade
78%-100%	Satisfactory

50%-77%	Fairly Satisfactory
0-49%	Not Satisfactory

Table 7 below details the overall performance of the schools using the above criteria to grade the schools.

Table 7: Grading overall performance of the Schools

Performance Grade	School Name	Overall Score [%]	% Grade
Satisfactory	-		0%
Fairly Satisfactory	St. Anthony SS Kayunga	74	61%
	Kitgum Matidi	73	
	Koch Ongako SS	73	
	Makobere High School	73	
	Buwunga SS	69	
	Kapujan community	69	
	Kako Ss	68	
	Mpenja SS	65	
	Kira Secondary School	63	
	St. Barnabas Karujanga Ss	61	
	Kabukye SS	61	
	St Leonard's SS Maddu	60	
	Lukome SS	57	
	Katakwi High	52	
	St Peters SS Rwera	51	
	Kyakago Ss	50	
	Kyotera Central	50	
Not Satisfactory	Kabingo New Seed	48	39%
	Endiinzi High School	48	
	St Adrian Kasozi	48	
	Rweikiniro SS	44	
	Kisozi Seed School	41	
	Ngariam seed ss	38	
	Namasagali College	37	
	Kabuwoko Ss	34	
	Lapono Seed School	32	
	Amwa Comprehensive	23	
	Bukinda Ss	13	

None of the sampled schools achieved satisfactory performance. Sixty one percent (61%) were fairly satisfactory while thirty nine (39%) were not satisfactory. The Ministry therefore should urgently address the identified weaknesses to realise improved performance.

4 MANAGEMENT OF PROCUREMENT AND DISTRIBUTION OF ESSENTIAL MEDICINES AND HEALTH SUPPLIES BY NATIONAL MEDICAL STORES

4.1 INTRODUCTION

4.1.1 BACKGROUND

National Medical Stores is mandated to procure, store and distribute Essential Medicines and Medical Supplies to all Public Health Facilities in the Country, including those of the Police, Army and Prisons. This includes all Medicines directly or indirectly procured by NMS and those that are donated by various donors. In August 2012 this mandate was further expanded to include distribution of Vaccines across the country.

National Medical Stores receives funds from the Government of Uganda for procurement and storage of Essential Medicines and Health Supplies (EMHS), and their distribution to the various health facilities countrywide. The Management of NMS is accountable for these funds under the purview of the Public Finance Management Act, 2015 and the NMS Act, 1993.

For the financial year 2015/16, over UGX.219 billion was budgeted and allocated to NMS for procurement of essential medicines and health supplies to all Health Facilities.

4.1.2 MOTIVATION

In 2010 the Office of the Auditor General (OAG)

undertook a value for money audit on the Procurement and Storage of drugs and observed the following matters: failure to meet customer requirements, lack of proper procurement plans, lack of a clear coordination mechanism with third parties in the area of procurement, and improper handling of expired drugs. Following public concerns, in 2016 the OAG undertook a risk assessment which showed that the health sector still faced challenges regarding drug pricing and deliveries to health facilities by NMS.

An evaluation of the basic kit system in 2013 by the National Pharmaceutical Sector revealed that the majority of health facilities were either over or under supplied. The report further observed that although NMS had implemented district-specific kits for each of these levels of care to better match specific needs, procurement planning remains a challenge at health facility level²⁸.

It is against this background that OAG decided to carry out an audit on management of procurement and distribution of Essential Medicines and Health Supplies.

4.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

Medical supplies are a key input for the efficient operation of Health Facilities. Uganda currently has 2,941 Health facilities distributed in the various regions. The Facilities include Hospitals, HC IVs, HC III and HC II. National Medical Stores (NMS) is mandated to procure, store & distribute Essential Medicines and Medical Supplies to all these Facilities including the police, army and prisons.

The medicines are distributed to all the Government

²⁸ National Pharmaceutical Sector Strategic Plan 2014-2020 Page 4.

hospitals and health centers on a routine basis against the orders made to them by the health facilities. All medicines and medical supplies are also embossed by NMS with a seal "UG NOT FOR SALE" to ensure that medicines and medical supplies delivered are not stolen and sold on the open market.

The "LAST MILE DELIVERY SYSTEM" is used for medicines and other medical supplies to ensure that medical supplies reach the END USER at all government health facilities across the country safe and on time. Medicines and other medical supplies Delivery Schedules are published to make the delivery of medicine predictable throughout the year. NMS ensures effective Management of stock so that health facilities do not run out of medicines and other medical supplies.

Basic Kits which contain the basic Medicines are supplied to all health center IIs and IIIs across the country. The kit is revised every year to make it relevant to the local situation and delivery is done once in every two months to all government health centers IIs and IIIs. HC IVs and hospitals submit their medicine orders and these are supplied to them once in two months (Bi- Monthly) as per delivery schedule.

4.1.4 MANDATE, VISION AND MISSION OF NMS

Mandate

National Medical Stores is mandated to Procure, Store and Distribute Essential Medicines and Medical Supplies to all Public Health Facilities in the Country.

Vision

The NMS vision is, "a population with adequate and accessible quality medicines and medical supplies".

Mission

The NMS mission is, "to effectively and efficiently supply essential medicines and medical supplies to Public Health Facilities in Uganda".

Activities

The major activities of NMS are:

- (i) Procuring Drugs;
- (ii) Storage of drugs; and
- (iii) Distribution of drugs to health facilities.
- (iv) Advisory responsibility on essential issues relating to the state of the Corporation and its future development as well as to related matters including the estimation of drug needs, distribution and use of medicines in the public health service.

4.1.5 ORGANIZATIONAL STRUCTURE

NMS is a Government Corporation supervised by the Minister of Health. NMS has a Board of Directors comprising a non-executive chairperson, 15 non-executive members and the General Manager (GM). Under the GM are 7 Heads of Departments namely: Corporation Secretary (who is slightly above the rest in hierarchy); Stores and operations, Sales and Marketing, Finance and Accounts, Internal Audit and Human Resource and Support Services. Whereas Quality Assurance is under the Corporation Secretary, Management information system and Public Relations are under the GM's office.

4.1.6 FUNDING

NMS obtained and fully utilized funding amounting to **UGX 655.9bn** for three years 2013/14; 2014/15; 2015/16 as indicated in the **Table 8** below.

Table 8: Funding of EMHS and ARVs

	2013/14 (UGX) in millions		2014/15 (UGX) in millions		2015/16 (UGX) in millions	
Vote Output	RELEASE	EXPENDITURE	RELEASE	EXPENDITURE	RELEASE	EXPENDITURE
Supply of EMHS to HC II (Basic Kit)	11,163	11,163	11,163	11,163	11,163	11,163
Supply of EMHS to HC III (Basic Kit)	18,360	18,360	18,360	18,356	18,360	18,360
Supply of EMHS to HC IV	7,992	7,992	7,992	7,992	7,992	7,992
Supply of EMHS to General Hospitals	18,106	18,106	13,106	13,105	13,106	13,106
Supply of EMHS to Regional Referral Hospitals	13,024	13,024	13,024	12,984	13,024	13,024
Supply of EMHS to National Referral Hospitals	12,365	12,365	12,365	12,365	12,365	12,365
Supply of ACTs and ARVs and Anti TB drugs to Accredited Facilities	100,000	100,000	99,535	99,532	100,000	100,000
Supply of EMHS to Specialized units.	27,863	27,863	17,955	17,957	18,103	18,103
Supply of Emergency and Donated Medicines	2,500	2,500	2,500	2,490	2,500	2,500
Supply of Reproductive Health Items	8,000	8,000	8,000	7,994	8,000	8,000
Immunization Supplies			9,000	9,000	9,000	9,000
Laboratory Items			5,000	4,999	5,000	5,000
Totals	219,374	219,374	218,002	217,941	218,614	218,614

Source: IFMS Releases and Expenditure files

4.1.7 AUDIT OBJECTIVES

Overall Audit Objective: To assess the extent to which NMS efficiently provides EMHS in the right quantity at reasonable prices to public health facilities in Uganda.

Audit Questions

- (i) To what extent does NMS supply EMHS at reasonable prices?
- (ii) To what extent does NMS deliver the right quantities of EMHS to the health facilities?
- (iii) To what extent are EMHS delivered to health facilities in a timely manner?

4.1.8 AUDIT SCOPE

The audit focused on the procurement and distribution of Essential Medicines and Health Supplies (EMHS)

by National Medical Stores (NMS) to government owned health facilities and specifically assessed whether NMS provided EMHS to these health facilities in a timely manner, at the right quantity and at an affordable price over the three financial years; 2013/14, 2014/15 and 2015/16.

4.1.9 SAMPLING

The audit scope covered all government owned health units in the country with various tiers, that is, Regional Referral Hospitals, General hospitals and Health Centre IVs. A two – stage stratified sampling methodology was adopted. In the first stage, the population was stratified into the various tiers as stated earlier. At the second stage, units within each tier were stratified according to the variance in the quantities of medicines received against the quantities ordered.

Sample Size determination

72 out of 238 Health Facilities (HCIVs, General Hospitals and Regional Referrals) were selected using simple random sampling.

Table 9: Sampled Health Facilities (HF) per tier

Tier	No. of HF	Sample
Regional Referral Hospitals	13	7
Hospitals (District & Military)	46	13
Health Centre IVs	179	52
TOTAL	238	72

An additional 47 Health Facilities (IIs and IIIs) were selected for purposes of assessing timeliness taking into account 'Last Mile' deliveries according to the five (5) Delivery Zones as shown in **Table 10**.

Table 10: Selected HC II & IIIs

Delivery Zone	HC II	HC III
Zone 1	6	6
Zone 2	4	6
Zone 3	4	7
Zone 4	6	6
Zone 5	1	1
Total	21	26

A list of tracer drugs was obtained from MOH and a sample selected basing on level of importance. Twenty one (21) out of the forty one (41) tracer drugs were selected. The sample included 13 EMHS which are a must have at the different health care levels and 8 ARVs and ACTs.

4.1.10 DATA COLLECTION METHODS

The data collection methods used to answer each audit question involved document review, conducting interviews and physical inspections as shown in **Table 11** below.

Table 11: Methodology used

Audit Question	Methodology used
<p>Qn 1: To what extent does NMS supply EMHS at reasonable prices?</p>	<p>The team reviewed the National Medicines Policy 2015 to gain an understanding the policy framework governing drug pricing. The WHO pricing guidelines were also reviewed to obtain benchmark to be used for price comparisons. Using the bench marks, the following price comparisons were undertaken on selected EMHS, ARVs and anti-cancer drugs to establish variances and their effect on the issue prices to the Health Facilities:</p> <ul style="list-style-type: none"> • WHO International Reference Prices Vs NMS Procurement prices • NMS Issue Prices Vs JMS and Local Market Prices <p>Annual Approved budgets and IFMS financial records were also reviewed to establish whether NMS correctly applied the stipulated rates to arrive at handling fees deductible from the quarterly releases.</p> <p>Reviewed the purchase documents to establish whether NMS consistently applied the correct handling fee rates for the different drug categories (EMHS & ARVs) over the period under review.</p>
<p>Qn 2: To what extent does NMS deliver the right quantities of EMHS to the health facilities?</p>	<p>Heads of departments at NMS were interviewed to gain an understanding of the drug supply chain processes and the causes of discrepancies that were being raised by the health facilities.</p> <p>Procurement plans submitted by the sampled Health Facilities were also reviewed to ascertain how NMS develops its consolidated Annual procurement plan. Dispatch records were matched with orders and procurement plans to assess extent of order fulfillment by NMS.</p> <p>This was corroborated with interviews with the selected Health Facility in-charges.</p>
<p>Qn 3: To what extent are EMHS delivered to health facilities in a timely manner?</p>	<p>The NMS Customer charter was reviewed to establish the expected relationship between NMS and Health Facilities with regard to timeliness of services.</p> <p>Delivery and order schedules were reviewed to assess the timelines set by NMS and whether both parties had adhered to these timelines during the period under review. Head of Stores and the Sales and Marketing Manager were interviewed to ascertain causes of delayed delivery of drugs to Health Facilities.</p> <p>The health facility in-charges were also interviewed to establish whether orders are submitted to NMS in time and whether deliveries are done in a timely fashion.</p>

4.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In an effort to promote service delivery in the health sector across the country, government mandated NMS to procure, store and distribute Essential Medicines and Health Supplies (EMHS) to all public health facilities in the country. Despite efforts by government to enhance service delivery in the health sector, challenges still exist for NMS to deliver these drugs in the right quantities and at reasonable prices to the health facilities as detailed in the findings below.

4.2.1 DRUG PRICING

The National Medicines Policy 2015 aims at ensuring efficient and cost effective use of the limited available resources in the supply and distribution of Essential Medicines and Health Supplies to the health facilities²⁹. The policy emphasizes use of cost effective measures to ensure reasonable pricing of drugs. To assess the reasonableness of drug pricing, the following price comparisons were undertaken;

Comparison of International and Local Market prices with NMS prices

The WHO pricing guidelines, external reference pricing (ERP), also known as international reference pricing 2014, recommends using the price of a pharmaceutical product in one or several countries to derive a benchmark or reference price for the purposes of setting or negotiating the price of the product in a given country. The guidelines note that the use of ERP can be helpful for the aspects of price negotiation, and verification³⁰.

A comparison between the NMS purchase prices, international prices and licensed NDA market supplier prices revealed variations as explained below:

a) International Reference Prices Vs NMS Supplier Prices

(i) EMHS Prices

Through document review, audit noted that NMS used the WHO pricing guidelines in the market surveys undertaken during the procurement process. This was visibly seen from a comparison of the prices of the national tracer medicines which revealed that NMS procured drugs at relatively lower prices compared to the international reference prices as indicated in the **Table 12** below.

29 National medicines policy 2015, Guiding principles and focus areas: principle2 (Equity and Efficiency)

30 WHO guidelines on pharmaceutical, pricing, 2015, page 15

Table 12: Comparison between NMS supplier prices and the median international supplier prices

SN	Medical Supply	Strength	Packaging	Average NMS Supplier Prices (USD)	MSH/WHO prices (USD)	%age Below WHO Prices
1	Artemether+lumenfatrene	20mg/120mg	30 Tab	52.1	63.49	22
2	Amoxicillin	250mg	1000 Capsule	15.28	20.6	35
3	Diazepam	5mg	1000 tab	3.42	9.6	181
4	Salbutamol	4mg	1000 tab	1.68	3.8	126
5	Folic acid	5mg	1000 Tab	3.46	3.6	4
6	Ibuprofen	200mg	1000 tab	3.87	7.7	99
7	Magnesium Trisilicate comp	250+120mg	1000 tab	2.43	4.5	85
8	Erythromycin	250mg	1000 Vial	25.2	43.8	74
9	Paracetamol	500mg	1000 tab	3.34	5	50
10	Cotrimoxazole	100 mg	6 pessary	0.22	0.7	218
11	Ciprofloxacin	500mg	100 Tablet	2.49	4.8	93
12	Oral Rehydration salts	1ltr	25	1.22	3	146
13	Vitamin A	200,000 IU	1000 Capsule	47.52	62.5	32

Source OAG analysis of Average supplier prices to NMS for 2015/16

The above **Table 12** indicates that all the 13 sampled drugs were procured at prices lower than the WHO international reference prices.

(ii) ARVs and ACTs Prices

The National Medicines Policy, 2015 emphasizes the development of a viable national domestic pharmaceutical industry with the potential to serve public health needs, support economic and industrial development, and promote national self-sufficiency by creating a business model in which sufficient economies of scale can be achieved to justify the investment in good quality production, and still achieve competitive prices. To promote local pharmaceutical production, government supported the establishment of a local pharmaceutical manufacturing company. Currently ARVs and ACTs are supplied to NMS by the donor community and the company. The company has increased foreign exchange inflows through export of medicines and has brought about increased foreign exchange savings on imports as the country now buys its ARVs and ACTs locally³¹. Despite this and many other national benefits, it was observed that in the majority of cases, the prices at which NMS procured ARVs from the local manufacturer during the period under review were higher than the prices of drugs imported under donor supported arrangements as illustrated in the **Figure 5, Figure 6 and Figure 7 below:**

Key for ARV' Drugs

	Full Name of drug	Short name
1.	ARTEMETHER 20MG+LUMEFANTRINE 120MG(STRIP OF 24)	AL
2.	EFAVIRENZ 600MG TAB	E 600
3.	EFAVIRENZ 200 MG CAP	E 200
4.	LAMIVUDINE150MG + ZIDOVUDINE 300 MG TAB,	LZ
5.	LAMIVUDINE150MG+ZIDOVUDINE300MG+NEVIRAPINE200MG T	LZN
6.	NEVIRAPINE 200MG TAB	N 200
7.	TENOFOVIR/LAMIVUDINE 300MG/300MG TABLETS	TL
8.	TENOFOVIR/LAMIVUDINE/EFAVIRENZ 300MG/300MG/600MG	TLE

Figure 5: Showing 2013 ARVs drug price comparisons with the donor supplies

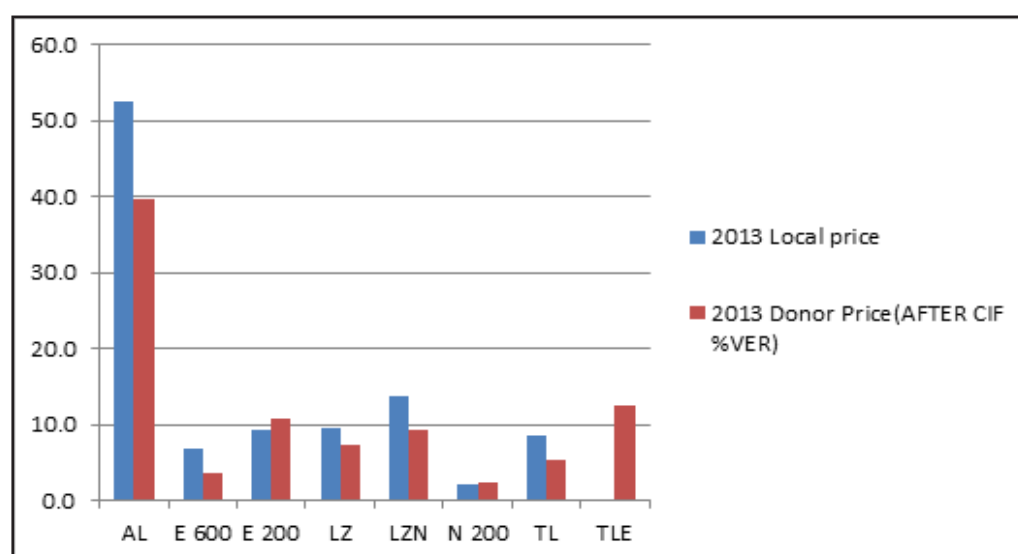


Figure 6: Showing 2014 ARVs drug price comparison with the donor suppliers

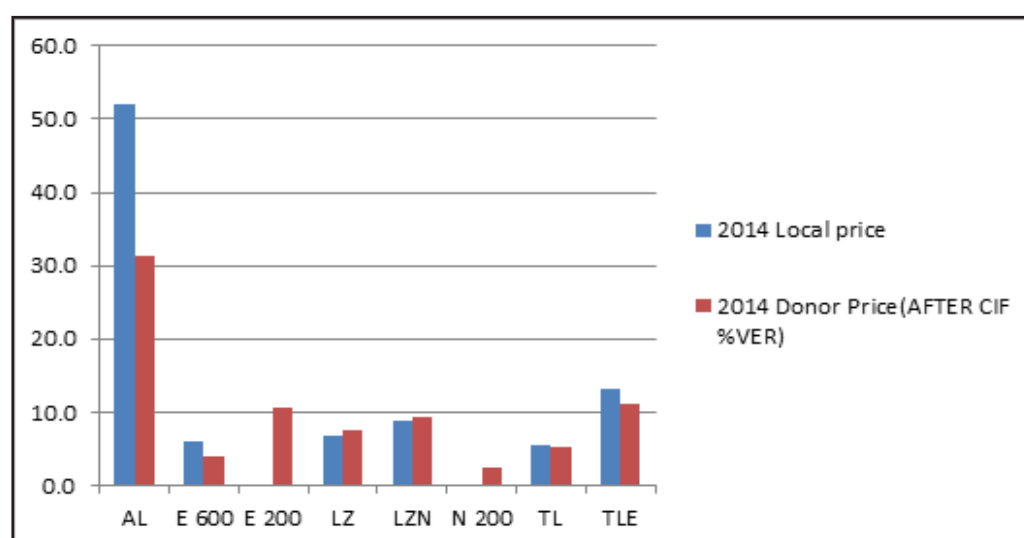


Figure 7: Showing 2015 ARVs drug price comparisons with the donor supplies

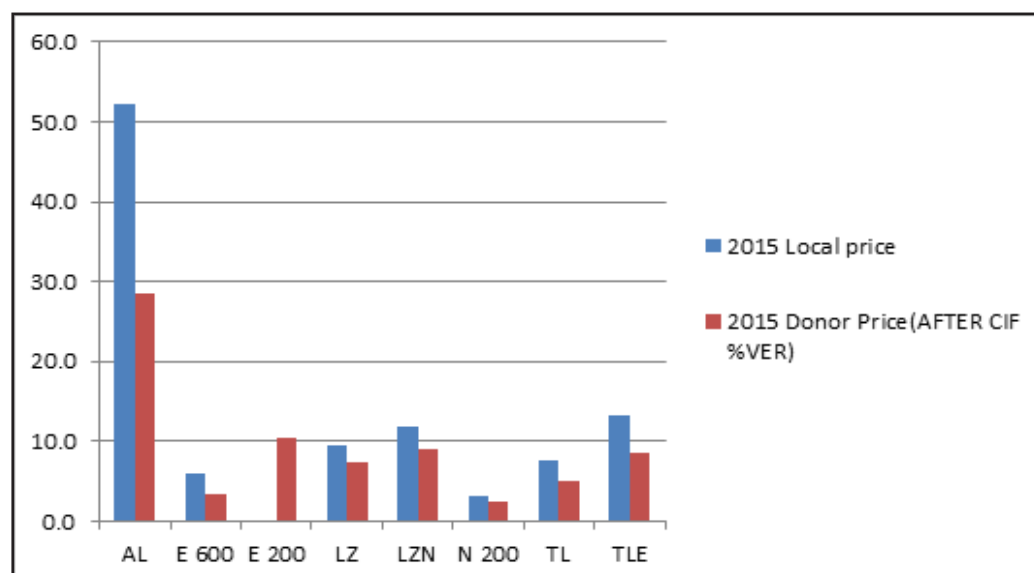


Table 13: Showing the average range by which Donated ARV Prices were found to be lower

ARV DRUG	Local Manufacturer				Donated					
	2103	2014	2015	Average (USD)	2013	2014	2015	Average (USD)	Average Price Difference (USD)	
AL	52.7	52.1	52.1	52.3	39.7	31.2	28.6	33.17	19.13	
E 600	6.8	6	6	6.27	3.6	4	3.4	3.67	2.6	
LZ	9.5	6.7	9.5	8.57	7.3	7.6	7.4	7.43	1.14	
LZN	13.9	8.8	11.9	11.53	9.2	9.3	9.1	9.2	2.33	
TL	8.6	5.5	7.7	7.27	5.3	5.2	5.2	5.23	2.04	

Source: OAG Analysis of Average ARV Prices

The Table 13 shows that the donor prices for five (5) out of the eight (8) selected drugs were on average lower than those of the local supplier prices. The percentage average difference for four (4) out of the five (5) drugs was found to be more than 25%.

It was noted that the local manufacturer's prices were dictated by the MoU that was signed between MoH on behalf of GoU and the company. Whereas the MoU³² provided for negotiation³³ of prices (Article 6.2) and procurement of all ARVs from the local manufacturer by government and Related Agencies (Article 3.1.1), it was not fully executed in this regard³⁴ as government continued to procure ARVs from multiple sources. These provisions in the MOU were aimed at attainment of economies of scale that would drive down the prices as a result of reduced unit costs of manufacturing the drugs.

32 untangling the web of antiretroviral price reductions 17th according to part 2 section 3, evaluation methodology and criteria, sub-section 6.3 of the standard bidding documents, 2014

33 <http://www.nda.or.ug/ug/smenu/61/human-drugs-register-august-2016.html>

34 CIPLAQCIL/EC/16-231 dt 22/April/2016

The high prices mean fewer quantities are procured for distribution to health facilities with the available resources (Table 13 refer). This can result in increased donor dependency which exposes government to a risk of limited availability of ARVs in the event of withdrawal of donor funding. The **Table 14** shows a comparison of the drug quantities procured by NMS and the donors.

Table 14: ARVs quantities procured and donated over a period of three years

Item	2013/14 (Packets)		2014/15 (Packets)		2015/16 (Packets)	
	Quantity bought	Donor input	Quantity bought	Donor input	Quantity bought	Donor input
ARTEMETHER 20MG+LUMEFANTRINE 120MG(STRIP OF 24)	303,476	59,099	534,437	110,719	215,444	330,956
EFAVIRENZ 600MG TAB	517,843	596,683	178,234	680,267	664,689	1,723,946
EFAVIRENZ 200 MG CAP	19,067	106,519	-	72,485	-	68,565
LAMIVUDINE150MG + ZIDOVUDINE 300 MG TAB,	608,893	305,219	382,132	221,294	29,204	546,544
LAMIVUDINE150MG+ZIDOV UDINE300MG+NEVIRAPINE 200MG T	1,228,945	1,314,081	796,741	1,109,908	356,019	1,228,040
NEVIRAPINE 200MG TAB	53,438	174,857	-	443,179	25,613	534,035
TENOFOVIR/LAMIVUDINE 300MG/300MG TABLETS	418,141	196,883	1,140,460	354,275	623,678	1,038,444
TENOFOVIR/ LAMIVUDINE/EFAVIRENZ 300MG/300MG/600MG	-	1,558,129	88,658	1,774,845	156,554	2,905,176
Totals	3,149,803	4,311,470	3,120,662	4,766,972	2,071,201	8,375,706
Percentage of donor quantities to the total supplied quantities	42%	58%	40%	60%	20%	80%

Source: OAG Analysis of quantities purchased and those donated to NMS

As indicated in **Table 14** above, donor dependency on ARVs has increased over the years under review. Additionally, the percentage of quantities of ARVs donated has increased from 58% to 80% of the total ARV supplies.

Management Response

Although the report indicates that NMS was procuring these products at prices higher than those of donors, it should be noted that our procurement prices were well within the range of indicative international prices as provided in both the MoU and the price reference guide.

NMS carries out negotiations with Cipla Quality Chemicals Limited to bring the prices within the acceptable pricing mechanism under the MOU.

Audit Comment

The fact that the donor prices are lower implies that opportunities still exist for NMS to procure ARVs at a lower price.

iii) Anti-Cancer Drug Prices

Through document review and analysis, it was observed that 11 out of the 15 most frequently ordered anti-cancer drugs were procured at a relatively higher price than international median prices as indicated in **Table 15** below.

Table 15: Showing the price comparison of NMS average purchase prices and the WHO international median prices

S/N	DRUG	UGX MSH prices (2015 BOU average exchange rate) (A)	UGX NMS prices(2015 BOU average exchange rate) (B)	%age ABOVE MSH price	%age BELOW MSH price
1	PACLITAXEL 100MG VIAL	39,615.37	141,161.24	256	
2	OXALIPLATIN INJ 5MG/ML 10ML VIAL	144,935.04	127,389.41		12
3	CISPLATIN INJECTION BP 50MG/100ML	26,110.88	97,952.13	275	
4	DOXORUBICIN HYDROCHLORIDE 50MG VIAL	126,425.71	75,745.05		40
5	DOCETAXEL 40MG/ML 2ML VIAL	416,460.08	223,792.21		46
6	CARBOPLATIN 10MG/ML, 45 ML VIAL	136,313.55	234,981.82	72	
7	L-ASPARAGINASE 10,000IU VIAL	56,713.76	299,537.26	428	
8	DACARBAZINE 200MG VIAL	49,523.28	43,725.55		12
9	RITUXIMAB 500MG 50ML VIALS	307,125.82	5,821,000.00	1,795	
10	FILGRASTIM 300MCG/ML 1ML VIAL	15,240.51	410,000.00	2590	
11	CYCLOPHOSPHAMIDE 1GM VIAL	39,047.38	51,644.36	32	
12	CALCIUM FOLINATE 50MG/5ML VIAL	9,201.07	80,737.34	777	
13	GEMCITABINE HCL 1G IN 25ML VIAL	99,669.70	154,933.07	55	
14	CAPECITABINE 500MG TABLETS	657,636.74	1,360,300.00	107	
15	DAUNORUBICIN HCL 20MG VIAL	82,866.30	115,993.22	40	

Source: OAG Analysis of purchase prices for the year 2015/16

Table 15 above shows significant variations between NMS and international median prices with 7 out of the 15 selected drugs having been procured at prices higher than 100% of the international prices.

The high purchase prices of the anti-cancer drugs as compared to the WHO median prices were attributed to the Stringent Regulatory Authorities (SRAs)³⁵ quality standards demanded by Uganda Cancer Institute (UCI). UCI insists that NMS procures for them SRA approved drugs. This disadvantages other competitors licensed by the National Drug Authority. A review of some of the SRA approved drug price lists shows that SRA approved drug prices are relatively more costly as compared to the median WHO prices/ non-SRA prices.

Furthermore, it was established that the price of some specialized drugs such as anti-cancer drugs is sometimes determined by the demand volumes. According to the global ecology trend report 2015, the global market size of anti-cancers was estimated to be USD 107bn in 2015³⁶ while the approved budget for UCI of UGX 7bn [equivalent to roughly to USD 2m per annum] representing roughly 0.002% in value of this global market. The very small market of Uganda could be unattractive to SRA-accredited Manufacturers who therefore target larger markets. Therefore, low supply volumes of SRA approved anti-cancer drugs could be attracting a high cost price to the country.

Furthermore, audit established that in some instances the high prices are also caused by variances in the contract price agreed in the framework contract and actual purchase price. Out of the 15 sampled anti-cancer drugs, 3 drugs had their actual purchase prices higher than the contract price as indicated in Table 16 below.

Table 16: Showing variations between contract prices and actual purchase prices

S/N	DRUG	Procurement reference	contract sign date	contract price (USD)	2015 Purchase Price (USD)	Variance
1	DOXORUBICIN HYDROCHLORIDE 50MG VIAL	NMS/ SUPLS/14-15/00036	8-Jan-15	22	16.43	\$5.57
2	FILGRASTIM 300MCG/ML 1ML VIAL	NMS/ SUPLS/14-15/00070	22-Jun-15	36	59.88	[\$23.88]
3	GEMCITABINE HCL 1G IN 25ML VIAL	NMS/ SUPLS/14-15/00036	8-Jan-15	45	47.24	[\$2.24]
4	CAPECITABINE 500MG TABLETS	NMS/ SUPLS/14-15/00070	24-Apr-15	27	470.36	[\$443.36]

Source: OAG Analysis of contract and purchase prices

Table 16 above shows that four (4) of the fifteen (15) anti-cancer drugs sampled had variances between the contract price and the actual purchase price. The price difference ranged between USD 443.36 and USD 2.24. Doxorubicin Hydrochloride 50mg vial with a price difference of USD 5.57 was the only drug that was procured at a price lower than the contract price.

³⁵ The national drug regulatory authorities which are members or observers or associates of the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH) are considered as Stringent Regulatory Authority (SRA). http://www.stoptb.org/assets/documents/gdf/drugsupply/List_of_Countries_SRA.pdf

³⁶ Global Oncology Trend Report: A Review of 2015 and Outlook to 2020

The high purchase prices also impact on the quantities purchased and delivered to the Health Facilities.

Management Response

Comparison of NMS purchase prices with those of the approved price reference above, confirm that NMS was within the range. As established by the auditors, the market for anti-cancer medicines in Uganda Public Sector is 0.002% of the total global market which further reduces our purchasing power for SRA approved medicines.

Audit Comment

Whereas NMS prices were within range as compared to SRA prices, NMS can still consider procuring drugs approved by WHO at lower prices.

b) NMS price Vs JMS, and Local Market prices for EMHS

To have a realistic comparison of market prices, NMS drug prices were compared with those of an organization with similar characteristics. JMS procures and issues drugs to non- government hospitals while NMS deals with government health facilities. For this purpose, JMS prices were used for comparison since NMS and JMS have comparable scales of operations. Another comparison was made with the average market prices obtained from three local pharmacies operating in Kampala.

Through document review and analysis, it was observed that in majority of cases the NMS prices were lower than the average market prices and the JMS prices. Ten (10) out of the thirteen (13) selected drugs were issued at less than the average market prices while 12 out of 13 were relatively cheaper compared to JMS as detailed in table 17 below.

Table 17: Showing percentage variances between NMS, MARKET and JMS prices in Uganda shillings

SN	Medical Supply	Weight	Packaging	NMS Average Issue Prices(A)	Average Market Prices (B)	JMS Prices (C)	% Above Market price (A-B)/B	%age Below Market Price (A-B)/B	%age Above JMS (A-C)/C	%age Below JMS (A-C)/C
1	Artemether+ Lumenfatrene	20mg/120mg	30tabs	177,380	67,500	140,400	162		26	
2	Amoxicillin	250mg	1000 Capsule	46,332	50,000	46,440		7		
3	Diazepam	5mg	1000 tab	12,172	60,000	50,400		80		76
4	Salbutamol	4mg	1000 tab	6,021	20,000	30,990		70		81
5	Folic acid	5mg	1000 Tab	6,007	20,000	29,070		70		79
6	Ibuprofen	200mg	1000 tab	10,992	20,000	21,050		45		48
7	Magnesium Trisilicate comp	250+120mg	1000 tab	9,028	20,000	16,487		55		45
8	Erythromycin	250mg	1000 Vial	90,149	75,000	142,750	20			37
9	Paracetamol	500mg	1000 tab	12,420	25,000	17,490		50		29
10	Cotrimazole	100 mg	6 pessary	769	1,000	1,071		23		28
11	Ciprofloxacin	500mg	100 Tablet	8,896	8,000	9,585	11			7
12	Oral Rehydration salts	1Ltr	25	4,533	6,500	5,915		30		23
13	Vitamin A	200.00I U	1000 Capsule	184,987	266,667	444,967		31		58%

Source: OAG analysis of NMS Average delivery prices for 2015/16 (Market prices were obtained from three different pharmacies)

Only three (3) out of the thirteen (13) selected EMHS drugs were issued at higher than the average market price and one (1) out of the thirteen (13) sampled EMHS drugs was issued at a relatively higher price compared to JMS prices.

The cases of higher variations in price could be due to errors/omissions made in undertaking market surveys. For instance it was observed through review of the market survey documentation that the surveys for twelve (12) out of the thirteen (13) sampled drugs had computational errors in both the NMS quoted price and WHO-IDIPG price used for comparison. Singular errors were also observed in the quoted JMS and Tanzanian comparative prices. These errors can lead to inaccurate market surveys resulting into inappropriate pricing decisions.

Management Response

The nearest market in Uganda to compare NMS procurements with should be JMS as any other market may have other considerations. There is only one drug that is higher than the market and JMS because the brand available at JMS (Lonart) is of an inferior quality.

Mark-up Charge

NMS Purchase price Vs NMS issue price to Health Facility

The drug price charged to a health facility is determined by the rate of mark-up/handling fees charged by NMS on the purchase price. The statutory mark up as set in the NMS budget is approved by parliament at the beginning of each financial year which allows the entity to maintain a mark-up as shown in table 18 below:

Table 18: Showing statutory Mark-up for EMHS, ARVs and ACTs.

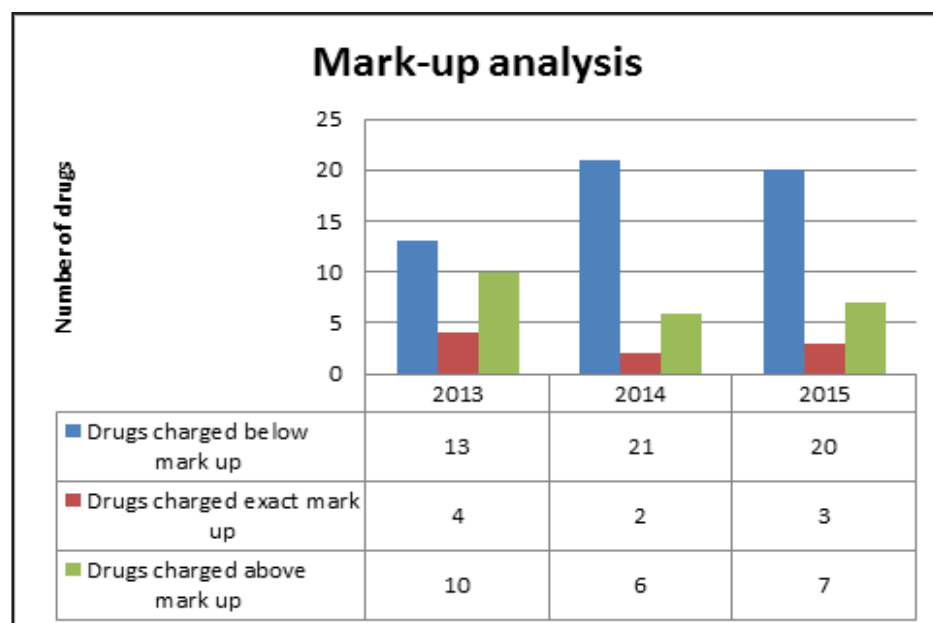
Drug	Percentage Mark-up
EMHS	8%
ARVs and ACTs	7%

Source: NMS approved budgets

Through document review it was noted that the mark-up charged on the purchase price of the drugs to arrive at the issue price to the health facilities varied against the statutory 8% and 7% on EMHS and ARV drugs respectively³⁷. In certain instances the mark-up charged on the drugs was below the stated statutory rate by as low as 75%. In other cases it was up to 44% higher than the statutory mark up. (Refer to Figure 8)

37 NMS budget statements 2015/16

Figure 8: Showing drugs above and below the statutory markup charge



As indicated in the figure above, there were variances over the three years in all sampled drugs between purchase and issue prices. These prices varied over and above the expected statutory charges. This implied additional charges on the cost price of the procured drugs to health facilities, for the rates that exceeded the statutory markup rate.

Conclusion

Whereas NMS purchased EMHS at lower prices relative to international market prices, anti-cancer drug prices were found to be on the higher side. Similarly ARVs were found to be higher than the donated drug prices. Further in comparison with market prices NMS prices for EMHS were found to be generally lower than those of comparable providers.

Except for ARVs and anti-cancer drugs, EMHS drug prices were found to be generally reasonable for the sampled drugs.

Recommendations

- The Ministry of Health should work closely with the local company to ensure that the objective of the MoU to provide low cost pharmaceutical products is achieved. This will require compliance by government to the terms of agreement that give exclusive rights to the manufacture for purchase ARVs and ACTs since it was envisaged that increased economies of scale would drive prices down.
- Procurement of anti-cancer drugs should be opened up to all NDA approved manufacturers/suppliers. Drugs on the NDA register should only be rejected if it can be demonstrated that they are of inferior quality. In addition, NMS should co-opt subject matter specialists (UCI and NDA representatives) on the evaluation committee for the procurement of anti-cancer medicines. The procurement of SRA approved drugs should be undertaken in consultation with NDA.
- NMS should apply the 8% and 7% statutory mark up for EMHS and ARVs respectively as provided for in the approved annual budgets and as required by the Entity's Financial Reporting Framework.

- NMS should ensure that the survey reports and procedures are comprehensively reviewed to ensure accuracy.

4.2.2 PLANNING AND DELIVERY OF EMHS

According to the National Medical Stores Customer Charter December 2012, under “Product and Services Standards” (d), management undertakes to deliver EMHS according to customer orders in line with individual facility procurement plans and prevailing Ministry of Health Guidelines.

Through document review, interviews and physical inspections, it was observed that health facilities (HC IV, District Hospital and Regional Referral Hospital) experienced discrepancies in the quantities delivered by NMS during the period under review as details in the sections below.

Drugs not delivered

a) **Planned, Ordered but not issued**

Out of the selected 72 health facilities, 68, 68, 38 health facilities did not receive EMHS quantities as planned and ordered for in 2013/14; 2014/15 and 2015/16, respectively. (Refer to Table 19 below)

Table 19: Showing planned, ordered and but not issued quantities over a period of time

Health Facility	2013/14 (Packs)			2014/15 (Pack)			2015/16 (Packs)		
	Planned	Ordered	Issued	Planned	Ordered	Issued	Planned	Ordered	Issued
RRH	24,308	24,308	0	307,925	282,067	0	2,112	1,754	0
GH	31,684	31,684	0	167,037	154,390	0	1,422	1,892	0
HC IV	54,328	54,328	0	21,819	14,925	0	7,020	6,160	0

Source: OAG Analysis of Planned_Ordered_Issued Data from NMS

Table 19 shows quantities of EMHS planned and ordered for by various levels of health care but not fulfilled by NMS over the years 2013/14, 2014/15, and 2015/16.

b) **Planned, Ordered but delivered less**

Out of the selected 72 health facilities, 67 received EMHS quantities less than what had been ordered for during the three year period under review. (Refer Table 20 below)

Table 20: Showing planned, ordered but issued less quantities over a period of time

Health Facility	2013/14 (Packs)			2014/15 (Packs)			2015/16 (Packs)		
	Planned	Ordered	Issued	Planned	Ordered	Issued	Planned	Ordered	Issued
RRH	1,654,578	1,654,578	853,795	1,309,892	1,124,156	1,053,812	1,165,949	1,205,751	886,131
GH	723,944	723,944	331,420	849,909	929,543	821,726	346,207	425,737	296,770
HC IV	426,133	426,133	155,436	641,804	739,939	644,316	516,470	615,850	407,867

Source: OAG Analysis of Planned_Ordered_Issued Data from NMS

From the review of documentation and analysis of data, it was established that the short deliveries were caused by NMS budget constraints caused by unfavorable exchange rate fluctuations which led to a reduction in the purchasing power of released funds over the years and differences in the prices agreed between NMS and the health units at the planning stage and the actual prices eventually charged on dispatch . These are illustrated in Table 21 below.

Table 21: Showing reduction in purchasing power due to exchange rate losses over the years

Period		FY Release from MoFPED (UGX)	Statutory Fee [%]	Medicines Budget after deduction of service fee (UGX)	BOU Official Mid-Rate (Average)	Equivalent in USD	Cumulative Decrease in USD Equivalent
-	-	-	-	-	-	-	-
FY 2013/2014	EMHS	119,337,586,943	8%	109,790,579,988			
	ARVs	100,000,000,000	7%	93,000,000,000		-	
Sub Total		219,337,586,943		202,790,579,988	2,538.34	79,891,023.26	-
						-	
FY 2014/2015	EMHS	118,466,726,861	8%	108,989,388,712		-	
	ARVs	99,535,663,957	7%	92,568,167,480		-	
Total		218,002,390,818		201,557,556,192	2,823.22	71,392,791.28	8,498,231.98
						-	
FY 2015/2016	EMHS	118,614,466,778	8%	109,125,309,436		-	
	ARVs	100,000,000,000	7%	93,000,000,000		-	
Total		218,614,466,778		202,125,309,436	3,442.96	58,706,842.20	12,685,949.07
Cumulative drop in purchasing power							21,184,181.06
%age drop in purchasing power							18%

Source: IFMS Releases and BOU exchange rate.

As indicated in Table 21 above the percentage drop in purchasing power over the 3 years under review was 18% which subsequently affects quantities expected by health facilities.

Additionally, **Table 22** below shows that in many cases the prices agreed during procurement planning differ from those at the time of dispatch.

Table 22: Comparison between the contract prices and the NMS procurement plan prices

Drug	Strength	Packaging	FY 2013/14			FY 2014/15			FY 2015/16		
			Procurement Plan/Order Price (A)	contract price	Variance	Procurement Plan/Order Price (A)	contract price	Variance	Procurement Plan/Order Price (A)	contract price	variance
Artemether + lumenaftrine	20mg/120mg	30 tab	-	144,685.32		-	147,089.74		-	179,378.06	
Amoxicillin	250mg	1000 Capsule	35,650.00	34,039.13	5%	35,500.00	43,138.80	-22%	39,600.00	40,000.00	-1%
Diazepam	5mg	1000 tab	4,750.00			5,200.00	9,655.41	-86%	9,000.00	9,655.41	-7%
Erythromycin	250mg	1000 tab	69,800.00	63,966.14	8%	70,600.00	71,145.13	-1%	70,600.00	86,762.52	-23%
Salbutamol	4mg	1000 Tab	2,800.00	3,147.54	-12%	3,150.00	3,500.79	-11%	3,550.00	5,784.17	-63%
Folic acid	5mg	1000 tab	1,650.00	1,573.77	5%	1,650.00	2,300.00	-39%	1,800.00	2,300.00	-28%
Ibuprofen	200mg	1000 tab	5,950.00			5,950.00	10,925.86	-84%	11,000.00	10,925.86	1%
Magnesium Trisilicate comp	250+120mg	1000 Vial	3,150.00	6,168.16	-96%	3,200.00	7,679.16	-140%	6,850.00	7,679.16	-12%
Paracetamol	500mg	1000 tab	10,300.00	9,874.14	4%	10,500.00	10,982.32	-5%	11,250.00	11,500.00	-2%
Clotrimazole	100 mg	6 pessary	700.00	558.43	20%	650.00	621.11	4%	650.00	688.59	-6%
Ciprofloxacin	500mg	100 Tablet	6,450.00	6,320.46	2%	6,400.00	7,029.82	-10%	6,850.00	8,572.96	-25%
Oral Rehydration salts	1Ltr	25	3,650.00	3,452.14	5%	3,700.00	4,200.00	-14%	3,850.00	4,200.00	-9%
Vitamin A	200,000 U	1000 Capsule	80,850.00	83,765.19	-4%	101,500.00	142,290.27	-40%	99,300.00	173,525.03	-75%

Source: OAG Analysis of procurement plans and contract documents of selected drugs

Consequently, the increment in the prices agreed at the planning stage translates into incremental costs that health facilities had to bear resulting into fewer quantities being delivered to health facilities. (Refer to **Table 23** below)

Table 23: Extra cost incurred due to changes in procurement plan/order prices and issue prices to Health Facilities

	2013/14		2014/15		2015/16	
ITEM	QTY (Packs)	SUM OF VALUE LOST (UGX)	QTY (Packs)	SUM OF VALUE LOST (UGX)	QTY (Packs)	SUM OF VALUE LOST (UGX)
ORAL REHYDRATION SALTS FOR 1LT	4,113	(185,981)	3,014	(1,093,476)	1,869	(1,367,548)
AMOXICILLIN 250MG CAPSULE	21,788	(2,783,037)	26,366	(128,379,730)	22,398	(158,409,026)
CIPROFLOXACIN 500MG TABLET	24,115	(1,337,737)	26,825	(14,765,608)	22,064	(40,947,318)
CLOTRIMAZOLE 100MG PESSARY	14,619	1,706,117	13,336	500,174	10,149	(1,490,658)
ERYTHROMYCIN STEARATE 250MG TABLET	3,557	(3,098,892)	3,194	52,125	1,062	(20,888,478)
FOLIC ACID 5MG TABLET	3,336	(148,912)	3,358	(1,058,710)	845	(3,336,590)
IBUPROFEN 200MG TABLET	2,420	(11,427,240)	6,820	(34,125,570)	1,655	(69,510)
MAGNESIUM TRISILICATE COMP 250+120MG TABLET	4,043	(7,151,291)	3,164	(11,979,513)	617	(1,446,420)
DIAZEPAM 5 MG TABLET	602	(2,728,543)	612	(2,971,848)	371	(698,481)
PARACETAMOL 500MG TABLET,	21,562	(5,381,485)	23,648	(26,136,138)	19,469	(30,566,330)
SALBUTAMOL 4MG TABLET	862	(335,194)	1,209	(440,894)	1,090	(2,681,598)
VITAMIN A (RETINOL) 200.000 I U CAPSULE	177	(3,324,786)	238	(875,727)	170	(13,777,322)
	101,194	(36,196,981)	111,784	(221,274,915)	81,759	(275,679,279)

Source: OAG Analysis of NMS receipts and delivery data.

NMS also attributed the short deliveries to:

- Change in treatment policy for example Amoxicillin 125mg dispersible tabs would not be issued as the policy has changed to Amoxicillin 250mg dispersible tabs.
- Change in item specifications for example sodium hypochlorite 6% 1 Litre (at the time of placing an order by the health facility) changing to sodium hypochlorite 6% 5 Litre (at the time of issuing).

c) **Unplanned, Not Ordered but Issued**

Out of the selected 72 health facilities, 68 and 65 health facilities received EMHS quantities that had neither been planned nor ordered for in 2013/14 and 2014/15 respectively. (Refer **Table 24** below)

Table 24: Showing unplanned, not ordered but issued quantities over a period of time

Health Facility	2013/14 (Packs)			2014/15 (Packs)		
	Planned	Ordered	Issued	Planned	Ordered	Issued
RRH	0	0	360,559	0	0	776,460
GH	0	0	20,019	0	0	357,825
HC IV	0	0	16,222	0	0	820,376

Source: OAG Analysis of Planned_Ordered_Issued Data from NMS

Table 24 indicates that whereas in 2013/14 and 2014/15, the need for drugs was not expressed by the various levels of health care, NMS went ahead to supply RRH- 369,559 and 776,460; GH- 20,019 and 357,825 ; HC IVs- 16,222 and 820,376 packs, respectively.

This was mainly attributed to the centrally pooled items which include ACTs, ARVs, TB commodities, vaccines and items delivered during emergencies and outbreaks.

d) **Planned, Ordered but delivered in excess**

Out of the selected 72 health facilities, 66, 65 and 66 health facilities received EMHS quantities in excess of what had been ordered for in 2013/14, 2014/15 and 2015/16 respectively. (Refer to **Table 25** below)

Table 25: Showing planned, ordered but issued quantities in excess over a period of time

Health Facility	2013/14 (Packs)			2014/15 (Packs)			2015/16 (Packs)		
	Planned	Ordered	Issued	Planned	Ordered	Issued	Planned	Ordered	Issued
RRH	116,835	116,835	169,398	623,445	433,774	748,162	328,691	285,468	397,952
GH	63,103	63,103	88,777	430,005	435,629	585,776	326,331	306,996	375,126
HC IV	18,884	18,884	32,870	184,082	212,551	314,013	136,539	155,337	216,327
Totals	198,822	198,822	291,045	1,237,532	1,081,954	1,647,951	791,561	747,801	989,405

Source: OAG Analysis of Planned_Ordered_Issued Data from NMS

Table 25 above indicates that there were health facilities that ordered for 198,822; 1,081,954; 747,801 packs of EMHS in 2013/14; 2014/15 and 2015/16, respectively but received more .

NMS attributed this to push orders originated by MOH and third parties specifying quantities of drugs and medical supplies to be delivered to each specified district and health unit.

e) Planned, not ordered but delivered

Out of the selected 72 health facilities, 35 and 24 health facilities received EMHS quantities that had neither been planned nor ordered for in 2014/15 and 2015/16, respectively. (Refer to Table **26** below)

Table 26: Showing planned, not ordered but issued over a period of time

Health Facility	2014/15 (Packs)			2015/16 (Packs)		
	Planned	Ordered	Issued	Planned	Ordered	Issued
RRH	14,648	0	12,846	3,996	0	54,502
GH	3,672	0	8,623	4,271	0	1,659
HC IV	4,506	0	3,977	3,876	0	990

Source: OAG Analysis of Planned_Ordered_Issued Data from NMS

The other cause of the above discrepancies in quantities delivered was the preparation of procurement plans based on monthly consumption and the available budget without necessarily considering the disease burden of the treatment population.

Conclusion

Overall, health facilities experienced discrepancies in delivered quantities during the period under review.

Recommendation

- NMS should ensure that the prices provided to health facilities reflect the running contract prices.
- NMS should engage MoFPED and MoH to agree on a framework for bridging the financing gaps caused by volatility in exchange rates.
- Changes in treatment policy and item specification should be properly planned and communicated in order not to impact on the procurement and supply chain.
- MoH should ensure that arrangements for supplies of emergency drugs are done in full consultation with NMS and the beneficiary health facilities to enable proper planning of procurement and utilization.
- NMS should ensure that procurement planning is undertaken based on the disease burden other than the average monthly consumption.

4.2.3 TIMELINESS OF EMHS DELIVERIES

According to the National Medical Stores Customer Charter December 2012, under Part (b) and (c) of “Product and Services Standards” NMS undertakes to deliver essential medicines and health supplies to the doorstep of all customers, and to deliver essential medicines and health supplies according to the published delivery schedule by level of care.

NMS adherence to set delivery dates

Through document review and interviews of the delivery dates for the selected health facilities audit established that whereas efforts were made to deliver EMHS in time, cases of delays were noted as indicated in the Table 27 below.

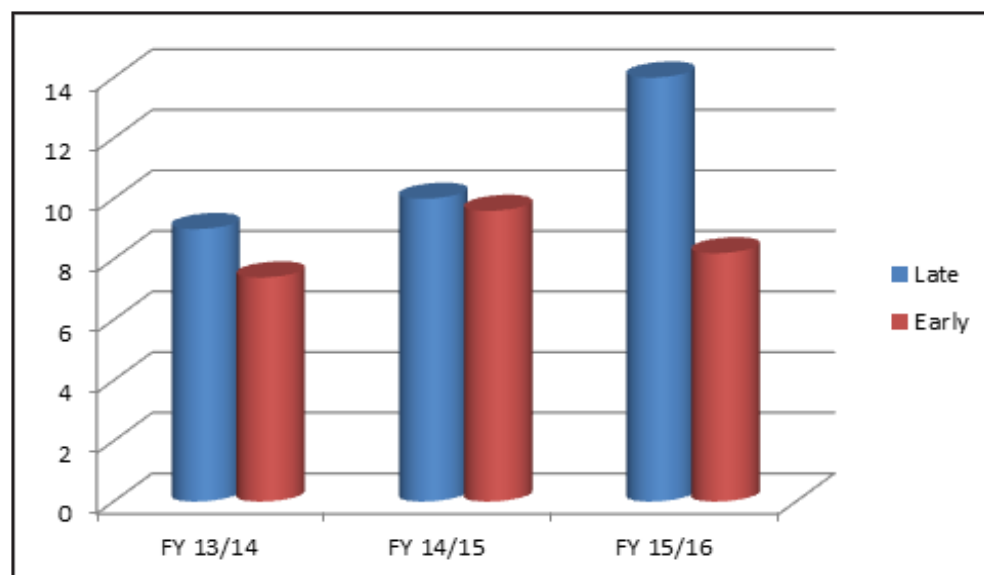
Table 27: Showing average LATE and EARLY deliveries

Years	Late (days)	Early (days)
FY 13/14	9	7.4
FY 14/15	10	9.6
FY 15/16	14	8.2

OAG Analysis of delivery dates to health facilities

Table 27 above indicates the number of days NMS delivered as per the scheduled deadlines and those where it delivered late. **Figure 9** below shows a graphical presentation of the above data.

Figure 9: Showing Average Late and Early Deliveries made by NMS



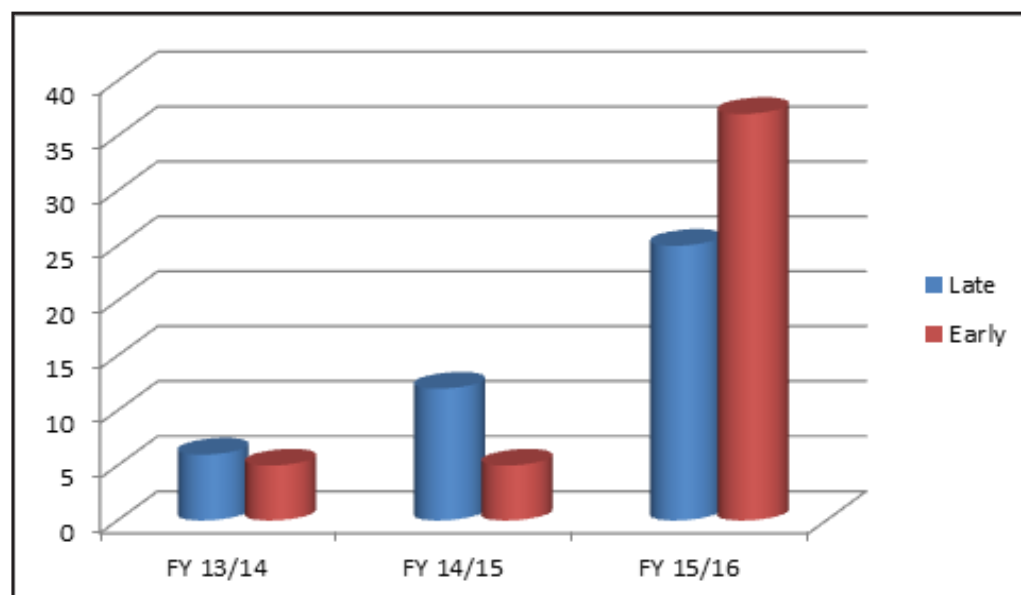
Delayed deliveries were caused by:

- Late submission of orders by Health facilities as indicated in Table 28 below.

Table 28: Showing average LATE and EARLY orders

	FY 13/14	FY 14/15	FY 15/16
Late	6	12	25
Early	5	5	37

Figure 10: Showing Average Late and Prompt Orders made by NMS



- Additionally, audit attributed the delays in deliveries to delayed response to customer complaints within the stipulated period of seven (7) working days and close out period of 14 working days. Out of 72 sampled health facilities, 26, 13 and 12 health facilities raised discrepancies in delivery over the three year period that is 2013/14; 2014/15 and 2015/16. However by the end of the audit (December 2015), none has been responded to as per NMS commitment on complaint management.

Consequently, there was a stock out of essential medicines and health supplies at the facilities averaging (9-15) days for the selected health facilities thereby hampering service delivery.

Conclusion

Whereas efforts were made by NMS to deliver EMHS in a timely fashion, delays were noted during the period under review.

Recommendations

NMS should:

- Automate the processes of planning, ordering, receipting, storage, distribution and delivery of orders.
- Endeavor to promptly resolve customer complaints in a timely fashion.

5 PROMOTION OF COTTON PRODUCTION AND FACILLTATION OF VALUE ADDITION TO UGANDA'S COTTON BY THE COTTON DEVELOPMENT ORGANISATION

5.3 INTRODUCTION

5.3.1 BACKGROUND

Cotton has been one of Uganda's major cash crops since its introduction in 1903. Over the years, cotton gained much significance because it served the dual purpose of providing raw materials to the growing textile industry as well as introducing cash to the economy. During the 1960s, Uganda was Sub-Saharan Africa's largest cotton producer. However, political instability and poor policy choices of the 1970s led the sector to its demise. Attempts to revive the sector with lending operations during the 1980s failed, but policy reforms combined with a lending operation and the high cotton prices of the 1990s revitalized the sector.³⁸ The reforms liberalized the sector and also created the Cotton Development Organization (CDO) to monitor the production, processing and marketing of cotton in Uganda, promote the distribution of high quality cotton seed and to facilitate the development of the cotton industry.³⁹

5.3.2 MOTIVATION

Cotton is Uganda's third largest export crop after coffee and tea. It is also the main source of income for some 250,000 households.⁴⁰ From 1970 until 1986 the country went through economic difficulties resulting in disruptions of cotton research, long delays in paying farmers for their crop among other numerous challenges. Since liberalization of the sector efforts such as provision of high quality planting seed to farmers, support to extension and farmer mobilization, support to farmer training, provision of inputs and extension services⁴¹ have been devoted towards increasing yields with gradual introduction of modern farming techniques coupled with other reforms including appropriate institutional building.

38 The cotton sector of Uganda – An Africa Region Working Paper Series No. 123 by the World Bank

39 The 1994 Cotton Development Act

40 www.cdo.go.ug

41 Cotton Development Organisation – Cotton sub-sector development plan 2010/11 – 2014/15

The cotton sub-sector however still faces a number of challenges, for example, lack of cotton targeted input support, inadequate extension service delivery, low farm gate prices, poor crop management, low application of fertilizers and poor farmer organization.⁴²

In addition, average cotton lint production has been unstable for the last five years ranging from 254,036 bales to 102,619, 78,364, and 93,093 bales in 2011/12, 2012/13, 2013/14 and 2014/15 respectively.⁴³ Earnings by farmers have also exhibited a similar trend reducing from 148 billion in 2011/12, to 59.83billions in 2012/13, 49.84 billion in 2013/14, and 54.2 billion in 2014/15.⁴⁴

According to CDO annual performance reports, value addition to locally produced lint was still very low. For instance, in 2012/13 97% of all the lint produced was exported without processing while in 2013/14, lint exports accounted for 95% of all lint sales.⁴⁵

It is against this background that the Office of the Auditor General decided to undertake a review of the performance of CDO in promoting cotton production and value addition in the cotton subsector. In addition the review also intended to identify the causes of the challenges noted and suggest possible recommendations to address the identified challenges.

5.3.3 DESCRIPTION OF AUDIT AREA

General description

Ugandan cotton is a rain fed annual crop whose production is mainly concentrated in the Northern region (Lira, Apac, Kitgum, Gulu, Kotido, Pader, Kaberamaido, Amuru, Lamwo and Amolatar); North Eastern region (Kumi, Soroti, Katakwi, Pallisa, Mbale, Sironko and Bukedea); Mid-west and Central (Masindi, Buliisa, Hoima, Nakasongola, Kiboga, Kibale and Kyenjojo); West Nile (Nebbi, Yumbe, Moyo, Arua and Adjumani); Western (Kasese, Kamwenge, Bushenyi) and South eastern (Kamuli, Iganga, Bugiri, Jinja, Mayuge, Tororo, Busia and Kayunga). It is mostly grown by individual small scale farmers with an average of 1.2 acres. Uganda has been growing one cotton variety the Bukalasa Pedigree Albar (BPA 2002), before the introduction of the SZ 9314 and CR 2 varieties from Zimbabwe in 2014/15 as a replacement to the BPA 2002. Ugandan cotton has a fairly long growing season of 6-7 months and is usually planted in May/June and harvested in November/ December. The cotton is mainly processed into lint for both the domestic and international market. It is estimated that over 95% of all the cotton produced in Uganda is exported to mainly Asia, Europe, United States and neighbouring Kenya.

According to the Commodity Approach Strategy as approved by cabinet, Cotton is not among the priority commodities where government intends to make investments aimed at addressing the entire value chain.⁴⁶

In 2005, Government partnered with Ginnners to support cotton production. Government through CDO and NARO requested Ginnners to support cotton production by way of providing pesticides, extension services, spray pumps and land opening. The Ginnners agreed but in turn requested Government for protection of their investment through zoning production areas. Cotton produced within a specific zone was to be purchased by Ginnners who would have invested in production in that particular zone. This arrangement was regularized by a Statutory Instrument No. 40 of 2005 which established cotton zones and segregated areas. Zoning however collapsed in 2007/8.

42 The Cotton Subsector Strategic Plan 2010/11 - 2014/15 :pg VI

43 Production data and statistics from the Cotton Development Organization

44 Production data and statistics from the Cotton Development Organization

45 CDO annual performance reports for 2012/13. Pg 20. and 2013/14. Pg.20

46 Ministry of Agriculture Animal Industry and Fisheries Ministerial Policy Statement for 2014/15 pg. V

In 2011 after the collapse of the zoning system, the ginners under their umbrella body Uganda Ginners and Cotton Exporters Association (UGCEA) adopted the Cotton Production Support Program (CPSP) aimed at achieving increased production and productivity. In line with this the ginners initiated a Cotton Development Fund (CDF) to finance the program. To achieve the objectives of the CPSP UGCEA prepares and approves annual Cotton Production Plans (CPPs) and budgets which are implemented through a working arrangement between CDO and UGCEA through annual MoUs. Under this arrangement, UGCEA provides the required funds to implement the CPP while CDO monitors, supervises and coordinates the implementation of the CPP.

All activities relating to cotton production, cotton processing and cotton marketing are monitored and regulated by the Cotton Development Organisation (CDO) which was created by the Cotton Development Act following the restructuring of the cotton sub sector in 1994.

5.3.4 MANDATE:

Monitoring and regulation of the cotton sub sector is the mandate of the Cotton Development Organisation (CDO), and this mandate is derived from the 1994 Cotton Development Act. The Act mandates CDO to monitor the production, processing and marketing of cotton so as to enhance the quality of lint, cotton exported and locally sold, to promote the distribution of high quality cotton seed and generally to facilitate the development of the cotton industry.

5.3.5 VISION AND MISSION

Vision: "Building a competitive and sustainable cotton sub-sector in Uganda"

Mission: "To promote and monitor production, processing and marketing of high value cotton and its by-products for the welfare of our society"

5.3.6 OBJECTIVE OF THE COTTON DEVELOPMENT ORGANISATION

The Cotton Development Organisation exists to promote and monitor production and marketing of cotton and represent all aspects of the cotton industry.

5.3.7 ACTIVITIES OF THE COTTON DEVELOPMENT ORGANISATION

In promoting cotton production, processing and marketing, the Cotton Development Organisation undertakes a number of activities as detailed in the 1994 Cotton Development Act. This audit focused on the following activities

- Procuring, processing and distributing planting seed within segregated areas and where appropriate supervise the production and distribution of later generation seeds outside segregated areas through selected ginneries;
- Facilitating cotton production, cotton research and extension through the Ministry responsible for agriculture;
- Monitoring and advising the cotton industry on the procurement and distribution of cotton inputs;
- Support addition of Value to cotton and its by-products as detailed in the strategic plan.

5.3.8 ORGANIZATION STRUCTURE

The Cotton Development Organisation (CDO) is a semi-autonomous agency under the Ministry of Agriculture, Animal Industry and Fisheries. The activities of CDO are supervised and monitored by a board working together with the Managing Director.

5.3.9 FUNDING

CDO received a total of UGX 23.7 billion over the period 2012/13-2014/15. This was from government

subventions, non-tax revenue, supplementary allocations, and releases for Capital development as detailed in Table 29 below;

Table 29: Funding for CDO activities for period 2012/13-2014/15

Source/ period	12/13 "Billion"		13/14 "Billion"		14/15 "Billion"		Total "Billion"	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Non-Tax Revenue *	1.5	1.8	1.5	1.5	1.7	1.8	4.7	5.2
Gov't Subventions **	4.3	1.2	4.3	1.2	3.8	2.4	12.4	4.8
Value Addition ***	-	-	-	-	10.0	10	10.0	10
Capital Dev.	2.3	1.8	2.3	1.4	2.2	0.5	6.8	3.7
Totals	8.1	4.8	8.1	4.1	17.7	14.7	33.9	23.7

Source; OAG analysis of CDO's audited financial statements & Approved Budgets for the financial years 2012/13, 2013/14 and 2014/15

* Non Tax revenue includes all revenue locally generated by CDO. This includes all revenue from Cess, export registration fees, ginning registration fees, classification fees, rent and sundry incomes.

** Government subventions include money budgeted and received from the Central Government for recurrent activities related to cotton production. These activities include provision of planting seed, seed multiplication, farmer mobilization, provision of extension services and provision of ox-ploughs and monitoring in 2014/15.

* In 2014/15 a total of UGX 10 billion was received in relation to value addition to constitute a revolving fund for the purchase of lint buffer stocks. Out of this, UGX 6.6 billion was spent on procurement of lint stocks and related administrative costs. UGX 2.7 billion was spent on importation of planting seed while UGX 0.7 billion was returned to the consolidated fund due to non-absorption.

5.3.10 AUDIT OBJECTIVE

The overall audit objective was to assess the measures put in place by CDO to promote production, and facilitation of value addition to Ugandan cotton in order to improve earnings from the cotton sub sector.

Specific Audit objectives

The specific audit objectives were to assess:

- The extent to which the cotton sub sector production targets for the period 2010/11- 2014/15 have been achieved.
- The extent to which facilitation of value addition has resulted in achievement of the sub sector earnings for farmers and dealers in cotton products for 2010/11-2014/15.

Specific Audit Questions

- i) How has CDO ensured the achievement of the cotton subsector production targets through facilitating access to good quality and affordable planting seed, facilitating access to good quality and affordable production inputs and extension services, and facilitating cotton research?
- ii) How has CDO facilitated value addition in order to realise the earning targets for farmers and dealers in cotton products?

5.3.11 AUDIT SCOPE AND APPROACH

The audit focused on the measures taken by the Cotton Development Organisation to promote production, and addition of value for Ugandan cotton. The study focused on interventions undertaken in the three financial years of; 2012/13, 2013/14 and 2014/15 in the cotton growing areas of Uganda.

5.3.12 SAMPLING

The main focus of the audit was on the activities undertaken by CDO to promote cotton production and addition of value to cotton.

The team stratified the country into six regions which are the CDO operational areas/field offices. These were northern region, north eastern region, mid-west/central, West Nile field office, western field office, and south eastern region.

Interviews were conducted with the heads of all the six field offices as well as review of documents. In addition, data was collected through interviews with farmers from the mid-west/central offices and the western field regions since the farmers in these regions were still harvesting cotton. The districts visited were Kasese, Masindi, Rubirizi, Buliisa, Soroti, and Iganga. In addition, the team visited the National Agricultural Research Institute in Serere district.

5.3.13 DATA COLLECTION

The following data collection methods were used to gather evidence.

Audit Objective	Data collection method
To assess the extent to which CDO has promoted production of cotton.	<p>The team interviewed CDO persons in the production and marketing departments. In addition the team reviewed production information for example production statistics, and interventions by CDO to promote production. The team interviewed officials responsible for research and reviewed the respective work plans and reports. The team interviewed farmers in order to collect evidence to ascertain the extent to which CDO has facilitated access to good quality and affordable planting seed and production inputs, and access to extension services by farmers.</p> <p>The team visited NaSARRI in Serere district to corroborate information obtained from interviews conducted and documents reviewed in relation to research.</p>

To assess the extent to which CDO has facilitated addition of value for Ugandan cotton.

The team interviewed CDO officials as well as reviewed documents to understand the cotton value chain, identify the critical aspects/ activities of the value chain, interventions undertaken by CDO to facilitate value addition, and the level of value addition to the cotton produced. The team also interviewed some spinners and ginners to understand the challenges they face and how these could be addressed.

5.3.14 DATA ANALYSIS

For purpose of establishing trends, statistics for the last five seasons namely 2010/11, 2011/12, 2012/13, 2013/14, and 2014/15 have been analysed. In addition, the team used the targets in the approved cotton sub sector development plans to represent the cotton sub sector potential.

To support the findings and conclusions the team analysed both qualitative and quantitative data obtained using mainly trend analysis and variance analysis for quantitative data. This was done to establish trends, relationships and in other cases to explain certain observations. In order to use more representative information, statistics analysed were picked from the previous five years/ seasons. Qualitative data collected was summarized, grouped and compared in order to contextualize findings and their causes.

5.4 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The Cotton Development Organisation undertook a number of activities aimed at promoting cotton production and addition of value to cotton produced by Ugandan farmers. During this audit, assessment of the various activities involved in the promotion of cotton production and value addition was undertaken and the following observations were noted:-

5.4.1 LEVEL OF COTTON PRODUCTION

According to the Cotton Subsector Strategic Plan 2010/11 to 2014/15⁴⁷, CDO set out to achieve the following production targets in the years 2012/13, 2013/14 and 2014/15 as detailed in Table 30 below:

Table 30: Summarizing cotton production targets

Production target	2012/13	2013/14	2014/15
Production of lint (bales)	350,000	450,000	500,000
Cotton production acreage (acres)	265,000	298,000	310,000

From review of cotton production statistics and trends, it was noted that the above targets were not achieved. The level of lint production for the period under assessment is summarized in Table 31 below;

47 The Cotton Sub-Sector strategic plan 2010/11-2014/15 pg. 24

Table 31: Showing actual cotton production levels

Actual Production levels	2012/13	2013/14	2014/15
Production of lint (bales)	102,619	78,364	93,093
Cotton production acreage (acres)	187,500	130,000	216,400

Source: OAG analysis of CDO production statistics and review of annual reports

From Table 30 and Table 31 above, CDO failed to meet its annual lint production targets by 247,381, 371,636, and 406,907 bales in 2012/13, 2013/14 and 2014/15 respectively. In addition, CDO failed to meet its target production acreage by 77,500 168,000 and 93,600 acres in 2012/13, 2013/14 and 2014/15 respectively.

Management attributed this to a continued decline of international cotton prices which affected the morale of the farmers to grow the crop. Similarly the unstable prices of the seed cotton demotivated farmers. In addition, there were challenges of weather patterns, emergence of new pests and diseases in 2013/14 and competition from other crops.

Through document review and interviews with management, audit established that the failure to achieve the desired cotton production levels for the subsector was also caused by:

Provision of production inputs (Fertilizers, Pesticides, Spray Pumps) and Extension Services

The Cotton Development Organisation partnered with the private sector, that is, ginners and exporters to provide additional support to the cotton subsector as a way of promoting cotton production. A review of the memoranda of understanding between CDO and UGCEA for the years 2012/13, 2013/14 and 2014/15 revealed that UGCEA agreed to provide up to UGX 56.28 billion worth of support to the sector from resources pooled by its members into the Cotton Development Fund as shown in Table 32 below.

Table 32: Showing funds from UGCEA

Period	Amount to be provided in UGX billion
2012/13	26.9
2013/14	14.98
2014/15	14.4
Total*	56.28

Source: OAG analysis of MoUs between UGCEA and CDO

* During the execution of the MoUs, physical inputs were provided instead of direct transfer of funds. Since this is a private sector arrangement, audit was not able to access records to confirm that the value of these inputs was equivalent to the amounts stated in the MoUs.

A review of the MOUs, cotton sub sector strategic plan, and OBT reports, revealed that quantities of key production inputs (pesticides, fertilizers and spray pumps) delivered were less than what was agreed upon. In addition, these quantities supplied were also not sufficient to meet the quantity of production inputs needed by sub sector as summarised in Table 33 below;

Table 33: Comparison of consolidated quantities of production inputs

	Pesticides (units) “000”	Fertilizers (Mt)	Spray Pumps (No. of Pumps)
Production inputs needed by the sub sector (A)	2,487	7,857	13,000
Planned quantities between CDO and UGCEA (B)	1,720	4,311	7,468
Actual quantities provided by UGCEA (C)	1,640	1,427	7,963
Shortage (A-C)	847	6,430	5,037

Source: OAG analysis of CDO Strategic Plan, MOUs between UGCEA and CDO, and OBT reports prepared by CDO

From Table 33, it can be seen that:

- Even with the support of UGCEA, there was still a shortage of 847,000 units of pesticides, 6,430 MT of fertilizers and 5,037 spray pumps to achieve the input requirements of the cotton subsector as estimated in the strategic plan which directly affected the performance of the sector in achieving the desired cotton production targets. This shortage is explained by the fact that the production inputs provided by UGCEA are dependent on the resources that UGCEA can mobilise from its members to invest in provision of production inputs and not the broader cotton subsector targets detailed in the CDO strategic plan.
- In implementing the MoUs, CDO has no responsibility to contribute towards provision of these production inputs. Its role is mainly managerial and limited to advising, supervising and coordinating procurement and distribution of these inputs. This implies that CDO has no direct control over the amount of production inputs provided and the resultant cotton production levels.
- Dependency on the Private sector for a key production activity such as provision of production inputs, risks the sustainability of the sector and enables the private sector to exercise influence over farmers and CDO. For example, in determining the farm gate prices, audit established that the formula used to compute the indicative farm gate prices produces a price that shields the ginner from the key production costs, namely, ginning costs, bank interests, loading and unloading charges, CESS fees, among others at the expense of the farmers, which affects the morale of the farmers to engage in cotton production.

Management Response:

As a result of liberalization, farmers were expected to source for production inputs from private dealers and stockists while government took care of research and extension services. Production, however, stagnated at around 100,000 bales after 1996/97 season due to lack of access to inputs by farmers, especially pesticides and extension services, which had prior to liberalization been provided by government. The ginner who are the major stakeholders were left to support farmers during production since government had many other priorities.

Although the quantities provided may be inadequate, at least the production inputs are available to farmers who choose to grow cotton. In addition, they are provided on time, and as close to farmers as possible on top of being provided at affordable prices.

Audit comment

Although this arrangement seems to be addressing the gaps created by liberalization, it does not provide a conclusive solution to the challenge of ensuring adequate supply of production inputs to meet the overall sector production input requirements.

Support to cotton research

A review of CDO annual reports in relation to research activities undertaken indicated that research objectives in relation to agronomy, entomology and pathology had to a large extent been achieved. On the other hand, breeding research had not produced improvements to the existing variety for every season as desired in the strategic plan and research work plans.

Underperformance of breeding research was partly attributed to absence of critical research personnel at NaSARRI for example seed breeder, a cotton entomologist and research assistants. In addition, audit noted that there was no clear coordination mechanism between CDO, NARO and NaSARRI which are the key government agencies with the responsibility of ensuring that there is adequate research in the cotton subsector. Audit noted that these key players do not have mechanisms of joint planning, joint monitoring of progress, and information sharing. Each of the parties works in isolation given that they have different mandates. This led to poor performance of the existing varieties. Interviews of farmers and review of the minutes of a top management meeting held on 14th and 21st of January 2014 revealed that the variety planted during the period under assessment had deteriorated and had become less competitive.

This partly explains why CDO spent UGX 2.7 billion on importation of planting seed from Zimbabwe in FY 2014/15.

Management Response:

CDO takes note of the recommendation. To this effect, under the leadership of NaSARRI, pre- season stakeholders' workshops are organized annually to review work done, collect stakeholders' research needs and develop action plans for follow-on research. CDO has been participating in and sometimes providing some limited funding for these workshops.

Recommendations:

- MAAIF together with CDO should find alternative ways of empowering CDO to ensure that the overall sector production targets are set and underlying activities directly implemented and monitored by CDO rather than relying on the private sector
- Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) together with CDO should review this arrangement with the aim of finding alternative ways of filling the gap between the quantities of production inputs provided by UGCEA and the quantities of production inputs required to meet the broader cotton subsector production targets.
- Although CDO has provided some support towards research, CDO should strengthen the coordination between CDO, NARO and NaSARRI for effective implementation of activities related to cotton research.

Conclusion

The cotton production levels attained were below the sector production potential. Although management undertook interventions such as, partnering with the private sector to provide inputs, these interventions did not provide a conclusive solution to the challenges of access to production inputs by farmers which affected the output from the farmers, and the broader cotton production targets as spelt out in the CDO strategic plan.

5.4.2 SUPPORT TO INCREASED VALUE ADDITION TO COTTON AND ITS BY PRODUCTS

In order to improve the earnings of the farmers and dealers in the cotton products, CDO set out to support value addition to cotton and its by-products. This was mainly to be undertaken in the following areas:

- Addition of value to all the locally produced lint,
- Producing quality linters,
- Addition of value to cotton seed, and
- Addition of value to cotton stalks.

Table 34 below details the objectives, targets and performance of CDO in achieving the intended targets in relation to value addition

Table 34: Summarizing performance of CDO in achieving value addition

Objective	Target	Observation
To support domestic value addition to lint.	To provide crop finance for ginnerers. At least 30% of the bales to be financed by government annually.	There is currently no crop financing for ginnerers and therefore this has not been achieved.
	Additional spinning capacity of 25,000 spindles annually.	A total 10,000 spindles has been added over the three year period under review.
	Lint buffer stocks of 25,000 bales per year.	A total of only 7,122 bales were procured in 2014/15.
To produce quality linters.	To establish one plant per season of brush de-linters and linter cleaners until there is one plant per region.	No plant has been established.
To add value to cotton seed	Provide cotton seed buffer stocks. At least 30% of the cotton seed to be financed by government every season.	This has not been achieved.
	Technology upgradation of oil mills. At least 50% of the oil mills to be upgraded by government every season.	Although Government set out to provide technology up grade, technology upgrade for all the eight oil mills currently in operation was done by the individual millers.
To add value to cotton stalks	To establish cotton stalks processing machinery. One plant per season until there is one plant per region	No plant has been established.

Source: OAG analysis of the approved cotton sub sector strategic plan for 2010/11-2014/15

Audit established through document review and interviews with management that the failure to achieve increased value addition to cotton by products was attributed to:

Prioritization of the Cotton Sub sector

A review of the commodity approach strategy approved by Cabinet showed that cotton is not categorized among the key priority commodities for Government interventions. The commodity approach strategy guides investments addressing entire value chains for the priority commodities in which Uganda has a competitive advantage. These priority commodities are coffee, tea, maize, beans, rice, bananas, citrus fruits, fish, meat and dairy products. This has substantially affected the level of investment in cotton production and cotton related activities. A review of the allocations to the sub sector showed that CDO required government to invest UGX 22.8 billion, UGX 19.2 billion, and 12.7 billion in 2012/13, 2013/14 and 2014/15 respectively to implement the various interventions in the strategic plan, such as, support to the establishment of additional spinning capacity, and support to financing of buffer stocks for cotton seed oil industries. However, according to CDO financial records and annual reports, the sector received UGX 4.8 billion in 2012/13, UGX 4.1 billion in 2013/14, and UGX 4.7 billion in 2014/15 representing 21%, 21.3% and 37% of the required government investments for 2012/13, 2013/14, and 2014/15 respectively. As a result, many of the key proposed interventions needed to enhance value addition to cotton were not implemented.

Related to this, it was also observed that government developed the National Textile policy which was operationalized in 2009. The policy detailed interventions and incentives that would facilitate the development of the sector by attracting investments in Value addition. A review of the implementation of the proposed strategies revealed that most of the proposed strategies remained unimplemented. This was partly attributed to lack of resources to implement the interventions, and absence of coordination mechanism between the key government implementing agencies namely MoFPED, MTTI, MAAIF, UIRI and MoES.

Limited support to value addition resulted into ninety five per cent (95%) of all the lint produced between 2010/11 and 2014/15 being exported without any form of value addition. This affected the profitability of the sector since the unprocessed lint fetched low prices. In addition to this, the cotton sector's earning potential for both farmers and dealers in cotton products were never realised as shown in Figure 11 and Figure 12 below.

Figure 11: Comparing sector potential and actual earnings for farmers

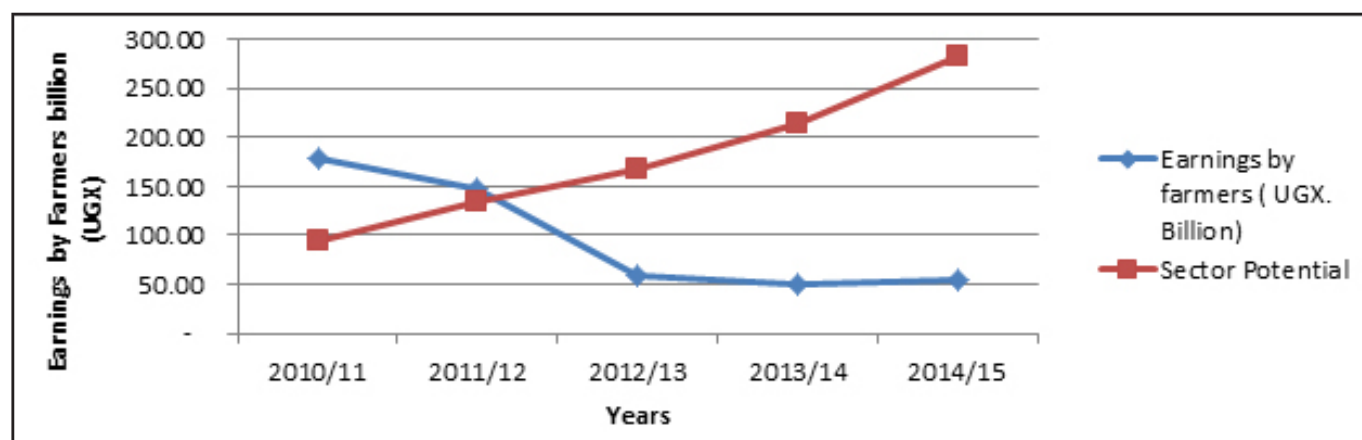
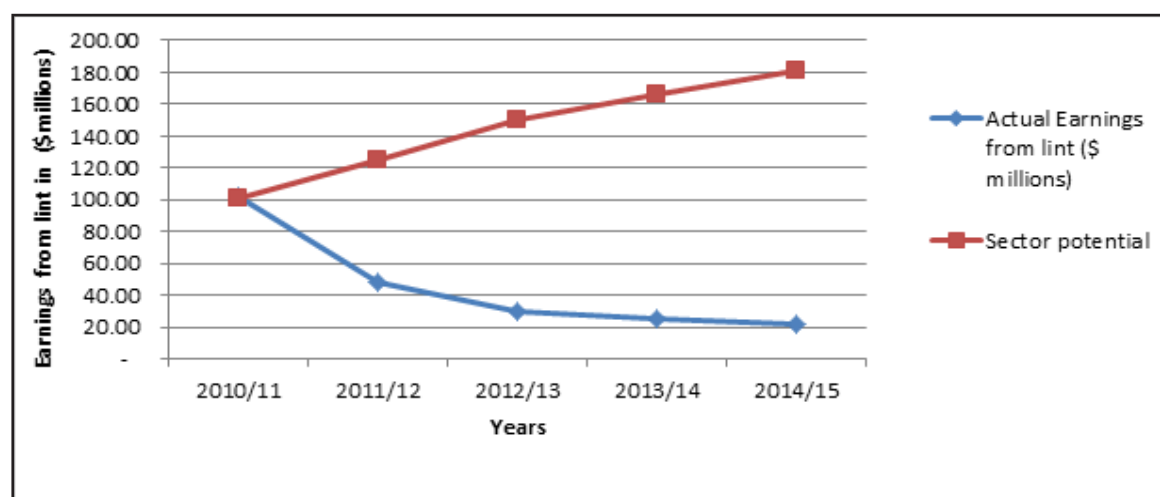


Figure 12: Comparing Sector potential and actual earnings from lint



Management Response:

Government needs to prioritize cotton at the highest level, and take deliberate steps;

- To source for serious investors in the cotton value addition chain for example using the Ethiopian approach which provides incentives for investments across the entire cotton value chain.
- And consider investing in a spinning mill (under a public private partnership) for production of cotton yarn to spur establishment of cottage industries especially for rural households including women and youth.
- To provide funds for lint buffer stocks to ensure all year supply of lint to local spinners given that the cotton crop season is only 6 months and in a liberalized market, ginners cannot be asked to hold stocks without payment. Lint buffer stocks will not be for competition with merchants of lint, since the ginners will sell off excess stocks beyond the requirements for the buffer. Secondly, buffer stocks will be an incentive to attract more investors in spinning resulting into sizeable value addition to Ugandan lint. Ultimately this would stabilize farm gate prices to the farmer, as savings in transportation of lint for exports together with increased revenue realized from sale of higher value-added products of cotton (locally and/or exports) would be channelled backwards to the farmer.

Recommendations

The government should revise its strategic approach towards the cotton subsector especially in areas of value addition. In the meantime, CDO should liaise with MoFPED, MTTI, MAAIF, UIRI, and MoES to expedite the implementation of the strategies detailed in the textile policy.

5.4.3 MANAGEMENT OF COTTON BUFFER STOCKS FUND

In the 2010/11 to 2014/15 cotton subsector strategic plan⁴⁸, CDO planned to support domestic value addition to lint through the establishment of lint buffer stocks. Consequently, in 2014/15 Government of Uganda through the MoFPED provided UGX 10 billion to CDO to constitute a revolving fund from which CDO would procure and store lint in buffer to ensure adequate supply and stability in the cotton price. The processors would therefore be able to purchase cotton lint at fair prices in periods of scarcity. The funds were to be used as detailed in Table 35 below:

⁴⁸ Cotton subsector strategic plan 2010/11 – 2014/15 pg. 27

Table 35: Approved guidance for utilisation of the buffer funding

Activity	Amount
Purchase of cotton lint (buffer stocks)	9,750,000,000
Rent for the store where the lint was to be kept	115,000,000
Consultancy fees for the firm to manage the stocks	100,000,000
Other associated expenses (Insurance and Travel inland)	35,000,000
Total	10,000,000,000

Source: OAG analysis of the authorization instruction from MoFPED for the supplementary funding

From a review of the utilisation of the disbursed funds it was noted that:

- Out of the UGX 10 billion disbursed for the procurement of lint stocks, UGX 6.55 billion was used for procurement of the stocks and the related administrative expenses such as insurance, consultancy fees and rent. UGX 2.71 billion was reallocated and used for importation of planting seed from Zimbabwe, while UGX 0.74 billion was returned to the consolidated fund due to non-absorption.

This implies that the revolving fund is currently worth UGX 6.5 billion (cash and stock) instead of UGX 10 billion given that the funds amounting to UGX 3.5 billion was either returned or used for other purposes.

- It was observed that there was no proper needs assessment of what was the annual lint demand required for the buffer stock. The estimates used to arrive at the UGX 10 billion were based on the estimated demand requirements provided by one spinner. This explains why out of the 7,172 bales procured, only 2,750 (38.3%) bales have been consumed for a period of one year⁴⁹. This unused stock continues to attract costs of insurance, storage and depreciation.
- There were no clear guidelines detailing how the disbursed funds were to be used. These guidelines would clarify who the beneficiaries are, how sale proceeds are managed, how procurements are done, and so on. This partly explains why part of the sales proceeds amounting to UGX 45.2 million was returned to the consolidated fund yet all sales proceeds were meant to replenish the revolving fund. Related to this, audit noted that despite expression of interest from other spinners, only one spinner benefited from the stocks.
- CDO paid for the lint bales at FOB⁵⁰ prices quoted in dollars yet some of the costs were not justified for example freight or shipping costs since the lint was procured from ginner within Uganda.

Management Response:

In December 2014, Government at the highest level officially launched a new textile factory called Fine Spinners (U) Ltd located in Bugolobi. During the launch, the investor had raised concerns regarding availability of locally produced cotton lint given that the Uganda cotton marketing period was very short each year (January-May) and that all the lint was likely to be exported as no ginner would be willing to hold

49 The computations were done on 15th November, 2016.

50 FOB (free on Board/ Freight on Board) means a price which includes goods plus the service of loading those goods onto a vessel at the seller's expense to an agreed/ specified point.

lint bales without payment. An investor in the textile sector who required lint bales for the entire year would have to purchase and stock a sizeable quantity of lint bales hence locking up their working capital in the stocks.

Government therefore gave an assurance to the investor –Fine Spinners (U) Ltd of a constant and stable supply of raw materials (cotton lint) to feed the factory throughout the year which resulted in Fine Spinners (U) Ltd writing to Government confirming that their one year demand would be 2,000Mt of lint. On this basis, the Ministry of Finance, Planning and Economic Development released UGX.10 billion towards the procurement and handling of lint buffer stocks for Fine Spinners (U) Ltd. The low utilization rate by Fine Spinners was caused by delays in shipment and installation of their machinery.

CDO together with stakeholders have developed detailed draft guidelines titled” Guidelines to vertically integrate textile millers interested in accessing the cotton lint buffer stocks”. An initial review on the draft guidelines was done by the Ministry of Finance, Planning and Economic Development. Further, this was followed by a meeting between MOFPED, CDO and the stakeholders to improve on the draft guidelines. A final approval is being awaited from the MoFPED.

CDO has also proposed increased funding to buffer stock of UGX. 20 billion to cover other local spinners like Southern Range Nyanza, however, this has remained an unfunded priority in 2015/16 and 2016/17.

Audit comment

The authorization for the supplementary release of UGX 10 billion for purchase of lint buffer stocks indicated that the funds were meant to constitute a revolving fund from which CDO would procure cotton, and store in a buffer to ensure adequate supply and stability in the cotton price thus enabling purchase of cotton lint at fair prices by the processors in periods of scarcity. The letter also indicated that 2000Mt valued at UGX 10 billion was the estimated amount of cotton buffer stocks required to spur production and productivity in the cotton industry as assessed by CDO.

Recommendation

CDO should streamline the process of managing the cotton buffer stock fund including ensuring that the draft guidelines are expeditiously approved, and detailed needs assessment is done before replenishing the current stocks. CDO should also explore the option of having other ginners utilise the available stock before requesting for replenishment of the fund.

5.4.4 INSTALLATION OF SEED PROCESSING PLANT

CDO procured ginning equipment to install in the seed processing plant under construction in Pader district before completion of the plant. Consequently, UGX 240,734,596 was spent as clearing and storage charges for ginnery machinery which was not going to be immediately put in use. This expenditure could have been avoided and funds used for other activities.

This also exposes CDO to other indirect costs such as idle time associated with this machinery not being used, continued depreciation of the machinery, storage and insurance charges and non-utilisation of the warranty period in case there is need for repair or replacement of the machinery due to malfunction as a result of a manufacturer’s defect.

Management Response:

CDO takes note of the recommendation. However, it is worth noting that at the beginning of the project, money was released but the initial activities related to acquisition of land took longer than had been anticipated due to the protracted processes of buying communal land in Acholi region. Therefore, in a bid to avoid withdrawal and loss of funds which had already been released, CDO undertook procurement of the machinery.

Recommendation

In future, CDO should endeavour to adequately plan to avoid incurring avoidable costs.

Conclusion

The level of value addition to Uganda's Cotton has remained very low due to non-implementation of interventions proposed in the strategic plan and the textile policy. Weaknesses in the facilitation of value addition identified should be addressed if the desired earnings for the farmers and dealers in cotton products are to be realised.

6 ENFORCEMENT OF OCCUPATIONAL SAFETY AND HEALTH ACTIVITIES AT WORKPLACES BY THE MINISTRY OF GENDER LABOUR AND SOCIAL DEVELOPMENT

6.1 INTRODUCTION

6.1.1 BACKGROUND

Occupational safety and health (OSH) is defined as the science of anticipation, recognition, evaluation and control of hazards arising in or from the workplace that could impair the health and wellbeing of workers, taking into account the possible impact on the surrounding communities and the general environment⁵¹. OSH therefore deals with the prevention of work-related injuries and diseases as well as the protection and promotion of the health of workers. It aims at the improvement of working conditions and environment.

In Uganda, the Ministry of Gender, Labour and Social Development through the Department of Occupational Safety and Health, is responsible for administration and enforcement of the Occupational Safety and Health Act, No 9, 2006 through registration of work places, inspection and monitoring of OSH activities at workplaces, education, training and creating awareness through dissemination of information on occupational safety and health among workers, employers and the general public.

6.1.2 MOTIVATION

According to the ILO statistics presented on the World Day for safety and health at work on 28th April 2016, 6,300 people die every day as a result of occupational accidents or work-related diseases, more than 2.3 million deaths per year. 317 million accidents occur on the job annually; many of these resulting in extended absences from work. The human cost of this daily adversity is vast and the economic burden of poor occupational safety and health practices is estimated at 4 per cent of global Gross Domestic Product each year.

The ILO aims to create worldwide awareness of the dimensions and consequences of work-related

⁵¹ ILO Fundamental Principles of Occupational Health and Safety

accidents, injuries and diseases and to place the health and safety of all workers on the international agenda and to stimulate and support practical action at all levels.

Despite global efforts to address OSH concerns, these work-related accidents still occur each year. Continued and renewed efforts are therefore required to address this challenge.

In Uganda, the Occupational Safety and Health Act, 2006 requires employers to compensate their workers in case they suffer work related injuries.⁵² Uganda is also a signatory to the ILO conventions and the ILO standards that require workers to be protected from sickness, disease and injury arising from their employment. The preamble of the ILO Constitution specifically provides that “the protection of the worker against sickness, disease and injury arising out of employment” is a fundamental element of social justice. Uganda has not developed its own standards on occupational safety and health but uses a mixture of ILO standards and those of the United States.⁵³

Despite existence of the Occupational Safety and Health Act, 2006 and the ILO standards, many workers in Uganda are not aware of their rights to a safe and healthy working environment and have remained exposed to unhealthy working conditions, faulty plant and equipment, dangerous civil works and constructions leading to ill health and death.⁵⁴ As a result, when they are injured or fall sick due to the poor conditions at the workplace, or die on duty, employers take advantage of their ignorance of the law and do not compensate them.

In addition, due to inadequate awareness and sensitization on OSH standards, limited personnel and logistics, enforcement of the OSH legislation has not been effective. For example while the ILO standard of inspector to worker ratio is 1:500, in Uganda, the population employed is estimated at 7.9 million⁵⁵ as compared to the 18 inspectors⁵⁶, which implies an inspector to worker ratio of 1:438,889. This is compounded by the absence of the National OSH Policy and an OSH Laboratory to analyze exposure measurement samples and to test personal protective equipment, such as respirator cartridges or glove resistance to chemicals.⁵⁷

Work place accidents have been manifested in perpetual occurrences of fire outbreaks, collapse of walls at construction sites and emerging work related illnesses. For example, the most up to date records in the Ministry of Gender, Labour and Social Development indicated that 1,520 people were injured at various workplaces in Uganda from 2006 to 2008 and 856 workers contracted various occupational diseases and illnesses in the year 2007 alone. Also to note is that from 2008 to 2009, over 40 buildings collapsed killing and injuring many workers in Uganda⁵⁸. There have also been reports of fires in several buildings/ workplaces all over the country. Cases include Haruna towers in Wandegaya in 2014, Olam Uganda Limited Namanve in 2013, and Crest form in 2015, among others⁵⁹.

There have also been reports of non-compliance with occupational safety and health requirements. For example, it was reported that the Ministry of Gender, Labour and Social Development threatened to close 300,000 institutions over non-compliance with Occupational Safety and Health requirements. The

52 Occupational Safety and Health Act, No 9 2006

53 Occupational Safety and Health Profile for Uganda page 36

54 Occupational Safety and Health issues in Uganda Feb 4th, 2008

55 UBOS Statistical Abstract, 2015 page 25

56 FY 15/16 Staffing level

57 International Labour Conference 98th Session, 2009 Report III (Part 1B)

58 Project Proposal for Strengthening Safeguards, Safety and Health at Workplaces (SSASHEW)

59 Press statement by Hon. Minister MoGLSD Monday February 9th 2015

compliance rates across the country stand at 30% whereas in government institutions compliance stands at 45%⁶⁰.

It is against this background that the Office of the Auditor General found it necessary to conduct an audit on the enforcement of Occupational Safety and Health activities at work places by the MoGLSD, identify the challenges faced, analyse their underlying causes and make recommendations to address them.

6.1.3 DESCRIPTION OF THE AUDIT AREA

Legal Framework and Mandate for enforcement of OSH

The Occupational Safety and Health Act, 2006, was enacted by Parliament in fulfilment of the constitutional obligation to enact laws to provide for the right of persons to work under satisfactory, safe and healthy conditions⁶¹. Sections 3 and 4 of the Act mandate the Commissioner OSH and any other inspectors appointed under the Act to administer and enforce its provision.

Objectives

The objectives⁶² of the department of OSH (DOSH) are:

- To minimize occupational accidents, diseases and injuries at work places.
- To promote good health of the worker at the workplace.
- To promote good working conditions.
- To promote construction of safe and healthy workplaces.
- To promote awareness of occupational safety and health among workers, employers and the general public through training.

DOSH Activities

60 MOGLSD Press Statement February 2015

61 The Constitution of the Republic of Uganda (1995) as amended; Article 40(1) (a)

62 The Occupational Safety and Health Department Brochure

In ensuring enforcement of OSH at workplaces, DOSH carries out the following activities:

- Developing/reviewing occupational safety and health policy, laws, regulations, technical standards, strategy, guidelines, code of conduct and manuals.
- Registering all workplaces in the country.
- Conducting general and statutory inspection of workplaces and equipment certification.
- Educating and creating awareness about OSH among employers and employees.
- Reviewing and approving architectural drawings/plans (water, electrical, civil and building works) of public, commercial and industrial workplaces to ensure that OSH requirements have been incorporated.
- Monitoring, recording and interpreting statistical data of industrial accidents, diseases and health hazards.
- Undertaking investigations of occupational accidents and diseases.
- Carrying out medical surveillance of workplaces.
- Carrying out research on occupational hazards and diseases and publishing reports.

6.1.4 ORGANIZATION STRUCTURE

The organization structure of the Department of Occupational Safety and Health provides for a total of 47 staff (38 Technical staff and 9 support staff). The Department has two divisions, namely: Safety Division and Health Division.

During the financial year 15/16, the department had 22 staff, 18 of whom were qualified inspectors in the fields of Health, Engineering, Environment, Chemistry, Hygiene, Food science, and 4 were administrative or support staff. The Department is headed by the Commissioner in charge of Occupational Safety and Health who reports to the Director, Labour, Employment and Occupational

Safety and Health. The Commissioner is assisted by an Assistant Commissioner (OSH) and three (3) Principal Safety Inspectors.

6.1.5 FUNDING

Enforcement of occupational safety and health activities by the MoGLSD is financed solely by the Government of Uganda. Enhanced funding was secured by the Ministry from Government in order to pursue its major function of effective enforcement through the project “Strengthening Safeguards, Safety and Health at Workplaces (SSASHEW)”. The department received UGX **7,451.72 million** during the three years under review. Details of funding during the period are shown in Table 36 below.

Table 36: Showing funding to Department of OSH

Programme Name/ Budget line	Financial Years	Budgeted Amount (UGX in Million)	Actual/Released Amount in (UGX Million)
OSH Department	2012/2013	610.00	513.42
	2013/2014	413.05	382.25
	2014/2015	673.00	671.07
Sub-Total:		1,696.05	1,566.74
SSASHEW Project	2012/2013	2,000	2,000
	2013/2014	2,000	1,940.78
	2014/2015	2,000	1,944.20
Sub-Total:		6,000	5,884.96
Total Funding		7,696.05	7,451.72

Source: OAG analysis of the Ministerial Policy Statements (MPS), financial statements and payment files

6.1.6 OVERALL AUDIT OBJECTIVE

The overall audit objective was to determine whether MoGLSD adequately enforced compliance with the Occupational Safety and Health Act, 2006 through workplace registration, inspection and monitoring, education, training and awareness creation.

Specific audit objectives

The specific objectives of the audit were:

- To establish the extent of workplace registration and equipment certification countrywide and the fees (NTR) collected.
- To assess the extent and impact of inspections and monitoring of OSH activities at work places.
- To establish whether DOSH effectively promotes occupational safety and health through sensitization and awareness among stakeholders.

6.1.7 AUDIT SCOPE

The audit focused on enforcement of Occupational Safety and Health at workplaces by the Department of Occupational Safety and Health, under the Ministry of Gender, Labour and Social Development. The audit covered three (3) financial years of 2012/13, 2013/14 and 2014/15 and involved visiting both public and private workplaces in different parts of Uganda.

6.1.8 SAMPLING

Workplaces in the country are estimated at over one million . From this population 50 workplaces were selected and these included thirty one (31) private entities and 19 public entities. The thirty one (31) private entities were selected from mining and manufacturing sectors, and trade unions. Twenty eight (28) out of the thirty one (31) private entities were selected from the mining and manufacturing sectors because their operations and production processes, such as: use of corrosive and toxic chemicals, noise, heavy plant and equipment, expose workers to industrial accidents. Three (3) Trade union organizations were also selected given their role of advocating for the protection of workers from hazards and adherence to occupational safety and health, while the public entities were selected at random. The team visited the selected entities to corroborate information already collected through document review and interviews.

6.1.9 DATA COLLECTION METHODS

The team relied on document review, interviews and physical observations to obtain information on the different specific audit objectives as detailed below:

Audit Objective 1: To establish the extent of workplace registration and equipment certification countrywide and the fees (NTR) collected

To assess this objective, the team interviewed MoGLSD/DOSH staff to establish the mechanisms in place to ensure that all work places are registered. The team reviewed the workplace register, list of certified equipment and the Non Tax Revenue records maintained by MoGLSD and corroborated this with registration certificates, plant examination and equipment certificates to ascertain the actual number of registered workplaces, equipment certified and the actual realized Non-Tax Revenue.

The OSH Act was also reviewed to determine how long a workplace certificate or equipment certification is valid before it expires. We then

calculated the delay (in days) to renew as at 30th June 2015 by analysing information from the Occupational safety and Health Management Information System (OSHMIS) i.e. Date of First Registration/ Certification, Expiry/Due Date and Date of Renewal.

Audit Objective 2: To assess the extent and impact of inspections and monitoring of OSH activities at work places

The team reviewed the Ministry's work plans, budgets, ministerial policy statements and annual departmental performance reports for the three years to establish how many of the planned inspections were undertaken. Interviews were also conducted with Management to establish the reasons for variances in planned inspections.

The team then analysed expenditure records in the payment vouchers over the years to establish whether the funds received for inspections were used for the intended purpose.

To assess the extent of inspections as compared to the estimated workplaces in the country, we determined the number of workplaces an inspector should visit in a quarter, using the DOSH work performance and administration arrangements, and used this to compute what would be the maximum number of inspections DOSH could undertake in a year. We then compared this maximum number of inspections to the estimated workplaces in the country.

To assess the effectiveness and impact of the inspections undertaken, the audit team interviewed MoGLSD staff to establish whether any risk criteria was followed in identifying areas for inspection; the inspection checklist was also reviewed to establish whether it was detailed and workplace specific; availability and use of inspection equipment were determined through physical inspection of equipment, and review of records indicating missing equipment.

Reviewed available statistics on occupational-related accidents, diseases, injuries, fatalities

from MoGLSD collected from workplaces during inspections to ascertain the trend of occupational injuries, accidents and determine the impact of inspections on the occurrence of workplace hazards.

To establish action taken following inspection (thus effectiveness), we reviewed inspection reports and the respective feedback given by inspectors to the workplaces. Using a sample of the inspection reports, the team tested, on a sample basis, whether the recommendations detailed in the inspection reports were implemented by the workplaces.

Audit Objective 3: To establish whether DOSH effectively promotes occupational safety and health through OSH training and sensitization among stakeholders

To verify whether the Ministry conducts education, training and awareness among workers, employers and the general public, the team interviewed officials from DOSH to establish whether there is a framework for OSH training, awareness and information sharing at all levels and whether it is working as envisaged.

We interviewed workers and employers to ascertain if they had been sensitized by DOSH about OSH and then assessed the level of compliance.

The team also reviewed the DOSH work plans, annual performance reports, ministerial policy statements for the years under review to ascertain the OSH studies/research prioritized and conducted and whether the results were disseminated to stakeholders and the general public. Furthermore, we:

- Reviewed the Ministry's correspondences with the key stakeholders in relation to promotion of safety and health, and the respective progress meeting minutes to establish whether there is a chain linkage collaboration and coordination with key MDAs.
- Reviewed the MoGLSD training needs

assessment report for DOSH to ascertain the training needs and the extent of implementation of the training plan.

- Interviewed trade union representatives (NOTU, COFTU) and representatives of Federation of Uganda Employers to ascertain the extent of collaboration with MoGLSD in advocating for adherence to OSH.
- Reviewed minutes of meetings held between MoGLSD and stakeholders to foster cooperation on OSH, and interviewed MoGLSD officials to establish follow-up on the resolutions made.

6.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section contains the major findings, conclusions and recommendations from the audit.

6.2.1 REGISTRATION OF WORKPLACES AND EQUIPMENT CERTIFICATION

Registration of Workplaces

Under Section 40(1) of the OSH Act, 2006, the Commissioner is required to keep a register of all workplaces. Section 40(2) of the OSH Act, 2006 requires a person to notify the Commissioner in writing of his/her intention to occupy or use a premise as a workplace in not less than one month before he/she occupies or uses the premise as a workplace. After the appropriate fee is paid, the Commissioner then issues a certificate of registration in the names of the occupier. The certificate of registration is renewable every three (3) years. It is an offence, (under Section 41(5) of the OSH Act), for any person to occupy or use any premises as a workplace without first having been issued with a certificate of registration.

a) First-time registration of workplaces

Through review of documents and interviews with

MoGLSD officials, it was noted that whereas workplaces in the country are estimated at over one million, only 756 (0.1%) workplaces had been registered by MoGLSD as at 30th June 2015. It was further observed that out of the 756 registered work places, none was a government entity.

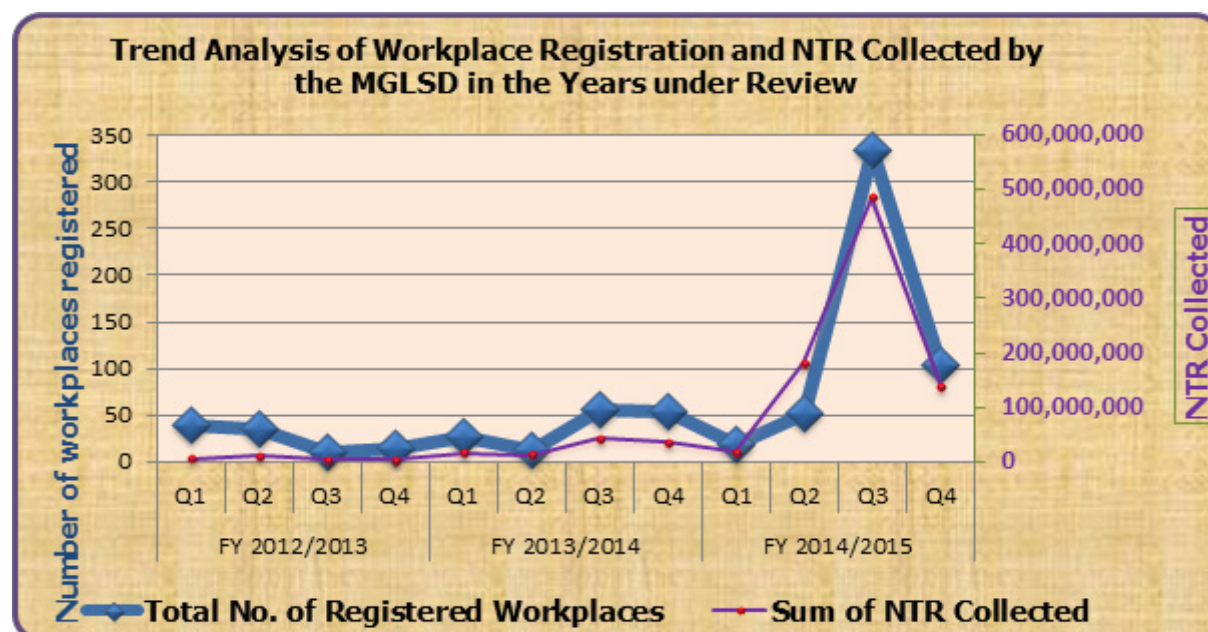
A trend analysis of workplace registration and NTR collected over the years is shown in Table 37 and Figure 13 below:

Table 37: NTR collected from workplaces over the three (3) year period

Financial Years	Total No. of Registered Workplaces	Sum of NTR Collected (UGX)
2012/2013	100	24,680,000
2013/2014	148	108,875,440
2014/2015	508	822,250,000
Grand Total	756	955,805,440

Source: OAG analysis of annual performance reports from MoGLSD and OSHMIS data

Figure 13: Trend analysis of workplace registration and NTR collected



Source: OAG analysis of OSHMIS data on workplace registration and NTR collections

Table 37 and Figure 13 above show that over the 3-year period, the number of entities registered increased from 100 entities in 2012/13, to 148 entities in 2013/14, and to 508 entities in 2014/15. Further analysis shows that the spike in registration in 2014/15 (245% increment from 2013/14) occurred in Quarter (Q) 3 (333 workplaces) and Quarter 4 (104 workplaces). This corresponded to media briefings, in Q2 and Q3 by the Ministry, sensitizing people about the obligation to register work places, and setting deadlines for compliance (31st December and 28th February 2015, respectively).

b) Renewal of workplace registration certificates

Through document review, the audit team noted that 39 of the workplaces registered by DOSH from 2010 to 2012 had not renewed their certificates as at 30th June 2015 yet their statutory period of renewal had elapsed.

Through analysis of workplace registration certificates and the Occupational Safety and Health Management

Information System (OSHMIS) data relating to workplace registration, we noted that there were delays by workplaces to apply for renewal of their registration certificates.

Table 38: Showing the delay by workplaces to renew registration certificates

Delay in days to renew registration certificates	No. of workplaces
1 – 50	14
51 – 100	08
101 – 200	14
201 – 300	03
TOTAL	39

Source: OAG analysis of OSHMIS data on registration of workplaces

Table 38 above shows that out of the thirty nine (39) workplaces sampled, fourteen (14) workplaces took between one (1) to fifty (50) days to renew their registration certificates, eight (8) workplaces took between fifty one (51) to one hundred (100) days, fourteen (14) took between one hundred and one (101) to two hundred (200) days and three (03) workplaces took between two hundred and one (201) to three hundred (300) days to renew their workplace registration certificates.

Plant Examination and Equipment Certification

a) **Renewal of Plant and Equipment Examination certificates**

According to section 72 (7), 69 (3) , 77 (1) and 79 (1) of the OSH Act, 2006, lifting equipment, appliance and gear, hoists or lifts, steam boilers and receivers should be examined by an authorized person at least once every fourteen (14) months, six (6) months, fourteen (14) months and twenty six (26) months respectively.

Once a notification of the use of machinery has been done by the proprietor in possession of the plant and equipment to the Commissioner DOSH, the inspector arranges for the inspection and certification of the machinery.

Through document review, the audit team noted that the statutory period for renewal for a number of equipment certified between 2012 and 2015 had elapsed as at 30th June 2015.

Through analysis of workplace registration certificates and OSHMIS data relating to equipment certification, the audit team noted that there were delays by workplaces to apply for renewal of their equipment certification as shown in Table 39 below.

Table 39: Showing the delay to renew equipment certificates

Plant/Equipment	Range of delay by days
Lifting equipment, appliance & gear	10-649
Steam boilers	30-679
Lifts/ hoists	297-884

Source: OAG Analysis of OSHMIS data on equipment certification

From the data tabulated above, it took between 10 and 649 days to apply for renewal certificates of lifting equipment, 30 and 679 days for steam boilers and between 297 and 884 days for lifts/ hoists.

The audit team attributed delayed and non-registration of workplaces and equipment certification to lack of awareness by the respective occupiers of workplaces and the persons in possession of the plant and equipment coupled with absence of a strategy (self-regulating) by DOSH geared towards ensuring registration of all workplaces, inadequate system/mechanism to monitor compliance, manual registration system rather than an online one so as to encourage registration, and non-punitive penalties provided for under section 104 (fine not exceeding 24 currency points or imprisonment for a term not exceeding 12 months or both) for non-compliance.

Inadequate registration may also lead to limited information capture by DOSH on existing and risky workplaces which would facilitate and inform planning for enforcement of OSH activities; this may also hamper setting interventions meant to improve OSH at workplaces. Faulty plant and equipment, and unsafe workplaces may go undetected which may cause injuries, diseases (ill health) and /or death to workers. In addition, with non-registration of workplaces and certification of plant and equipment, the Government is losing potential revenue which would have been collected as NTR during the process of issue of certificates for workplaces, and plant and equipment.

Conclusion

The Ministry neither registered all workplaces nor certified all plant and equipment in the country and did not invoke the penalty clauses for non-compliance as required by the OSH Act, 2006. The Ministry's role of enforcing OSH at workplaces is thus compromised if the majority of workplaces have not been registered since as part of the registration, the workplaces are required to indicate the location of the workplace, nature of work to be carried out, hazardous chemicals to be used at the

workplace; thus without such information, DOSH may not be aware of the magnitude and extent of potential hazards at the workplaces in the country which would help it to devise mechanisms and interventions to effectively monitor and enforce compliance.

Management Response

The Ministry intends to contract OSH private service providers to undertake OSH registration, statutory equipment examination and inspections on behalf of Government. Once the OSH Act provisions are fully implemented, it is expected that workplaces will be safe and healthy in accordance with the law, but the process will also generate considerable amount of revenue per year to the Consolidated Fund. The Ministry estimates to collect UGX 50billion annually. Besides revenue generation, the implementation of this law has great benefits, which among others, include; (i) creation of approximately 200,000 jobs mainly scientists to oversee, safety, health and quality management issues at workplaces (ii) reduction of the national disease burden since the law focuses on the prevention of diseases, illnesses and injuries in workplaces and (iii) enhancement of productivity and competitiveness of enterprises as there will be less accidents and diseases that contribute to lost time at work but also companies and enterprises will find it easier to acquire International Standards Certification and or Accreditation.

The Ministry has set up a Technical Committee comprised of officers from MoFPED, Ministry of Justice & Constitutional Affairs (MoJCA) and MGLSD to develop the Terms of Reference to enable the Ministry contract OSH private service providers to undertake OSH registration, statutory equipment examination and inspections on behalf of Government.

Audit Comment

Setting up a Technical Committee by the MoGLSD to develop the Terms of Reference for contracting OSH private service providers to undertake OSH registration, statutory equipment examination and

inspections on behalf of Government is a good initiative. However, management should also consider the need to build capacity within the Ministry for sustainability.

Recommendation

- MoGLSD should hasten implementation of the plan it is currently developing to enable it implement OSH registration, statutory equipment examination and inspections.
- MoGLSD should develop a comprehensive strategy to ensure that all workplaces are registered and registration certificates are renewed upon expiry. This strategy should provide for the following aspects among others:
 - Extensive and sustained sensitisation about the importance of workplace registration and equipment certification;
 - Close collaboration with other government agencies to keep track of existing and new workplaces that require to register; and
- MoGLSD should invoke the penalty clauses for non-compliance so as to ensure OSH compliance at workplaces. Where the penalty is not punitive, the Ministry should bring this for consideration when the OSH Act is being reviewed.

6.2.2 INSPECTION AND MONITORING OF OSH ACTIVITIES

Inspections undertaken by DOSH

According to Section 6 (a) of the Occupational Safety and Health Act 2006, an inspector has the power to enter, inspect and examine any workplace and every part of it, if he/she has reasonable cause to believe that any person is employed in it. The inspections are done to ascertain good working conditions and safeguard against occupational injuries, accidents, and diseases.

Table 40: Comparing total inspections conducted from different sources of the DOSH

Source	Inspections conducted			Total inspections
	2012/13	2013/14	2014/15	
OSHMIS*	614	898	1310	2,822
Departmental Annual Performance reports	212	125	139	476
Summary of inspection reports	-	-	-	9,287

Source: OAG analysis of OSHMIS database, annual performance reports and summary inspection reports

* The inspections conducted combine the workplaces and the plant and equipment inspected.

From Table 40 above, it is noted that the MoGLSD reflected varying figures for inspections conducted for the years under review in the various source documents it maintained. According to OSHMIS, the number of inspections DOSH conducted were 2,822 while the departmental annual performance reports and inspection summary reports reflected 476 inspections and 9,287 inspections, respectively. A breakdown of the summary reports per year was not availed to the audit team. Based on the varying figures presented, coupled with failure by the Ministry to avail inspection reports to back up the inspections undertaken, audit

could not verify the actual number of inspections undertaken by the DOSH.

Scenario showing possible inspections based on staffing levels

Out of 48 approved staff positions, 22 are currently filled, leaving twenty six (26) positions vacant. Only 18 of the existing staff are OSH inspectors, the rest being support staff. Inspection of workplaces is done in teams as per the department's arrangement.

According to a loose minute to the Permanent Secretary dated 20th January 2015 (Status Report for six (6) months on Workplace Registration, July 2014 to date), seven (7) teams were formed for Kampala, Wakiso, Mukono and six (6) teams for upcountry workplace inspections. Each team was required to conduct 92 inspections every quarter as follows: Two months in the quarter were dedicated to inspecting at least 3 workplaces in Kampala, Wakiso and Mukono every day for three days in a week (totalling 72 inspections per team); while the third month in each quarter was dedicated to conducting 20 upcountry workplace inspections.

Using the information from this loose minute, the audit team then computed the total inspections that would be expected to be conducted by the 7 (seven) teams in a year as shown below:

Given that each team is supposed to undertake 72 inspections per quarter around Kampala, Wakiso and Mukono, then the seven teams would carry out a total of 504 inspections (72×7) in a quarter and hence 2016 inspections ($72 \times 7 \times 4$) annually. For upcountry inspections, each team is supposed to undertake 20 inspections each quarter, therefore, six teams would undertake a total of 120 inspections quarterly (20×6) resulting into 480 inspections in a year ($20 \times 6 \times 4$). The total number of inspections annually from each team would therefore add up to 2,496. On the basis the above information, MGLSD should have planned to undertake 2,496 inspections during the year 2014/15 instead of the planned 600 inspections.

Further analysis on workplaces in the country and staffing levels was carried out to establish the sufficiency of staff. Given that there is an estimated one million workplaces in the country, and assuming a maximum of 1 inspection per workplace yet in some cases more than 1 type of inspection can be conducted, the Department would only carry out (2,496) 0.2% inspections of the estimated workplaces in the country with the available staffing levels. The International Labour Organization (ILO) standard of inspector to worker ratio is 1:500, however in Uganda the estimated population employed is 7.9 million thus with 18 inspectors, this implies an inspector to worker ratio of 1:438,889.

The audit team further attributed inadequate inspections to inadequate equipment to facilitate inspection. This equipment included measuring tools/equipment for testing boilers, air receivers, electrical, building and safety equipment.

Through interviews and review of a list compiled by DOSH detailing the equipment needed for effective inspections, it was noted that some of the equipment on the list was to be used in analytical and clinical laboratories yet these laboratories were not in place.

Furthermore, a review of the procurement files revealed that the Ministry procured analytical and clinical laboratory equipment worth UGX 509,702,346 to facilitate inspections, and laboratory analysis and testing. This equipment was delivered to DOSH in April 2014. The audit team however, noted that the department has neither a designated analytical nor clinical laboratory for analysis and testing; and the department has not trained the inspectors on the use of the equipment given their complexity.

As a result, save for the digital thermometer, stethoscope and the digital blood pressure monitor, equipment (worth UGX 506,398,346) is not being used for its intended purpose. Failure to use the equipment within the warranty period may result into the items not being replaced at the supplier's cost in case the equipment is defective; in addition, non-use may lead to deterioration of the equipment. Figure 14 below shows photographs of some of the unused equipment.

Figure 14: Showing some of the procured but unutilized OSH equipment at DOSH



Source: OAG photographs taken during field inspections

As a result of inadequate inspections, OSH hazards may go undetected thus making it difficult to enforce OSH requirements to safeguard against occupational injuries, accidents, and diseases.

For example, during field inspections, using a sample of 50 workplaces, the team utilized the inspection checklist to assess compliance with the OSH requirements specified in the OSH Act, 2006, and ILO guidelines. The extent of compliance with the different requirements is represented in Table 41 as well as Figure 15 below.

Table 41: Showing level of compliance with OSH requirements at the sampled workplaces

OSH Requirement	Compliant	Non-compliant	% non-compliance
Written Workplace Occupational Safety and Health Policy	10	40	80%
OSH officers to manage workplace Occupational Safety and Health activities.	12	38	76%
Clear fire exits	9	41	82%
Fire alarms in place	14	36	72%
Fire drills conducted for staff	8	42	84%
Possession of first aid box/ facility	10	40	80%
Training of first aiders/ establishment of clinic	8	42	84%
Standard content list to detail the contents of the first aid box	5	45	90%
Expired (un-serviced) fire extinguishers	44	6	12%
No fire extinguishers	35	15	30%

Source: OAG findings from field observations and interviews

Of the 50 workplaces sampled, 26 manufacturing and 4 mining companies were visited; at the time of audit inspection, employees in 6 of the manufacturing companies were found not wearing appropriate protective equipment and clothing. None of the staff at all the 4 mining companies had the right Personal Protective Equipment and clothing (PPE).

Figure 15: Showing status of compliance of PPE by workers at some workplaces visited





Employee working at a hot melting point without fire protective wear and safety shoes- Tian Tang Group



Workers covering their faces with polythene bags as eye protection wear while welding at Shumuk Aluminum industries Ltd



Congested work station without clearly marked pathways- Steel and Tube industries



Employee welding without eye protection, safety shoes and overall- Landy industries (U) Ltd

Source: OAG photographs taken during field inspections

Feedback to inspected workplaces

An inspector is required upon inspection of a workplace and examination of plant and equipment to produce an inspection report detailing the results of inspection, recommendations and the timeframe within which the workplace should address the raised anomalies.

In the course of the audit, DOSH availed to the audit team only 118 reports (25%) of the reports relating to the 476 inspections undertaken over the period under review as shown in Table 42 below.

Table 42: Showing inspection reports presented to the audit team

Financial Year	Inspections Undertaken	Inspection presented	Reports	% of Inspection reports
2012/2013	212	0		0%
2013/2014	125	20		16%
2014/2015	139	98		71%
TOTAL	476	118		25%

Source: OAG analysis of inspection reports and departmental annual performance reports

Non availability of reports was attributed to poor record keeping by officials from DOSH. Without the results of inspection, it is difficult to follow up with the workplaces to establish if the recommendations were implemented; and to analyse cross cutting issues across workplaces which would be used to come up with interventions to address the OSH issues identified during inspections.

Conclusion

MoGLSD does not have systematic risk assessment criteria to identify and prioritize workplaces for inspection. Without prioritizing workplaces for inspection, the ministry could not provide assurance that the most risky areas are considered for inspection. It was not possible to confirm the the extent and impact of inspections and monitoring of OSH activities at work places.

Management Response

The Ministry has started the process of building an Occupational Safety and Health Management Information System. Once the system is updated and upgraded, it will be able to systematically categorize and prioritize criteria system.

At the time of the Audit, the Officers were being trained in the use and maintenance of the equipment. Equipment and tools are now being used by the officers. The Ministry is constrained by office space. Discussion is ongoing with MoFPED to acquire appropriate office space so that equipment can be kept in appropriate manner.

The Ministry is also in the process of building a robust filing system that will require office space and technological information system. Each workplace will be with a file and this will make it easier for tracking and follow up on any issue with a particular workplace.

Audit Comment

The proposed interventions as explained in the management responses would be a step in the right direction. Management should however note that it needs to come up with a risk assessment criteria which it will then incorporate in the OSHMIS because OSHMIS on its own cannot generate a risk assessment criteria but rather uses the criteria input to help categorise and generate priority areas/workplaces to be inspected.

In addition, although management indicated that the equipment and tools were being used, this was not the case especially for equipment related to the analytical and clinical lab since these labs were not in place yet. For the other equipment, without a designated/appropriate office space to keep the equipment, the likelihood that this equipment will be improperly stored or even misplaced is high.

Recommendations

Management should:

- Develop and implement a systematic risk assessment criteria to identify and assess OSH hazards, and prioritize workplaces for inspection to enable the Ministry provide assurance that the available resources are used to carry out the most critical inspections.
- Put in place mechanisms to maximise the number and impact of workplace inspections through informed planning for inspections and ensuring feedback is given following inspections.
- Enforce penalties and sanctions for non-compliant workplaces as indicated in the inspection reports. In addition, where the penalties are not deterrent, the Ministry should consider including this as it reviews the OSH Act.
- Develop guidelines and policies to cope with the current technological advancements.
- Develop a management information system to ensure proper recording of inspection findings and tracking of follow up of issues raised on all inspections undertaken.
- Ensure proper and safe storage of inspection equipment to avoid loss through theft, misplacement or misuse.
- Liaise with the Ministry of Public Service to fill the staffing gaps and also strengthen collaboration with other government organs like districts as these have labour officers who can be used to further enforce OSH through inspections and follow up.

6.2.3 OSH TRAINING AND SENSITIZATION

One of the objectives of DOSH is to promote awareness of occupational safety and health among workers, employers and the general public through, breakfast meetings with media houses, using both print and electronic media, commemorating world day for safety and health at work (28th April), gazettement of the national OSH week before 28th April every year, establishing a chain linkage collaboration and coordination with key MDAs, promoting workplace health programmes, and training Trainer of Trainers (ToTs) from MDAs, employers and workers, establishing a focal contact person in every MDA to spearhead OSH issues among other strategies.

The audit team noted that DOSH carries out sensitization through print and electronic media, breakfast meetings with media houses, commemorating world day for safety and health at work (28th April), gazettement of the national OSH week before 28th April every year. The audit team interviewed workplace proprietors and employees from the workplaces sampled for the audit and noted that though OSH encompasses the employer and employee obligations, more emphasis is put on workplace registration which has resulted in limited awareness of OSH at the workplaces. Workplace registration was emphasized because upon registration, workplaces are required to pay a fee which is revenue to government.

The audit team also noted that the national OSH policy that is required to help the government, employers and workers to create awareness on how to reduce a number of work-related accidents and diseases in the country by adopting and implementing a culture of prevention was still in draft and is yet to be approved.

Management Response

It is very true that OSH workplace registration is emphasized because of the following critical reasons:

- It is a legal requirement that is derived from the Constitution of Uganda, Article 39 that provides for every Ugandan a right to a clean and healthy environment and Article 40 (1) (a) that requires Parliament to enact laws to provide for the right of persons to work under satisfactory, safe and healthy conditions. These Articles have been operationalised by Occupational Safety and Health Act, No. 9 of 2006 and its attendant Regulations and Sections 40/41 points out the legal requirement for Workplace registration;
- For proper OSH inspection planning, advisory and enforcement services, the Ministry requires a database of all private and public workplaces such that the services required are well planned, budgeted and monitored. This is so because OSH services were never decentralized and various workplaces have unique safety and health issues that calls for prior critical activities related to planning. There is no agency that registers both public and private enterprises nor captures the OSH parameters contained in the OSH Workplace Registration Form.
- Registration is part of the commitment to safety at work which should be paid for like it is currently done for trading licenses, business registration etc.
- Therefore, it should be noted that the fees payment and registration is not linked to immediate inspection. Registration is purposeful for short, medium and long term (future) OSH inspection, advisory and enforcement planning services because in order to inspect, an appropriate multi-disciplinary team based on the workplace processes/methods/products/work environment must be constituted. Different workplaces have different statutory equipment which have varied periods of examination. So,

without the workplace data, it is difficult to undertake OSH inspection smartly.

- The Ministry has started the process of developing a training programme for employers, employees and government staff. However, sensitization and awareness of all key stakeholders is ongoing.

Audit Comment

The training programme should be fast tracked and should form part of a broader framework for OSH training, awareness and information sharing to sensitize and create awareness among key stakeholders.

Recommendation

- MoGLSD should develop a framework for OSH training, awareness and information sharing at all levels and also enhance cooperation with civil society organizations (NOTU, COFTU and FUE) to train and sensitize employers, workers and the general public in all aspects of OSH rather than only registration to promote a safety culture of managing risks and hazards at workplaces.
- The MoGLSD should also fast track the approval of the National OSH policy. This will create awareness on how work-related accidents and diseases can be prevented and provide for equitable compensation benefits to those who are injured and contract occupational diseases.

Coordination mechanisms

According to the Occupational Safety and Health profile for Uganda 2004, MoGLSD is supposed to spearhead coordination with government and non-governmental bodies to promote occupational safety and health in the country.

Through an interview with the Commissioner of the Department of Occupational Safety and Health, it was revealed that the MGLSD is supposed to coordinate with the Ministry of Health in matters relating to statistics of occupational related accidents, diseases and injuries, Uganda Police

Force in enforcement of the OSH requirements and in providing statistics relating to occupational injuries and fatalities, Uganda Revenue Authority, Uganda Registration Services Bureau, Ministry of Trade, Tourism and Industry, Ministry of Finance, Planning and Economic Development (MOFPED), in matters relating to all registered companies and businesses in the country and also issues regarding integrating OSH requirements in their policies and investment plans, Civil Society Organizations (FUE, COFTU and NOTU) in enforcing occupational safety and health activities through a Tripartite Charter arrangement among others.

The Ministry officials stated that they were pursuing chain-linkage engagement of stakeholders, sensitization and training and appointment of focal contact officers in each public institution. They also organised a stakeholders' meeting to enhance coordination on issues regarding registration of all workplaces and compliance to the OSH Act 2006.⁶³ It was further noted through review of several correspondences that the MoGLSD had written to several MDAs and higher local governments requiring them to ensure enforcement of the OSH Act. However, the Department of OSH did not follow up with the stakeholders to ensure implementation of the resolutions made.

The following issues were noted by the audit team in as far as coordination of MoGLSD and some stakeholders is concerned:

a) Coordination with NEMA on review of Environmental Impact Assessments (EIAs)

MoGLSD is the lead agency for OSH countrywide. As such, coordination with NEMA in regard to assessing EIAs submitted to NEMA would facilitate promotion of OSH among developers.

The audit team noted that out of 1,624 EIAs approved by NEMA during the 3 years under review, MoGLSD reviewed only 92 EIAs representing 5.7% of the reports, leaving 1,532 EIAs (94.3%) not reviewed. This was attributed to inadequate staffing levels in

the DOSH.

The limited review of EIAs by MoGLSD may result in some workplaces with insufficient OSH provisions being approved. It is also a missed opportunity for MoGLSD to identify and register new workplaces which would aid planning for future inspections and generate NTR for the Government.

b) Coordination with Local Governments on approval of architectural drawings/ plans

Review of the annual performance reports for the construction section of MoGLSD for the three years, revealed that the Department reviewed and approved only 75 building plans from Kampala, Wakiso, Entebbe, Mukono and Lyantonde districts and realized UGX 67,700,000 from approval fees.

c) Coordination with Ministry of Health and Uganda Police on occupational injuries and diseases

MoGLSD is supposed to coordinate with the Ministry of Health and the Uganda Police Force in matters relating to statistics of occupational-related accidents, diseases, injuries and fatalities.

It was noted that there was limited information-sharing between the three bodies regarding statistics of occupational-related accidents, diseases, injuries and fatalities.

Limited information sharing was attributed to lack of a comprehensive management information system to facilitate information sharing yet upon an occupational accident, injury or disease, the case is reported to Uganda police and/or a health facility.

As a result of limited information sharing, DOSH did not have an up to date database relating to occupational accidents, injuries and diseases.

Conclusion

There has been minimal engagement of the stakeholders by the Ministry. The Ministry needs to sensitize and put in place coordination mechanisms for enforcement of OSH to be appreciated by all stakeholders.

⁶³ Review of the departmental technical meeting minutes (DOSH)

Management Response

The Ministry continues to engage stakeholders' both horizontally and vertically. For instance sectoral sensitization meetings on implementation of the OSH Act, and coordination mechanisms have been organized and continue to be organized. For instance, horticulture, labour unions and beaches are planned to be undertaken.

NEMA is obliged to submit the EIAs for review and comments to MOGLSD before approval. It is a bad practice and illegal for NEMA to approve EIAs without comments from MoGLSD since MoGLSD is mandated for oversight functions relating to Social Assessment Framework. NEMA should be advised to always submit EIAs to MoGLSD. This condition is improving and we are now receiving more EIAs from NEMA for review.

The OSH Act, 2006 derives its mandate from Articles 39 and 40 of the Constitution of the Republic of Uganda. The Physical Planning Act, 2000 focuses on the land uses while OSH Act focuses on safety and health issues at work.

In regard to coordination with MoH and Uganda Police on occupational injuries and diseases, The Ministry plans to upgrade the OSHMIS. It will be established in districts and at enterprise level. The terms of reference to this critical activity have already been developed.

Recommendations

- To enhance the current coordination efforts, MoGLSD should consider entering into memoranda of understanding with the various agencies (NEMA, district local governments, Ministry of Health, and Uganda Police) to spell out their roles, responsibilities and expectations in the workplace occupational and safety value chain.
- MoGLSD should follow up with stakeholders to ensure the implementation of resolutions made regarding registration of new workplaces and promotion of OSH through chain-linkage engagement and information-sharing.
- MoGLSD, in collaboration with NEMA and District Local Governments, should plan for and review all EIAs and architectural drawings/plans respectively in order to improve OSH measures, identify upcoming workplaces and collect NTR.
- MoGLSD should engage Ministry of Health and the Uganda Police Force to obtain up-to-date information relating to occupational-related accidents, diseases, injuries and fatalities so as to ascertain the trend of accidents, injuries and diseases which will enable it develop and implement interventions to aimed at minimizing occupational accidents, diseases and injuries.
- MoGLSD should also establish a framework for a coherent and comprehensive National Safety and Health data management system.

7 IMPLEMENTATION OF SOLAR ENERGY INFRASTRUCTURE IN SELECTED EDUCATION AND HEALTH FACILITIES UNDER THE ENERGY FOR RURAL TRANSFORMATION PROJECT II (ERT II) BY MINISTRY OF ENERGY AND MINERAL DEVELOPEMENT

7.1 INTRODUCTION

7.1.1 BACKGROUND

The Energy for Rural Transformation Project II (ERT II) was a strategic effort by the Government of Uganda to provide infrastructure and functioning social services to promote growth and reduce poverty. The purpose of the ERT program was to develop Uganda's energy and information/communication technologies (ICT) sectors, to be able to make a significant contribution to bringing about rural transformation⁶⁴.

The project had three components, namely: a) Rural Energy Infrastructure; b) Information Communications Technologies (ICTs), and c) Energy Development, Cross Sectoral Links and Impact Monitoring. The Rural Energy Infrastructure focused on rural electrification, renewable energy power generation, solar PV systems and energy efficiency. Information Communication Technologies focused on extending access to ICT services while the Energy development, Cross Sectoral links and impact Monitoring component was to provide support to the project coordination Unit and the implementing sectors of Health, Education, Water, Agriculture and Local Government⁶⁵.

The project was approved by the World Bank in November 2001 as a three-phase Adaptable Program

⁶⁴ ERT II Operational manual, 2009, page 1

⁶⁵ ERT II Operational manual, 2009, page 1

Loan (APL). Phase I (ERT I) ended in 2009, Phase II (ERT II) was approved on 6th April 2009 and was expected to end in June 2015 but was extended to 30th June 2016. Phase III (ERT III) was expected to begin thereafter⁶⁶. The ERT II project is jointly funded by the Government of Uganda (GoU) and the World Bank through International Development Agency (IDA) and Global Environment Facility (GEF). The total project funding amounted to \$102 million (\$84m by IDA, \$9.0m by GEF and \$9.0m by GoU)⁶⁷. This audit focused on implementation of the solar energy infrastructure in rural health and education facilities under component three of the ERT II project.

7.1.2 MOTIVATION

According to the National Development Plan (NDP) 2010/11-2014/15, socio-economic development and rural transformation is a priority for the Government of Uganda (GoU)⁶⁸. Whereas the NDP projected that rural electrification would increase to 20% by 2014/15⁶⁹, the current rural electrification stood at 15% in 2015⁷⁰. This limited access and use of energy has significantly slowed down economic and social transformation⁷¹.

The Auditor General in his annual report for the year 2013/14 highlighted a number of issues with respect to the implementation of ERT II which included: failure by the installation companies to carry out routine maintenance contrary to the contracts signed and cases of supply of defective solar panels to schools⁷².

Similarly, the Budget Monitoring and Accountability Unit (BMAU) Briefing paper 4/12, 2012 on ERT II project also reported distribution of weak Solar panels that could not support sterilization of

equipment in health centres in Mubende, Mityana, Kibaale and Luwero districts and delivery of incomplete packages in the districts of Mubende, Mityana, and Kibaale⁷³.

According to the results of the assessment undertaken by the World Bank, although the implementation of the project was moderately satisfactory, the progress towards achieving the project objective was unsatisfactory⁷⁴. Project component activities such as supply, installation and commissioning of solar energy packages had not been completed⁷⁵.

It is against this background that an independent review of the implementation of solar energy infrastructure component of the Project was undertaken by the Office of the Auditor General to assess the progress made towards the achievement of the component objectives.

7.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

The Energy Development, Cross Sectoral links and Impact Monitoring component (component three) was implemented by various implementing agencies. These included the Project Coordination Unit (PCU) of the Directorate of Energy Resources Development in the Ministry of Energy and Mineral Development (MEMD), the Ministry of Education and Sports (MoES) and the Ministry of Health (MoH).

The unit, in collaboration with the implementing agencies together with beneficiary districts/schools, health facilities and other stakeholder institutions undertake the planning, procurement of contractors and monitoring and evaluation of

66 ERT II Operational manual, 2009, page 1

67 ERT II Project Appraisal Document, March 2009, Page 5

68 National Development Plan, 2011/12- 2014/15, page 49

69 National Development Plan, 2011/12- 2014/15, page 49

70 <http://m.scidev.net/sub-saharan-africa/energy/news/uganda-increase-renewable-energy.html>

71 ERT II Operational manual page 1

72 OAG report, June 2014, Volume 4, Page 39-46

73 BMAU Briefing paper (4/12), 2012, page1

74 ERTII world bank implementation ratings, as at 30/6/2016
http://www-wds.worldbank.org/external/default/WDSCtentServer/WDSP/AFR/2016/06/30/090224b084421ea/1_0/RenderedPDFUganda000Ugand0Report000Sequence012.pdf

75 Procurement Notice Ref No: MOES/Services/201415/00123 World Bank Product ID P112334/Credit No 45540

implementations under the project.

The objective of MOES was to improve the quality of education in 40 districts by providing access to energy to rural post-primary education institutions (PPEIs) including staff houses at a cost estimate of USD 2.7 million for the first batch of 250 PPEIs in the first three years⁷⁶. This would assist MOES to reach its goals of expanding opportunities and access to post-primary education⁷⁷. The MoH activities were aimed at improving the delivery of health services in rural health centres through increased access to modern energy services at a cost estimate of USD 9.23 million in capital investments.

Legal Framework/Mandate for ERT II Project

ERT II derives its mandate from MEMD which has the overall responsibility and mandate to promote the development, strategically manage and safeguard the rational and sustainable exploitation and utilization of energy and mineral resources for social and economic development. The project also operates within the framework of the financing agreement signed between the Government of Uganda and International Development Agency (IDA)⁷⁸.

Project Component Objectives

The overall objective of component three was to increase access to energy and information and communication technologies by schools and health centres⁷⁹.

Each of the component three implementing agencies had specific objectives that supported the above overall project objective. These are summarized in Table 43 below:

Table 43: Sub component three (3) objectives and activities

Agency	Specific objectives
PCU/MEMD	<ol style="list-style-type: none">1. Ensuring consistency of the project with policy, regulations, and procedures of Government, the World Bank, the Parliament and other key stakeholders.2. Coordinating all the implementation of all the components, including MEMD¹
Ministry of Health	<ol style="list-style-type: none">1. To implement solar energy packages in 464 HCs (24 districts). 54% of HC IIs, 87% of HC IIIs and 98% of HC IVs to have access to electricity by year four².2. Connect all HCs within 500 meters of the national grid up to 1 km for HCIVs.³

⁷⁶ ERT II Operational Manual, Pg. 155-156

⁷⁷ ERT II Operational Manual, Pg. 6

⁷⁸ ERT II Financing Agreement, 2009

⁷⁹ ERT II , operations manual, 2009, Page 44

Ministry of Education and Sports	<ol style="list-style-type: none"> 1. Supply, Installation and Maintenance of the procured energy systems/packages in 560 rural PPEIs by year five⁴. 2. To ensure efficient and effective maintenance of the energy packages. 3. Prepare tailor-made user manuals for training of the institutional users. 4. Train District engineers in maintenance contract management.⁵
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Source: ERT II Project Operations Manual, 2009

7.1.4 PROJECT FUNDING

A total of USD 11.9 million was budgeted for implementation of solar energy packages by the ministries of Health and Education. 10% of this amount was proposed to be contributed by GoU, while the 90% was to be provided by IDA. An analysis of the contract expenditure on solar implementation by the two ministries is shown in Table 44 below:

Table 44: Budget and actual expenditure for solar energy implementation

Ministry	Budget for Implementation of energy packages (USD)	Actual Expenditure for Implementation of energy packages ⁶ (USD)	Variances (USD)
Health	9,233,652	6,910,946.50	(2,322,705.50)
Education	2,766,250	5,124,374.30*	2,358,124.30
Total	11,999,902	12,035,320.8	35,418.8

Source: OAG analysis

*Expenditure on the 250 solar panels. MOES spent USD. 4,307,018.93 for the supply and installation of the 310 solar packages.

7.1.5 AUDIT OBJECTIVE

The overall audit objective was to assess whether the planning and implementation of solar energy infrastructure component was properly undertaken to achieve the expected timelines, coverage and functionality of the infrastructure.

Audit Questions

- Was the selection of beneficiaries and allocation of energy packages undertaken in a manner that allowed achievement of the component objectives?
- Was the implementation of the program undertaken in a manner that allowed timely achievement of the expected outputs and component objectives?
- To what extent is the installed equipment functioning and what arrangements have been put in place by the sector ministries and beneficiaries to ensure sustainability of the equipment?

7.1.6 AUDIT SCOPE

The focus of the audit was on the solar energy infrastructure subcomponent of the Energy for Rural Transformation II Project implemented by Ministry of Energy and Mineral Development as the lead agency as well as the sub components implemented by the Ministry of Education, and Sports (MoES) and Ministry of Health (MoH). It also included other relevant stakeholders such as the beneficiary schools and health centers.

The study covered a period of six (6) years (from December 2009 to 30 June 2016).

Under the MOES sub component, the audit covered the post primary education institutions from 40 districts that benefitted from the ERT phase II while under the MOH the focus was on the benefitting health centers in the twenty four (24) districts. **SAMPLING**

The ERT project under MOES was implemented in Uganda, in 560 schools across 99 districts⁸⁰. While under the Ministry of Health, it was implemented in 464 health centres located in 25⁸¹ districts⁸².

Using simple random sampling, a sample of 30 districts under the MOES implementing agency and 8 districts under the MoH implementing agency were selected from the above population. This sample consisted of 172 schools and 103 health centres. Using random sampling, 40 schools and 31 health centres were then selected from the earlier district sample for study.

7.1.7 DATA COLLECTION METHODS

The various methods of data collection and analysis used to address each audit question are detailed below:

80 Creation of new districts increased the number to 99 from 40 in 2008.

81 Creation of new districts increased the number to 25 from 24 in 2008.

82 ERT II project operations manual, 2009, pg. 151

Was the selection of beneficiaries and allocation of energy packages undertaken in a manner that allowed achievement of the component objectives?

The audit team carried out interviews with PCU officials, including the project accountant and monitoring and evaluation Officer, staff of MOH ERT II unit, staff of MOES ERT II unit, stakeholders at the selected schools and health facilities, the needs assessment consultant, contract manager (supervising consultant), and district health and education officers, to gain an understanding of how planning for the schools and health facilities in regard to eligibility selection and needs assesment was conducted. This was also to enable audit to corroborate information gathered from documents reviewed and observations made at the visited selected facility sites.

The audit team reviewed the project appraisal documents, implementation plan and manual, feasibility study reports, needs assesment, supply/ installation, and supervision contracts, detailed energy needs assessment reports, and annual work plans and budgets. The purpose of the review was to establish the existence of set guidelines for planning and compliance with the guidelines.

Was the implementation of the program undertaken in a manner that allowed timely achievement of the expected outputs and component objectives?

The audit team held interviews with the Monitoring and Evaluation Officer of the Project Coordination unit, staff of MOH ERT II unit, district health and education officers, staff of MOES ERT II unit, stakeholders at the selected schools and health facilities, to ascertain how works were implemented as per the contracts for supply and installation of solar packages in schools and health facilities and also to corroborate information gathered from the documents reviewed.

The Audit team also reviewed available progress reports, contract management files, meeting minutes, visitor's books, contractor, installation

logs, completion logs, maintenance logs and consultant contracts to ascertain whether packages were installed in accordance with specifications and other contractual requirements, like maintenance, supervision and monitoring. Interim payment certificates and payment vouchers were reviewed to ascertain whether the quantities of installations, supervision works and maintenance works paid for were actually executed.

Additionally, field inspections were carried out through which observations, and simple functionality tests were carried out on the installations to ascertain conformance to contract specifications.

To what extent is the installed equipment functioning and to what extent do the current arrangements put in place by the sector ministries and beneficiaries ensure sustainability of the equipment?

Functionality

The audit team interviewed the management of the selected schools and health facilities, district health and education officers, supervising consultants, the project monitoring and evaluation officer of the Project Coordination Unit, MoES and MOH ERT II staff to ascertain whether the responsible sector ministry ensured that packages were properly functioning at the beneficiary sites.

The Audit team also inspected the installed equipment to ascertain whether it was providing the necessary and expected energy output for utilisation by the various institutions.

Sustainability

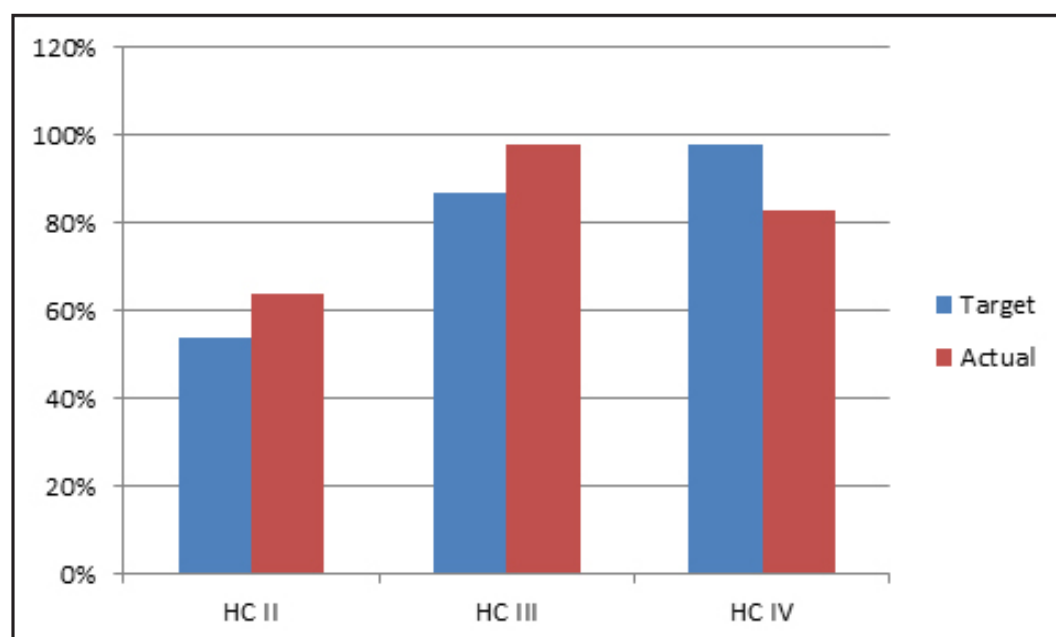
Interviews were held with MoH and MOES officials, management of the selected schools and health facilities to establish their capacity to utilize, operate and maintain the installed solar infrastructure. The interviews with the beneficiary institutional management were meant to establish the level of preparedness to operate and maintain the installed solar infrastructure in these facilities.

7.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The MEMD through the ERT II project has achieved significant progress in regard to increasing access to energy in rural schools and health centres. At inception of the project, baseline studies showed that only 874 rural schools and 83 health centres were connected to electricity. The IDA/GEF project sought to increase access to electricity in 560 rural schools and 464 health centres through provision of solar energy packages; and this has been achieved in 523 rural schools and 522 health centres⁸³ respectively. The figure 1 below illustrates the achievements under the health sector in terms of health centres with access to energy.

83 <http://projects.worldbank.org/P112340/ug-energy-rural-transformation-apl-2-gef?lang=en&tab=results>

Figure 16: The actual health centres with access to solar energy⁸⁴.



Source: OAG Field inspections

The figure above shows that on average MoH surpassed its coverage target in supplying solar packages to the health centres. In spite of these achievements, the audit has identified some areas of improvement.

7.2.1 PLANNING

According to the ERT II Operational manual⁸⁵, identification and pre-selection of Post Primary Education Institutions by the district education officers⁸⁶ was to be based on the distance to the existing (more than 3 km from Low Voltage lines or transformer), future power grid, enrolment levels of benefiting Institutions, and ensuring complementarity to other on-going projects in the sector, including the ICT program and balancing of regional distribution. Similarly, one of the specific objectives of the health component was to connect all health centres within 500 meters of the national grid and up to 1km for HC IVs⁸⁷. All selected schools and health centres were to be physically visited to ascertain their individual energy needs before procurement of the solar energy packages⁸⁸.

Selection of institutions

From inspections and document review it was noted that 15 out of 40 schools sampled got solar packages worth USD 162,599 yet they did not meet the eligibility criteria. They were either connected to the grid before the installation of the solar, or were within close proximity to a Low Voltage grid line as shown in the Table 45 and Picture 5 below:

⁸⁴ <http://projects.worldbank.org/P112340/ug-energy-rural-transformation-apl-2-gef?lang=en&tab=results>

⁸⁵ ERT II Operational Manual, 2009, p 151

⁸⁶ ERT II operations manual, 2009, table 15.2, page 155

⁸⁷ ERT II Operational Manual, 2009, p 132

⁸⁸ ERT II Operational Manual, 2009, page 133



Table 45: Solar packages distributed to ineligible schools

School	Type of Solar packages installed	Cost of Solar Installations	Remarks
St. Michael Girls s.s	3 SEP 1 3 SEP 2 1 SEP 3 1 SEP 4	USD 14,116	Grid was within 500m before solar installation
Sironko High School	2 SEP 1 4 SEP 2 1 SEP 4	USD 12,658	Grid power was available at Police headquarters across the school since 2006
Nambulu s.s	1 SEP 1 1 SEP 2 1 SEP 4	USD 6,448	Grid power was available since 2011
Bufumbo s.s	1 SEP 1 2 SEP 4	USD 7,283	
Wanale s.s	1 SEP 5 2 SEP 1 1 SEP 2	USD 7,879	Grid was available before solar installation
Rackoko Comprehensive	3 SEP 1 2 SEP 2 1 SEP 4	USD 10,433	Grid was available within 500m before solar installation.
Kanyum Comprehensive	2 SEP 1 3 SEP 2 3 SEP 3	USD 14,437	Grid was within 500m from the school in 2012 yet solar was installed in 2013.
Amach Modern	2 SEP 2 1 SEP 3	USD 6,460	Grid power was available by the time of solar installation
Kakiika Technical school	1 SEP 5 2 SEP 1 2 SEP 3 1 SEP 2 1 SEP 4	USD 13,391	Was connected to grid power in 2001 yet power was installed in 2012
Rwentanga s.s	3 SEP 1 5 SEP 2 2 SEP 4 2 SEP 5	USD 28,738	Grid power was available by the time of solar installation
Blessed Parents Vocational s.s	3 SEP 2	USD 6,151	Grid power was available in 2009
Ongino s.s	2 SEP 1 1 SEP 2 1 SEP 3	USD 7,071	Grid was within 500m in 2010
Katooke Secondary School	1 SEP 1 2 SEP 2 1 SEP 3	USD 7,697	Was connected to grid power in May 16th 2012 yet solar was installed on 10 th /2/2014
Rubona ss	1 SEP 1 2 SEP 2 1 SEP 5	USD 8,487	Was connected to grid power on 2/4/2013 yet solar was installed on 3/12/13

School	Type of Solar packages installed	Cost of Solar Installations	Remarks
Kilembe s.s	2 SEP 1 2 SEP 2 1 SEP 3 1 SEP 4	USD 11,350	Grid power existed by the time of solar installation in 11/11/2013
Total cost		USD 162, 599	

Source: OAG Inspection, Interviews with Head teachers and Contract Documents

Picture 5: Blessed Parents SS in Rukungiri district and Bufumbo SS in Mbale district, respectively, with both grid and solar

School		Remark
Blessed Parents SS (Rukungiri district)		The school was connected to grid power by 2009
Bufumbo SS (Mbale district)		At the time of installation in 2015, a grid power line was within 10 meters' range behind the classroom block.

Source: OAG Inspections

Eligibility

Field inspections revealed that 12 potentially eligible schools located in the same districts visited were not selected to benefit from the program although they met the eligible criteria. These schools comprised of Makhai Seed S.S, Kuju Seed s.s, Ologai Technical, Obalanga Seed S.S, Kagunga Seed s.s, Uganda

Martyrs Technical institute, St. Peters S.S Nyarushenje, Bufunjo Seed, Rwimi S.S, Kltumba s.s, Kaboyo S.S and Hamukungu Parents School. These schools were deprived of the opportunity to obtain solar energy packages that would have increased their access to reliable energy, as they were situated more than 3 km away from the existing low voltage power lines.

These gaps in the selection of beneficiaries were a result of weaknesses in application of the established criteria which allowed much discretion in the determination of the final beneficiaries and failure by the implementing agencies to undertake a more comprehensive eligibility assessment to properly determine the intended beneficiaries. It was noted that whereas the officials from the MoES indicated that data on eligibility was obtained from the DEOs by telephone interviews, eleven (11) DEOs in whose locality some schools benefited from the project such as Mbale, Kumi, Kween, and Sironko,⁸⁹ indicated that they had not been contacted by MoES officials in regard to their roles and responsibilities in selecting the eligible Post Primary schools under the ERT II programme. Review of IFMS data for the period 2009-2016 also revealed that no budget allocations and releases were made for the eligibility assessment exercise. At the districts and schools visited there was no evidence that physical inspections were undertaken as part of the eligibility assessment⁹⁰.

Without evidence of the eligibility assessment, Audit could not confirm how the beneficiaries of the solar packages were selected.

Management response

MOES applied the eligibility criteria to trade-off beneficiaries but also to ensure that the main objective of improving the quality of education is pursued. Schools near the grid but with relatively higher enrolments and within on-going sector projects such as the Uganda Post Primary Education and Training Project (UPPET) would be selected before others with lower enrolments and outside other supporting projects. Similarly, another initiative under the Uganda Communications Commission (UCC) provided computers and internet access that would also require electricity for use.

The time lag between school selection process in 2009 and the start of installation in 2013, left room for some selected schools to benefit from Government grid extension programs including the reduction of distances to the grid. In addition, some of the schools were not yet established by selection date.

Further, some of the schools relatively close to the grid could not meet the cost of connection and were retained as beneficiaries of the project.

The Government institutional structures place secondary and technical institutions under the Central Government (MOES). Therefore, the information on secondary schools is already available at the MOES and therefore the less need to use the DEOs as per the operational manual. Data stored in the Education Management Information System (EMIS) was used to select beneficiary schools rather than the physical verification of the schools.

Audit comment

The trade-off of beneficiaries should have been undertaken in accordance with clearly defined criteria. The operations manual did not provide guidance on how the selection criteria were to be applied. It did not provide a weighting system of the available criteria to ensure selection of the most appropriate beneficiaries.

89 Interview minutes from interviews with various DEOs

90 Interview minutes from interview with the ERTII coordinator

In addition the inability of the schools to pay for grid connections was not an established criterion for the selection of schools.

The computers provided by UCC were to be installed together with solar packages. The latter in itself was not an established operational criterion for MOES to provide other solar packages to the same schools that received computers under UCC.

It was noted that Kagunga Seed S.S, Uganda Martyrs Technical institute, St. Peters S.S Nyarushenji, Rwimi S.S, Kitumba S.S, Kaboyo S.S and Hamukungu Parents School were established before the selection period and were not selected although they were eligible.

It is probable that the EMIS system data was inadequate in providing support to the school selection process.

Conclusion

As a result of the gaps in the selection criteria and failure by the MOES to undertake proper consultation with the DEOs in carrying out the required eligibility assessment, a number of deserving institutions were not selected as beneficiaries while others selected did not fully meet the established criteria. This had an impact on the expected coverage of the programme as some of the schools targeted were not selected.

Recommendations

In the future implementation of the program, the Ministry should liaise with the implementing agencies to ensure that the selection criteria are reviewed to guide the process of application of the criteria. A weighting system could be introduced to minimise the risk of arbitrary selection of beneficiaries. In addition, the implementing agencies should ensure that the eligibility assessment is comprehensively undertaken as required by the operations manual.

Physical verifications of the institutions against the set criteria, and coordination with the grid energy installation stakeholders are critical. This is meant

to avoid wastage of resources and denial of energy access to otherwise eligible institutions.

7.2.2 DISTRIBUTION OF SOLAR PACKAGES TO SCHOOLS AND HEALTH CENTRES

The sector ministries contracted various contractors to distribute energy packages as stipulated in the contracts⁹¹. These were based on the energy needs assessment that had been conducted earlier⁹². The terms of reference for the energy needs assessment required an assessment of the energy needs of the institutions based on the available physical infrastructure⁹³.

Through field inspections, it was noted that although all schools had at least a structure onto which a package could be installed, 8 out of 40 schools and 2 out of 25 health centres remained with solar packages that could not be installed. They had either incomplete, non-existent, or inhabitable buildings that could not support installation of the solar packages. From the sample, equipment worth USD 28,745 remained uninstalled at the time of inspection in March 2016. Some of the solar packages were still in boxes in the headmasters' offices, while other packages were stored in places where they were prone to damage or theft as shown in **picture 6** below. Some of this equipment had been supplied as early as 2013/2014.

91 Various energy installation contracts for the MOES and MOH

92 Energy needs assessment reports for both the 250 and 310 schools

93 Inception report for the contract for energy needs assessment, MOES.

Picture 6: The storage of solar packages in Wanale S.S in Mbale district



Source: OAG Inspection of Wanale S.S in Mbale district



Furthermore, in some cases irrationalized installation of energy packages was noted as shown in Table 46 and **Picture 7**:

Table 46: showing institutions with irrational distribution of SEPs

Institution	District	Number/SEP installed on particular building	Optimal number of bulbs	Actual bulbs available	Required number and SEP
Acholi Pii Army Secondary school	Pader	2, SEP 2	24	8	1, SEP 1
Wanale SS	Mbale	1, SEP 2	12	8	1, SEP 1
St. Micheal girls SS	Sironko	1, SEP 3	15	6	1, SEP 1

Source: OAG inspections and Installation Contract documents

Picture 7: Acholi Pii School with irrational distribution of solar packages

Picture	Remark
	<p>Two SEP 3's for lighting and One SEP 5 for the computer laboratory</p>
	<p>Classroom block on which the above packages are installed. It includes 2 classrooms and one computer laboratory.</p> <p>The two SEP 3's are meant to provide lighting capacity to run up to fifty (50) bulbs. The two classrooms only had eight (8) bulbs.</p>

Source: OAG Inspection as at March 2016

The irrational and non-installation of the solar packages was caused by the distribution of energy packages based on an energy needs assessment that was inadequately undertaken. This was further attributed to the sector ministry not monitoring the energy needs assessment contract to ensure full compliance with the contract provisions and achievement of contract deliverables. Whereas MOES stated that the consultant provided the energy needs assessment for the 560 schools, a review of the consultant's contract of USD 187,421.65 and needs assessment report revealed that the consultant physically visited only 133 schools contrary to the contract terms of reference which required physically visiting all 250 selected schools. Although the Infrastructure site lay outs for the 560 schools were availed for review, the energy assessment reports were not presented for all the schools. In addition, the energy needs report for the additional contract for energy needs assessment of 310 schools, was not availed although an amount of USD 100,392 had been allocated and paid for the purpose.

Consequently, the non-utilisation of equipment at certain institutions has limited the access to energy at other needy institutions. For example, there were health centres, like Bugamba HC IV in Mbarara and Kamuganguzi HC III in Kabale, that did not receive any package under ERT II yet solar packages are lying idle in some facilities. This has limited the achievement of the programme objective of increasing energy access to the targeted schools and health facilities.

Management response

Due to various reasons, some structures remained incomplete at the closure of the project and yet they had been anticipated to be complete at the stage of needs assessment.

The number of lights that each SEP can accommodate is the threshold for optimum operation of the system and not the exact number of lights, sockets, terminals and other load points for each SEP. In addition, each school administration was at liberty to reserve lighting capacity to power other AC loads.

Audit comment

In regard to cases of allocation of packages to schools whose construction was in progress the ministry should have set minimum conditions that would have guided the allocation process.

It was also noted that although the schools remained with capacity to power other AC loads, it was noted that it remained unjustifiable to supply high output solar packages for example The Solar Energy Package (SEP) 3's or two SEP 2's that provided load capacities far greater than was required and yet the same institutions could be supplied with lower capacity output solar packages for example SEP 2 or one SEP 1, respectively, and still remain with AC load to power other appliances.

Conclusion

The energy needs assessment was not adequately undertaken by MoES and MoH resulting in inappropriate distribution of packages and non-

installation of some packages. Consequently, the project objective of increasing access to energy and ICT in rural Uganda has been limited.

Recommendation

The ministry should consider distributing solar packages to only schools with completed structures or set conditions for schools whose construction is still in progress. In addition, MEMD, through PCU, MoES and MoH should monitor and enforce compliance with the needs assessment contract provisions specifically those relating to physically visiting the schools and health facilities, to provide energy packages based on the state and condition of physical infrastructure present at the institutions.

7.2.3 IMPLEMENTATION

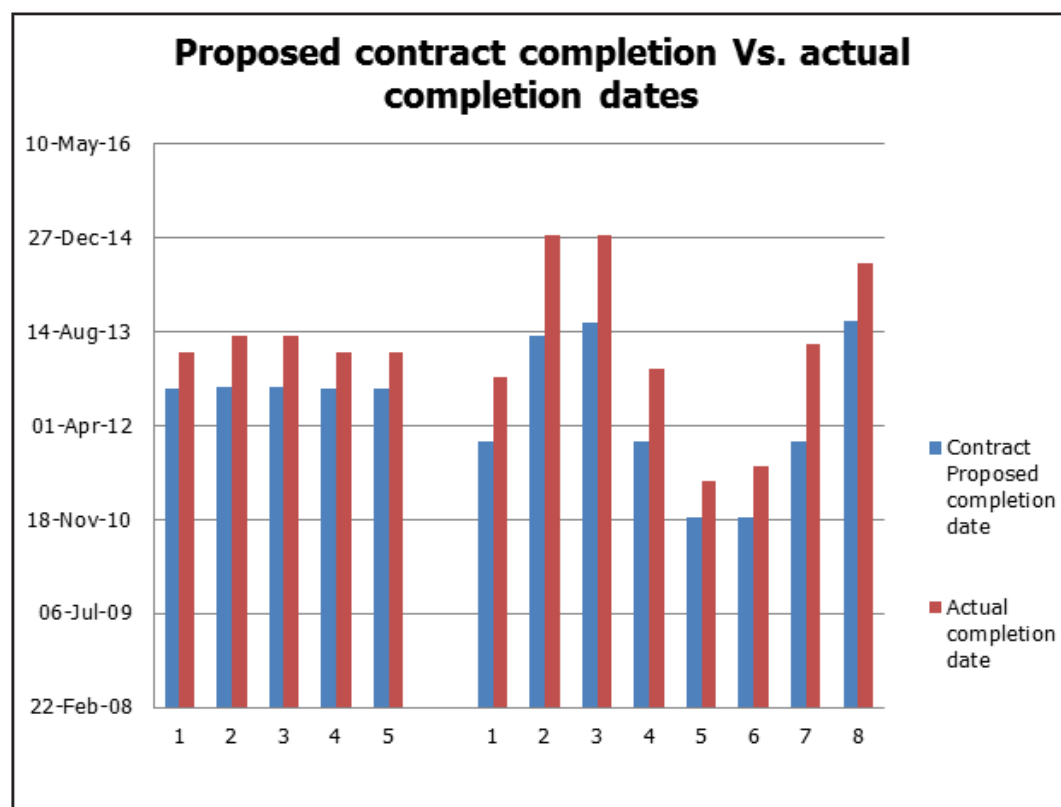
Project implementation

According to the ERT II project plan, the contract for supply and installation of solar infrastructure under MOES was to commence in January 2012 and end in December 2012.

Under the MoH, the supply of solar infrastructure and installation was batched into four (4) lots with varying commencement and end dates. For instance Batch 1 was supposed to commence in July 2009 and end in June 2010, Batch 2 (July 2010 to June 2011), Batch 3 (April 2011 to April 2012), Batch 4 (July 2012 to April 2013), with specific district beneficiaries under each batch.

Through document review and field inspections, Audit noted that in some instances, installations had been completed as late as 2014 for both MoES and MoH while in other instances there were no installations made at the time of inspection in March 2016 as shown in Figure 17 below:

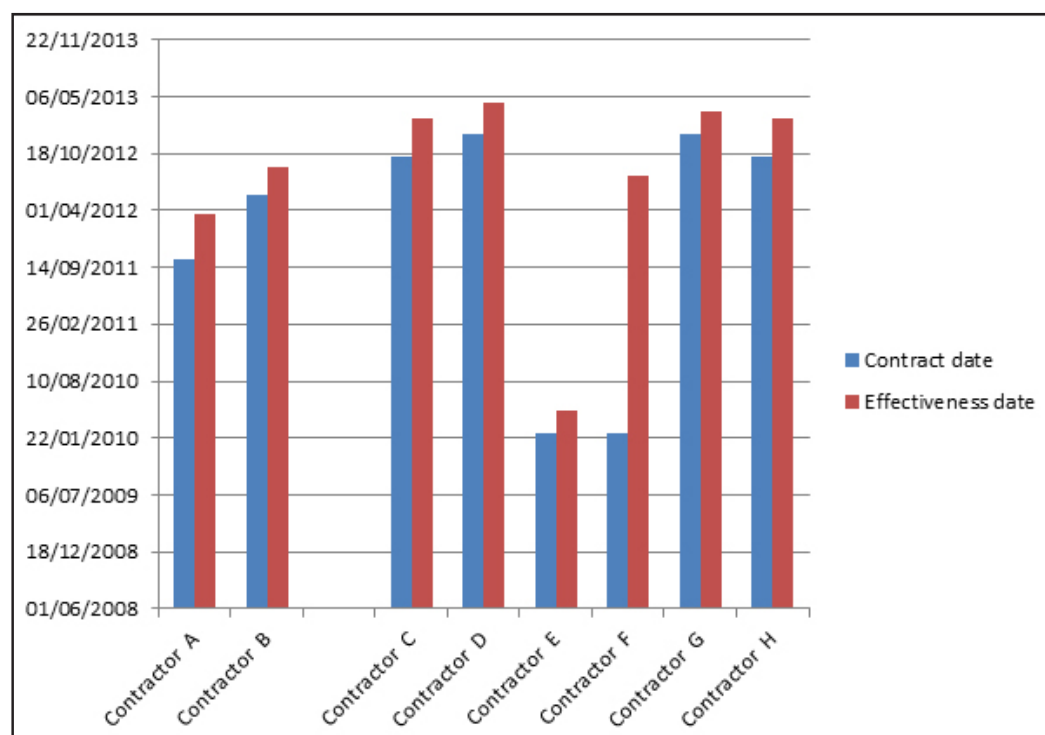
Figure 17: Variances in proposed contract and actual completion dates



Source: OAG Analysis of MoES and MoH ERT II contracts.

Contract effectiveness was instituted once payment had been made to the contractor⁹⁴. The delay in implementation of the installations was due to the delays in effecting the contracts by PCU even when the funds had been made available at the time of contract signing as shown in Figure 17 above.

Figure 18: Graph comparing both contract signing and contract effectiveness dates.



Source: OAG analysis of various solar supply contracts and effectiveness dates.

94 Contract for the installation of solar energy packages, MOES

The graph above shows that there were delays of over six months before the contracts became effective.

The delayed installation of solar packages at the education and health facilities resulted in delayed benefits that should have accrued to the intended users. The delay in effecting the contracts also partly contributed to the commitment charges per year, since funds were found to be undisbursed for contract effectiveness and utilisation even when they were available for expenditure as shown in Table 47 below:

Table 47: Summary Status of World Bank Financing (USD Millions) as of July 31, 2016

YEAR	COMMITMENT FEES ACCRUED AS OF;		TOTAL
	MARCH	SEPTEMBER	
2010	95,562.50	121,018.39	216,580.89
2011	109,614.72	104,532.62	214,147.34
2012	99,692.24	84,123.07	183,815.31
2013	62,900.93	36,402.88	99,303.81
2014	28,776.25	25,071.69	53,847.94
2015	13,257.68	6,060.98	19,318.66
2016	4,487.63	5,384.09	9,871.72
TOTAL	414,291.95	382,593.72	796,885.67

Source: OAG analysis of commitment fee bills for IDA 45540 2010-2016

Table 47 above shows that higher amounts of commitment fees of over USD 99,000 were experienced between 2010 to 2013. However, audit noted that these fees had been waived by IDA⁹⁵.

Management response

For MOES, delayed implementation was partly due to changes in the beneficiary schools which affected contracts under batch 1 (Lots 1, 4 and 5) and batch 2- Lot 1 that had to carry out an assessment in 25 schools that had been changed and Lots 2,3,4 and 5 which affected works at about 100 beneficiary schools. These affected the project completion dates for the contracts and as such a delay in implementation.

For MOH, the delays were largely caused by delayed issuance of the special commitment (SC) by the World Bank (WB) for opened letters of credit. This resulted in delayed contract effectiveness and delayed implementation. This payment procedure also affected implementation in MOES. We note that commitment charges on the ERT II project have been waived on all implementation periods.

Audit comment

Whereas it was confirmed that the issuance of letters of credit caused the delay for the effectiveness of the contract, the changes in beneficiaries did not affect project implementation periods since the contracts had been signed after the adjustments had been made on the beneficiary Institutions⁹⁶.

95

96 Contract signed dates for supply and installation of solar packages.

Conclusion

The supply and installation contracts were not timely executed as planned and this not only contributed to high commitment charges by the donor but also delayed the benefits that were to accrue to the intended beneficiaries. High commitment charges if not waived can impact the performance of the project.

Recommendation

- The necessary approval procedures by the World Bank should be properly planned to avoid project delays
- The PCU should also ensure that the funds meant for contracts are timely paid out after all due diligence has been conducted.

7.2.4 FUNCTIONALITY AND SUSTAINABILITY

Sustainability of the Solar Packages installed

According to the ERT II operations manual, certain strategic modalities were set to be implemented in achieving the program objective. These included Supply, Installation and Maintenance of the procured energy systems/packages, by the private companies, Supplying and installing energy systems in educational institutions; Maintaining the energy systems and providing after sales services, developing local capacity of technicians and engineers to install and maintain the supplied energy systems; and, carrying out training for Users on operation, care, handling and management of supplied energy systems⁹⁷. In addition, the Project Coordination Unit is obliged to monitor the different activities of all the implementing agencies.⁹⁸ Furthermore, the ERT II Operational Manual requires the Project Coordinators of the respective Implementing Agency to monitor the performance of consultants, supervisors, contractors and service providers against specifications and set targets (outputs), through meetings, site visits and stakeholder consultations⁹⁹.

Through the interviews and field inspections conducted, Audit noted that in some instances the solar packages installed in the facilities visited were not functioning. While some solar systems work less hours than is expected, others get system overload when so many appliances are turned on as shown in Table 48 below:

97 ERT II Operational Manual, 2009, page 150

98 ERT II Operational Manual, 2009, page 4

99 ERT II Operational Manual, 2009, page 42

Table 48: Findings on faulty solar system installations in selected institutions

Institution	Finding
Bbaale SS	The systems in administration and staff quarters work but run out of power quickly hence the shorter working hours and withdrawal of some lights. This is probably due to poor quality or faulty Photo charge controller.
St. Mathias Mulumba SS	The system in the administration complex was faulty where the fuses blew up shortly after installation. The systems in library, laboratory and staff room work but run out of power quickly hence the shorter working hours and withdrawal of some lights. This is probably due to poor quality or faulty Photo charge controller.
Kamira HCIII	A total of 1.32kWp is installed OPD, maternity, inpatient ward and the staff house serving a vaccine refrigerator, 20 AC lights, 6 security lights and 4 sockets. However, the security lights fitted with motion sensors are faulty. Solar panels in the inpatient ward are faulty with very low currents measured.
Ngoma HC IV	2.28kWp installed in the theatre, maternity ward and staff quarters serving 40 internal lights, 17 security lights, a blood refrigerator and theatre appliances. However, the central package serving the theatre and maternity ward overloads and trip when the sterilizer is turned on.

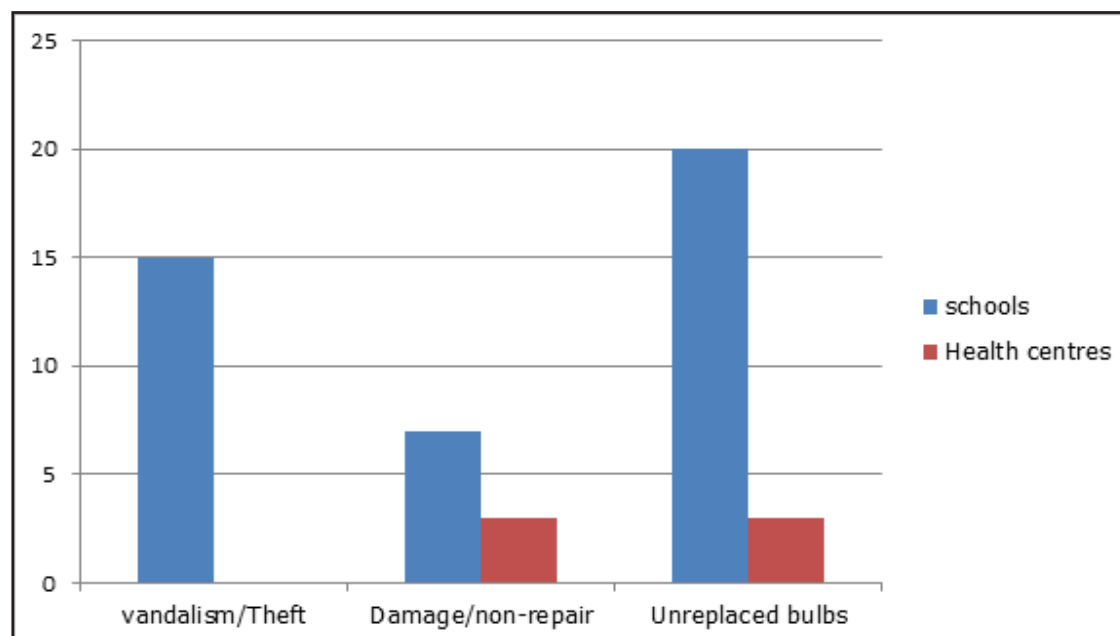
Source: OAG inspections carried out on March 2016

The above faults mainly relate to reduced functionality of the equipment, non-replacement of bulbs and fuses.

Audit field inspections and document review at the sampled institutions further revealed that; some schools had experienced instances of vandalism of the supplied equipment for example batteries, panels, lamp holders, switches among others.

Figure 19 below illustrates the level of various common faults relating to failure by management to safeguard and maintain the system.

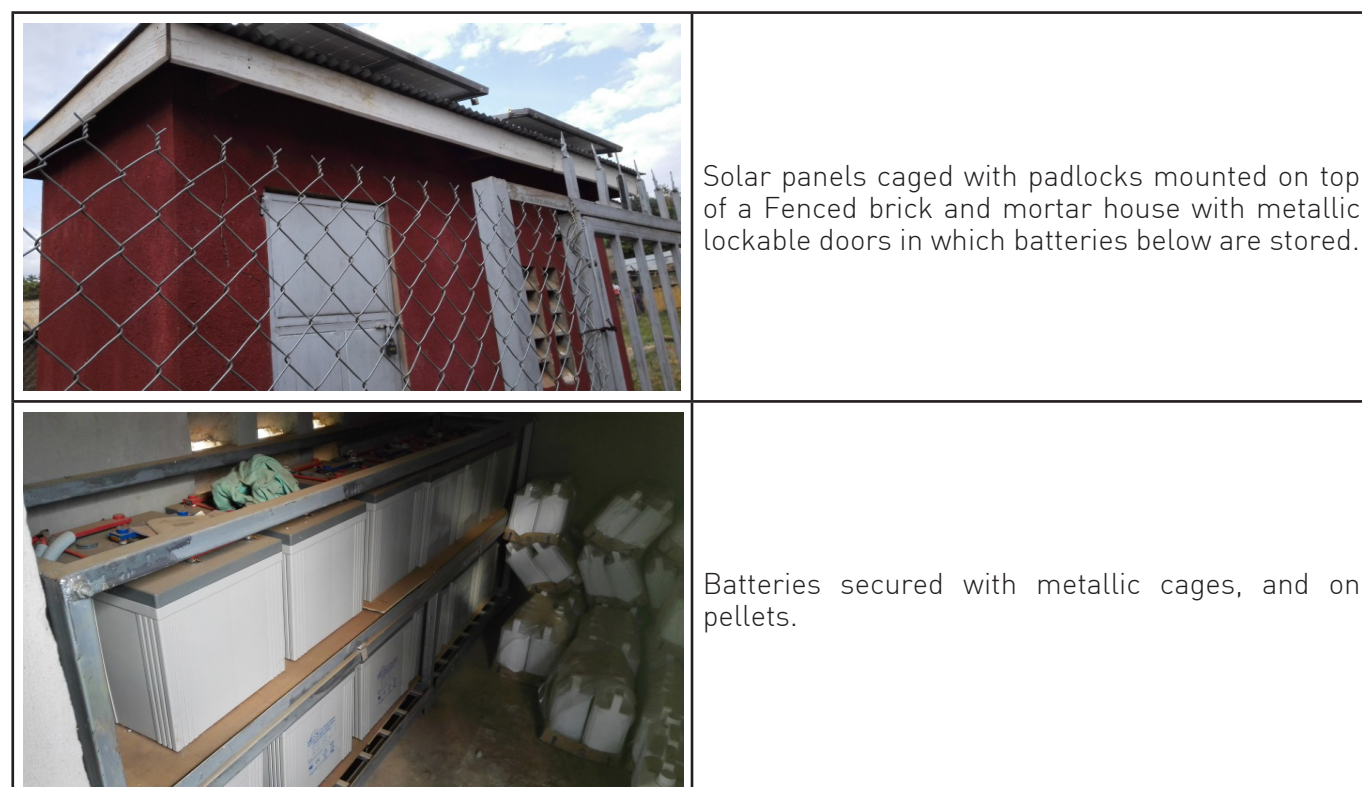
Figure 19: Frequency of common functional irregularities in Health and education institutions



Source: OAG Inspections as at March 2016.

The figure above, illustrates that the instances of un-replaced bulbs is the most common in both schools and health facilities. Vandalism was wide spread in schools but was not observed in the health facilities mainly because; the health centres that received the MP4 health package were also provided with protective building structures to house the batteries, inverters and other equipment with a secure fence and lock around the housing as shown in Picture 8 below:

Picture 8: Showing the fenced housing where the power regulator and battery system are secured in Buwasa HCVI



Source: OAG inspection

This was not the same for 39 out of the 40 schools the audit team visited as many were in open space in the classrooms, which in some instances did not have secure lockable doors.

The limited functionality of supplied equipment is attributed to lack of maintenance services, lack of asset replacement policy, failure to train users, and inadequate monitoring and supervision by both the PCU and the sector ministries as discussed below.

According to the contracts entered with the various contractors¹⁰⁰, the contractor was to provide to each institution a maintenance kit for regular basic maintenance and a minimum stock of spare parts. The kit included tools like a small screw driver and protective grease, while the spare parts included one spare fluorescent light (tube and ballast) and one complete set of fuses or similar protective devices. It was found that in the selected 10 schools and 3 health centres, the contractors did not provide maintenance kits and spare materials for example, lighting bulbs, no manuals left at the facilities, no installation of lightening arrestors in prone areas.

Furthermore, as part of the contracts agreements¹⁰¹, a one-off field training course for operation and maintenance of the functionally complete system was to be organised and staff trained in basic operation and first line maintenance. The staffs were to be trained on how to diagnose systems and faults. Contract document review indicated that over USD **766,344.79** was paid for installation and training. However, it was noted that the contractors did not conduct training for the users in 6 schools and in 2 health centres. In a few instances, those that were trained had since transferred service to other institutions/ sectors.

In addition, it was noted that there was inadequate monitoring of the contractors to ensure that quality and properly functioning solar packages were installed. The audit team noted through interviews and review of the visitors' books that in 5 out the

40 schools and in 15 out of 25 health centres none of the project managers for both Education and Health were ever on site. Further still, no evidence was provided that Factory Acceptance Tests (FATs) had been conducted of the packages before importation into the country, as a best practice procedure. MoES engaged a single consultant to monitor and supervise the project during and after implementation at a cost of USD 45,880. The MoH on the other hand engaged a single employee, who is an electrical engineer by profession, to monitor the project activities. In addition, a review of the monitoring reports from the Monitoring and Evaluation officer at PCU revealed that the percentage of investments monitored was less than 28% for both schools and health centres by the end of 2015, instead of all (100%) facilities where installation had been made.

Management response

a) Beneficiary schools

Additional loads beyond tolerance limits of the solar package cause system dysfunction and lead to a shorter life span of the solar system.

Training was carried out by the contractors during installation. In addition, during routine maintenance, contractors demonstrate basic user skills to the staff of the school. In addition, all beneficiary institutions were given maintenance tool kits. However, the contracts provided for issuance of spare parts like bulbs only during the installation and commissioning period.

MOES issued circulars to guide actions in response to cases of vandalism in Education Institutions. They spell out the roles of the school authorities in safe-guarding the installations. In cases of theft and vandalism of equipment, the institution heads and Boards of Governors will jointly be held accountable. Under the on-going MOES maintenance contracts, only the authorized contractors are allowed to carry out repairs on the solar systems; any tampering with the solar system by the schools and unauthorized technicians is prohibited.

100

Contract

Document_sunlabob

101

Contract document_sunlabob

MOES contracted an Individual Consultant who provided Technical support to the Monitoring and Evaluation of the component. However, MOES acknowledges the limitations of one supervision consultant for the scope of 560 schools.

(b) Beneficiary health centers

For MoH contracts, provision of maintenance kits to HCs was not part of the requirements. MoH produced a Users' Manual and distributed two (2) copies for the HC and each staff house. In addition, the contractor also provided equipment, user manuals for inverter, charge regulator.

Replacement of batteries, inverter, solar modules, and charge regulators was not catered for and can only be carried out after approval and payment through the PS/MoH.

In the design for the solar installations, lightening arrestors are normally not included because they are assumed to be a standard installation on the medical buildings. Only separate earthing and bonding of the solar panels/frame is catered for.

Additional user training was also conducted by the MoH technical verification team where knowledge gaps were identified.

Audit comments

It is evident that the MOES, MOH and PCU each have one officer/consultant to monitor the installations and contracts for supply, installation and trainings.

The functionality has been affected by the limited training on the use of the installations and general awareness of best usage to ensure longevity of the installations to the beneficiaries.

Pre-shipment inspections were only carried out by MOH. Audit could not confirm if any FATs had been done. MOES did not carry out any FATs or pre-shipment inspections.

Conclusion

As a result of the contractor not supplying the basic maintenance kits and spare parts, inadequate training of the beneficiaries in basic maintenance,

and the inadequate monitoring and supervision of the installation and maintenance contracts by the sector ministries, the solar packages have largely been rendered non-functional in providing the required energy needs. The installed solar energy has not been sustainably utilised through lighting, and running of small office operations for example, printing and typing due to failure by management to safeguard and maintain the system.

Recommendations

- The MEMD through PCU, MoES and MoH should ensure that factory acceptance tests are conducted, monitor and supervise the contractors to ensure that they comply with the contract provisions of supplying the basic maintenance kits and spare parts, and also periodically train the users in basic maintenance of the solar packages.
- Trained staff should ensure that the skills obtained from the training regarding equipment maintenance of the infrastructure are passed on to other staff on transfer of service. In addition, periodic and refresher trainings should be carried out, together with re-equipping the institutions with tool kits.
- The sector ministries should monitor all maintenance contracts and ensure that the service providers indeed carry out all the periodic maintenances. In addition, prompt payment for contracted maintenance works should be made.
- Stakeholders should develop an asset replacement policy that would clearly provide guidance on how equipment would be handled in cases of vandalism or at the end of their useful life.
- Going forward management is advised to incorporate provision of burglar or safety cages with locks as part of the hardware to be provided under the contract. This would secure the solar hardware (solar box containing the batteries, inverters and panels) from instances of vandalism, theft and misuse.

8 FINANCING OF LOCAL GOVERNMENTS IN UGANDA THROUGH CENTRAL GOVERNMENT GRANTS AND LOCAL GOVERNMENT REVENUES

8.1 INTRODUCTION

8.1.1 BACKGROUND

The Constitution of the Republic of Uganda 1995 (as amended), and the Local Government Act (CAP 243) devolved service delivery mandates to Local Governments (LGs). To deliver on this mandate, the LGs receive funding through central government grant transfers, local revenue collections, and in some cases borrowing and/or donations from development partners either directly or indirectly through the sectors. Central Government Grants (Transfers), constitute the major source of revenues to Local Governments¹⁰².

The Central Government in accordance with Article 193 of the Constitution is mandated to provide grants in three categories, namely: (i) Unconditional grants, which are the minimum grants paid to local governments to run decentralized services (ii) Conditional grants that are given to local governments to finance programs agreed upon between the central government and the local governments, and (iii) Equalization grants paid to local governments for giving subsidies or making special provisions for the least developed districts, and are based on the degree to which a local government unit is lagging behind the national average standard for a particular service.

According to Article 191 of the Constitution and Sec 80 of the Local Government Act (CAP 243), LGs are required to prepare their own development plans and budgets, mobilize revenues locally to facilitate funding for recurrent and development expenditure for service delivery¹⁰³.

8.1.2 MOTIVATION

Article 176(2) (d) of the Constitution provides for the establishment in each local government unit a sound financial base with reliable sources of revenue in order to deliver on their mandate.

¹⁰² Local Government Finance Commission Strategic Plan 2012/13-2015/16, Page 11

¹⁰³ LGFC, Review of Local Government Financing Report 2012, Page 6

LGs will continue to be one of the prime institutional movers of development in Uganda and their importance and impact on the daily life of citizens cannot be over-emphasized. The standard of living of Ugandans either in rural or urban areas are inevitably affected by local government activities through the provision or non- provision of basic services such as water supply, roads, health and educational services etc. Financing for LGs therefore remains the most critical policy issue in local government administration in Uganda. Owing to the development responsibilities placed on local governments; there is need for adequate financing for this level of government.

However, there is widespread concern that LG financing is not sufficient to meet the level of demand for service delivery. The 7th Joint Annual Review of Decentralization report 2012, noted that whereas transfers were increasing in nominal terms, the trend in the key service sectors of education, health, water and roads was declining and negatively affecting services in LGs, particularly as the populations and inflations were rising rapidly. A recent paper on Transforming the Uganda Public Service 2010 points to the increasing inadequate funding of local governments and the impact on their capacity to deliver key services¹⁰⁴.

There has been a notable reduction in the Local Governments own revenues. For example, in 2005 the Graduated Tax which was the predominant source of local revenue was suspended and later abolished in 2008. The Graduated Tax provided Local Governments with 5 percent of their total revenues, which was important for discretionary expenditures and has never been adequately replaced. All taxes now account for less than 5 percent of Local Governments' revenues whose collection is estimated to be at less than half of its potential¹⁰⁵.

104 LGFC, Review of Local Government Financing Report October 2012 page.6

105 LGFC, Foreword to Practical Guide for implementation of Local service tax and Local government Hotel tax, 2008, Page ii

There has been a decline in transfers from central Government to LGs, in relative and per capita terms. Transfers from the central government to LGs have continued to decline as a share of central government revenues and expenditures since FY 2011/12 in 2012.

LGs continue to be heavily reliant on the Central Government (CG) for funding. Grants from CG to LGs contribute over 85% of financing to LG budgets with more than 90% of this funding coming in form of conditional grants. This heavy reliance on the CG for financing has left LGs with very marginal opportunity for local fiscal autonomy and discretion in resource allocation decisions¹⁰⁶.

The Auditor General in his annual reports for Local Authorities reports significant under collection of local revenue by LGs. The report for the financial year 2013/14 reveals that UGX. 7.9 billion of the planned local revenue was not realised while for the financial year 2014/15, planned local revenue collection in 59 local governments of UGX. 24 billion was not realised. This implies that not all planned activities in the respective financial years were implemented. The report also sights wage bill ceiling on local governments by Ministry of Public Service which resulted in understaffing in LGs standing at 33% in FY 2014/15. This adversely affects service delivery in terms of quality and reach in communities. Additionally, the Auditor General reports that in FY 2013/14, 22 local government entities accumulated outstanding commitments amounting to UGX.3.9 billion as a result of insufficient funds realised.

It is for the above reasons that the Office of the Auditor General undertook an independent review to assess the extent to which current measures ensure that the financing of local governments is adequate, fair and equitable.

106 LGFC, Review of Local Government Financing Report October 2012, Page b

8.1.3 DESCRIPTION OF THE AUDIT AREA

General Description

Financing of local governments is facilitated by MoFPED through the Directorate of Budget that determines and approves budget ceilings for different LGs, oversees the entire budgeting process that enhances financing of LGs. The process involves engagement with the Local Government Finance Commission (LGFC), and Ministry of Local Government, Sectors and local governments themselves. Conditional grant ceilings for sectors are set by MoFPED and the sectors then set the indicative planning figures (IPFs) for the various LGs. For unconditional and equalisation grants, MoFPED sets the ceilings and the LGFC determines the Indicative Planning Figures (IPFs) for the various LGs.

Local governments are constitutionally empowered to control, regulate and also raise revenues from activities in their jurisdiction, and in so doing, they impose some taxes and rates on these economic activities as a way of generating funds for their operations. The Constitution and Local Governments Act (CAP 243) also provides for sources of local revenue where Local Governments should benefit¹⁰⁷. The various ways LGs generate revenue internally are through levy of property tax, business licenses, market dues, parking fees, fees and fines.

Mandate and Legal Framework governing financing of Local Governments

The Constitution of the Republic of Uganda 1995 as amended and Local Governments Act Cap 243 provide that LGs shall be financed through central government grants and locally generated revenue. The central government grants shall include: (i) Unconditional, (ii) Conditional, and (iii) Equalization grants. Section 80 (1) of LG Act empowers LGs to levy, charge and collect fees and taxes, including rates, rents, royalties, stamp duties and registration and licensing fees and taxes.

The Constitution mandates MoFPED to coordinate development planning, mobilise public resources, and ensure effective accountability for the use of such resources for the benefit of all Ugandans.

The Local government Finance Commission Act 2003 provides that the Commission shall advise the President on all matters concerning the distribution of revenue between the Government and Local Governments and allocation to each Local Government from the consolidated fund.

Activities under MoFPED.

The activities undertaken by MoFPED in line with Financing of Local Governments include:

- Identification of funding priorities
- Identify sources and mobilise revenues for public expenditure.
- Preparation of the Medium Term Expenditure Framework (MTEF).
- Preparation and communication of IPFs and Budget call circulars to sectors and Local Governments.
- Organising Budget consultative workshops
- Consolidation of the budget framework papers into the National Budget.
- Co-ordinating between the local and national budget processes, and providing important input in the negotiation of the allocations of resources to LGs within the Medium Term Expenditure Framework (MTEF).

8.1.4 FUNDING

The funding for LGs from the central government for the years 2013/14, 2014/15 and 2015/16 is detailed in Table 49 below;

107 Local Government Finance Commission Strategic Plan
2012/13-2015/16, Page 11

Table 49: Central Government transfers to Local Governments: period 2013/14, 2014/15 and 2015/16 in UGX Billions

Grants to Local Governments	2013/14 UGX Billions			2014/15 UGX Billions			2015/16 UGX Billions		
	Budgeted amount	Actual release	variance	Budgeted amount	Actual release	variance	Budgeted amount	Actual release	variance
Conditional Grants	1,784.21	1,733.15	51.06	2,075.79	1,926.39	149.4	2,071.2	1,931.49	139.71
Unconditional grants	221.44	221.20	0.24	261.15	247.26	13.89	269.51	244.08	25.43
Equalisation grants	3.49	3.49	-	3.59	3.59	-	3.59	3.59	-
Total	2,009.14	1,957.84	51.3	2,340.53	2,177.24	163.29	2,344.3	2,179.16	165.14

Source: OAG analysis of MoFPED IFMS data

In addition, LGs have been supplementing funding from the Central Government through raising locally generated revenue as summarised in Table 50 below;

Table 50: Budgeted and Actual local revenue collected by LGs for the years 2012/13, 2013/14 and 2014/15

FY	Budget UGX	Actual UGX	Variance UGX
2012/13	172,333,587,503	138,753,393,596	33,580,193,907
2013/14	186,211,462,550	153,003,604,321	33,207,858,229
2014/15	115,542,108,840	98,764,108,877	16,777,999,963

Source: OAG analysis of financial statements for LGs

8.1.5 AUDIT OBJECTIVE

The objective of the audit was to assess the extent to which the current measures ensure that financing of local Governments is adequate, fair and equitable.

Audit Questions

The audit sought to answer the following audit questions to address the audit objective:

- To what extent do resource allocations by the Central Government meet the budgetary needs of Local Governments?
- To what extent is the allocation of resources fair and equitable for all LGs?
- To what extent are Local Governments exploiting their local revenue potential to finance their budgets?

8.1.6 AUDIT SCOPE

The study covered a period of three (3) financial years from 2013/14 to 2015/16 and focussed on 32 Local Governments comprising 16 districts and 16 municipalities which were selected from 115 districts and 41 municipalities in Uganda. It was conducted at the Directorate of Budget under the Ministry of Finance, Planning and Economic Development (MoFPED); Local Government Finance Commission (LGFC); Ministry of Local Government; sectors of water, health, education and agriculture.

8.1.7 SAMPLING

A random sample of 32 local governments (16 districts and 16 municipalities) was selected out of 115 districts and 41 municipalities respectively. Sample selection was based on regional location of the LGs and on the basis of a district which had a municipality; the municipalities chosen had to be in existence for at least 5 years ; this selection yielded the districts of Mbarara, Kabarole, Masaka, Mukono, Wakiso, Hoima, Masindi, Jinja, Busia, Mbale, Soroti, Arua, Gulu, Lira, Ntungamo, Kabale and municipalities of Mbarara, Fort portal , Masaka, Mukono, Entebbe, Hoima, Masindi, Jinja, Busia ,Mbale, Soroti, Arua, Gulu, Lira , Ntungamo and Kabale. Four sectors namely water, education, health and agriculture were purposefully selected for the audit for the key role they play in the social wellbeing of people in local governments.

8.1.8 DATA COLLECTION METHODS

Audit reviewed documents and carried out interviews with officers in the selected ministries, sectors and local governments to answer the audit questions, the various methods of data collection and analysis used to address each audit question.

To what extent do the resource allocations to local governments meet the budgetary needs of local governments?

The audit team reviewed budget allocations to local governments in the IPFs, MTEFs, sectors and LGs development/ annual plans and budgets, grant

allocation formulae, needs assessment reports for LGs, releases schedule and reports, to assess how the allocated resources address the budgetary needs of local governments.

The audit team also conducted interviews with officers from MoFPED, LGFC, MoLG, LGs, and sectors of water, health, education and agriculture to assess their involvement in the process of resource allocation to local governments.

To what extent is the allocation of resources fair and equitable for all LGs?

To assess the level of fairness and equity in resource allocation by sectors and MoFPED to LGs, the audit team reviewed the allocation formulae used for both conditional and unconditional grants, the variables used and their weights, minutes of the budget the consultative workshops, stakeholder feedback, allocated amounts to LGs, national data on variables used in allocation, negotiation minutes between LGFC and sectors, release schedules and made comparisons amongst local governments on amounts received. The team also interviewed officers from LGFC, selected sectors and LGs on how fairness and equity concerns are addressed in the allocation process.

To what extent are local governments exploiting their local revenue potential to finance their budgets?

Interviews with LGs Accounting Officers, Heads of Finance and revenue officers were conducted to assess how local revenues at LGs are exploited to finance their budgets. The team reviewed documents at the selected LGs relating to local revenue enumeration, assessment, registration, collection, supervision, enforcement, arrears, data systems, and enhancement plans to assess local revenue management at local governments.

8.2 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

8.2.1 ADEQUACY OF CENTRAL GOVERNMENT GRANT ALLOCATIONS TO LOCAL GOVERNMENTS

Objective VIII of the Constitution of the Republic of Uganda states that various organs and institutions of government shall be supported through the provision of adequate resources for their effective functioning at all levels. The grants to LGs from the central government have not adequately addressed the budgetary requirements of the LGs due to limitations in assessments of needs for LGs, noncompliance with the constitutional allocation formulae as detailed below:

a) Consideration of Needs assessments of LGs in allocation of Central Government Grants

The Constitution of the Republic of Uganda (Objective X) requires the state to take all necessary steps to involve the people in the formulation of development plans and programmes which affect them. LGs are required to consult with the communities in the process of developing their plans and budgets for onward consideration during resource allocation. MoFPED together with the sector working groups are required to consolidate the needs generated from LGs into priority action areas for consideration in resource allocation.

Through a review of the budgeting process and interviews with management at the thirty two selected LGs, audit noted that LG planning is guided by Indicative Planning Figures (IPFs) as received from the central government. The IPFs sent to LGs are pre-determined by individual sectors basing on the previous financial year allocation. While the allocations in the IPFs are aimed at addressing the development needs of LGs, there is no mechanism that ensures that priorities identified by the sector working groups for the allocations in the IPFs are addressing needs generated by the people in the LGs where the intended programmes are implemented.

Through interviews with management at the LGs, the audit team established that whereas some LGs indicated that they carry out needs assessments at grassroots, none of the LGs had a comprehensive analysis report for their needs as generated from the grassroots and the audit could not track how the generated needs were incorporated in the planning process. There was also no evidence that the needs generated from the grassroots were forwarded to the sector working groups for consideration in the allocation process.

Additionally, while management at the selected sectors revealed that the allocations in the IPF are also influenced by needs assessments, there was no evidence to show how the identified needs were generated from the grassroots through the various administrative levels in LGs. Audit further noted that while the Local Government Finance Commission (LGFC) organises negotiations between sectors and LGs at the beginning of the budget cycle to agree on guidelines for resource allocation, the programmes/ activities prioritised and the amounts allocated from the said grants are never discussed and/or negotiated with the respective LGs.

LGs indicated to the audit team that they were no longer carrying out comprehensive assessment of their needs as it was a waste of time and resources since the funding for their programmes is influenced by IPFs as sent from central government.

Failure by sector working groups to carry out comprehensive needs assessment in the LGs implies that the actual needs of LGs are not known and this has resulted in allocation of resources in some LGs to activities/ programmes that are not key (local priorities).

Management Response

- Whilst the MoFPED conducts LG Workshops with the Higher Local Governments to seek their input on the Budget for the proceeding

financial year, the Higher Local Governments are also mandated to Consult LLGs and their communities in the process of developing their budgets and plans through, among others, Budget Conferences and other means which are usually conducted after the Regional Local Government Budget Consultative Workshops;

- The service delivery obligations of LGs require far more resources than what is currently provided. The MoFPED rationalized the allocation of available resources to meet local needs in line with national priorities. In the interest of fairness and equity, the resources are distributed using a formula. It is upon a sector Ministry to develop a needs assessment format/manual and the unit costs to guide the allocation of resources for delivering a service using a pre-determined criteria;
- The Local Government performance assessment tool that is being developed will include indicators to determine whether the communities were consulted and agreed priorities incorporated in the plans and budgets;

Audit Comment

The existing gaps in the needs assessment cannot allow proper determination of funding priorities for LGs and allocation of resources.

Recommendation

- MoFPED should ensure that a comprehensive assessment of needs at grassroots is done, prioritization undertaken and consolidation done through the various LG administrative units to sectors for consideration in determining funding priorities. MoFPED, in consultation with the Ministry of Local Government, should strengthen the capacity of LGs and develop tools to facilitate compliance and monitoring.

b) Allocation of Conditional and Unconditional Grants to LGs in line with Constitutional requirements

i) Conditional Grants

Sectors are required to allocate conditional grants to local governments depending on the allocation formula agreed upon with the LGFC and the previous budget ceiling of the respective LG.

Interviews with the Director Research and Policy Analysis in the LGFC and the Chief Administrative Officers, Planners and Heads of Finance departments of the districts of Jinja, Iganga, Gulu, Lira and Mbarara revealed that allocation of conditional grants to the Local Government does not take into consideration the formula agreed upon with the LGFC resulting in funding gaps for LGs. For example, whereas there is an agreed allocation unit rate of UGX.41,000 and UGX.47,000 for O'Level, UGX.80,000 and UGX.85,000 for A' level per student for government aided and private partnering schools, respectively, Audit noted that secondary schools were being allocated lower amounts that could not cater for the agreed unit rates as shown in Table 51 below.

Table 51: Total USE Grant Needs Vs Allocation

2014/15	Need	Allocated Amount	Variance
O' Level	112,416,765,000	92,700,828,421	19,715,936,579
A' Level	15,777,375,000	12,898,795,117	2,878,579,883
Total	128,194,140,000	105,599,623,538	22,594,516,462
2015/16			
O' Level	115,222,705,500	113,360,763,152	1,861,942,348
A' Level	15,932,985,000	16,148,487,299	(215,502,299)
	131,155,690,500	129,509,250,451	1,646,440,049

Source: OAG analysis of USE grant allocation for FY 2014/15 and 2015/16

Table 51 above shows that whereas the sector of Education needed UGX.128,194,140,000 for USE grants to LGs for the FY 2014/15, MoFPED only provided UGX.105,599,623,538 leaving a deficit of UGX.22,594,516,462. This resulted in a shortfall of the unit rate allocation as shown in Table 52 below;

Table 52: Approved USE Grants Rates Vs Allocated Rates for FY2014/15

	USE (O'LEVEL)		UPOLET (A'LEVEL)	
	Agreed rate	Allocated rate	Agreed rate	Allocated rate
Government Aided	41,000	33,809	80,000	65,404
Partnerships	47,000	38,757	85,000	69,491

Source: OAG analysis of FY 2014/15 USE allocation.

The deficit in funding for USE grants was attributed to increased enrolment not being matched with increment in funding.

Reduced allocations to the sector impact on the ability of the schools to provide quality education.

Furthermore, audit through analysis of conditional grant transfers to LGs established that in addition to inadequate allocations, the actual transfers were not in line with the approved budgets, resulting in shortfalls in funding for FYs between FY 2011/12 and FY 2015/16 as shown in the Table 53 below;

Table 53: Showing Annual Conditional Grant allocations to Local Governments

Financial Year	Budget	Actual	Variance
2011/12	1,460,835,851,692	1,398,985,815,830	61,850,035,862
2012/13	1,629,573,701,963	1,536,915,852,286	92,657,849,677
2013/14	1,784,196,017,228	1,733,150,059,867	51,045,957,361
2014/15	2,075,790,417,035	1,926,390,100,000	149,400,317,035
2015/16	2,084,511,909,796	1,931,489,054,057	153,022,855,740

Source OAG Analysis of Releases by MoFPED

From Table 53 above, audit notes that while there are general increments in approved budget allocations for conditional grants, the shortfall in actual releases increased from UGX 61.85 billion in FY 2011/12 to UGX 153.02 billion in FY 2015/16.

MoFPED attributes the inadequate allocations and budget shortfalls to limited resources and policy reversals that have moved the spending from LGs to sectors.

Consequently, local governments have since been receiving similar or even reduced amounts of conditional grants for service delivery irrespective of macroeconomic changes that would warrant change in funding to take care of the net changes that accrue to the different Local Governments.

Management Response

- The sector determines the portion of the funds available to be allocated to respective LG grants under their mandate taking into consideration the cost of service delivery.
- The variances between the budget and actual releases on Table 53 for the respective financial years is attributed to non-release of Development funds in fourth quarter (Q4) FY 2013/14, the Government Policy reversal of re-allocating part of the NAADS funds from LGs in FY 2014/15 to NAADS Secretariat and Savings of Wages and Salaries following the reform of Decentralised payments of Salaries and Pension account for the reduction that was observed.

Recommendation

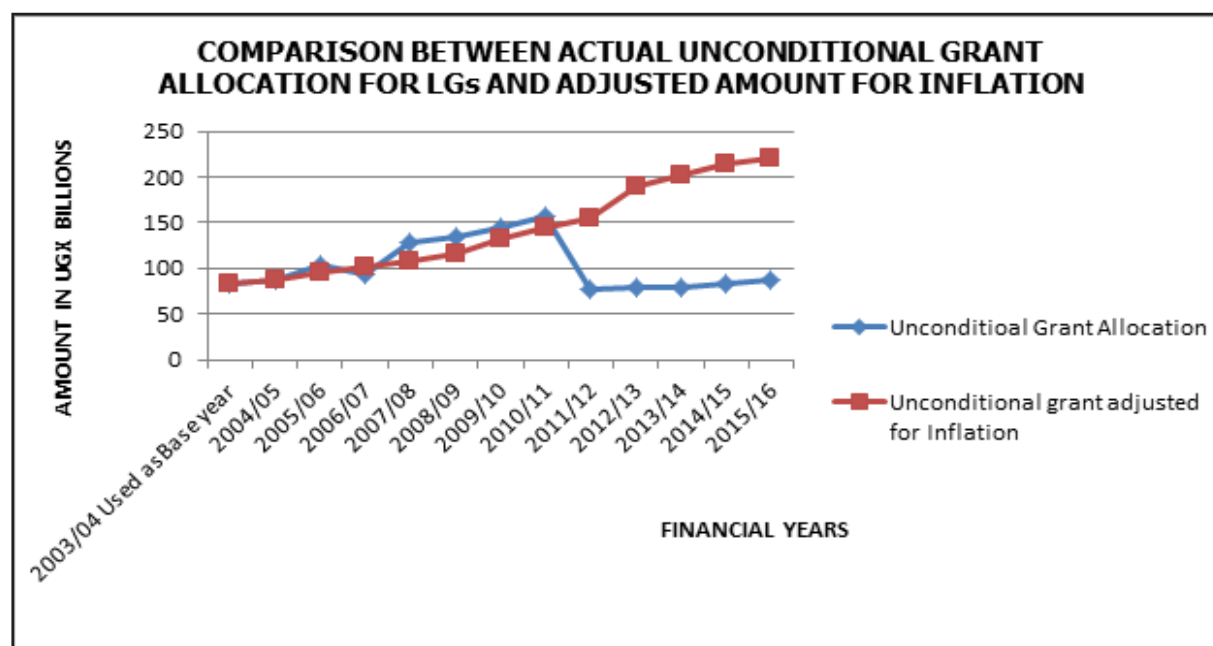
- MoFPED should work with the Sector ministries to establish the unit cost of delivering delegated services at LGs in order to facilitate proper planning and resource allocation. Resource allocation by MoFPED and sectors should be undertaken in accordance with the framework established for unit costs and agreed formulas.
- MoFPED should develop tools to facilitate monitoring compliance.
- MoFPED should also ensure that approved conditional grant allocations are all released to LGs without any unjustified shortfall to facilitate service delivery.

ii) Unconditional Grants

Article 193 and the Seventh schedule of the Constitution of the Republic of Uganda 1995 as amended, provides a formula to be followed by Government in determining the minimum unconditional grants amount to be shared amongst the Local Governments. The allocation is based on the minimum unconditional grant in the preceding year adjusted for percentage change in the price levels in the preceding fiscal year and net change in the budgeted cost of running added and subtracted services in the current year.

The Audit team did an analysis of unconditional grant allocations specifically the non-wage component allocated to all LGs (115 districts, 41 municipalities, and 174 town councils) for FYs 2003/4 to 2015/16, to establish the trend and adequacy of amounts allocated as shown in the **Figure 20** below:

Figure 20: Showing Comparison between Actual Unconditional Allocation and Adjusted amount for Inflation.



Source: OAG analysis of data provided by MoFPED

In the analysis, FY 2003/4 was used as a base year and the amount allocated was adjusted by one parameter of annual inflation. The comparison of actual allocation with the adjusted allocations showed that the formula for unconditional grant allocation prescribed in the Constitution was not followed.

From the graph above, the movement of the number allocated for unconditional grants for the first eight years (FYs 2003/4 to 2010/11) was relatively in line with annual inflation rates; the amounts however fell sharply in FY 2011/12 and have not recovered by 2015/16 at the time of the assessment.

Interviews conducted with the Director Research and Policy Analysis in the LGFC, Chief Administrative Officers, Planners and Heads of Finance of the 32 LGs confirmed that the allocations for unconditional grants determined by MoFPED have not increased overtime, thus the amounts communicated for each local government have either been the same or even reduced in some financial years. In addition, though general price changes and budgeted cost of running services in the local governments have been on the increase the Unconditional grant amounts for local government allocations have not matched the increase in general prices and budgeted costs of running the local governments.

Furthermore, a review of approved budget estimates revealed that while unconditional transfers accounted for nearly 35% of total transfers at the time of decentralisation in FY 1995/96, the transfers had declined to only 3.74 percent in the FY 2015/16. The largest proportion of the unconditional grants is utilised towards meeting administrative and management core functions and this has reduced the fiscal space for local governments to target local priorities in the budgeting and service delivery process.

According to MoFPED officials, the prescribed allocation formula is not followed due to resource limitations.

The declining portion of unconditional grant amounts allocated to LGs impacts on their ability to fund the discretionary priority needs identified at the LG level.

Management Response

- Whereas we note that the required level of funding for the Unconditional Grant is not being followed as required in the Constitution, it is important to read this article together with Article 155 of the Constitution and as such the allocation can only be determined by the Executive and Parliament.
- Currently, the Unconditional Grant is being allocated on the basis of the criteria agreed on between Local Government Finance Commission (LGFC), Ministry of Local Government and Local Government Associations during the negotiations organized by LGFC.

Audit Comment

Allocations of unconditional grants to LGs may be determined by the executive and parliament but in accordance with the formulae prescribed under Article 193 (2) of the constitution.

Recommendation

MoFPED should ensure that the formulae prescribed under Article 193 and the seventh schedule of the Constitution of the Republic of Uganda 1995 as amended is followed in order to achieve the objective of fiscal decentralisation.

c) Reliability and Timeliness of transfers to LGs

Timeliness

Section 14(2) and (3) of the Public Finance Management, (PFM) Regulations, 2016 requires all central government grants (conditional and unconditional) from MoFPED to be released by the 10th day of the beginning month of a quarter and development grants by the 3rd quarter.

A review of the non-wage recurrent and development releases by MoFPED to LGs, revealed that whereas the PFM Act 2015 requires all grants to be released by the 10th day of the beginning month of a quarter, MoFPED had in some instances not fulfilled that requirement for the period under review. Table 54 below shows the delays in releases to LGs.

Table 54: Showing the delays noted in the release of Funds to LGs by MoFPED

	REQUIREMENT DATE	RELEASE DATE 2014/15				RELEASE DATE 2015/16		
		Non-Wage	Delay	Development	Delay	Non-Wage	Delay	Development
Qtr.1	10 TH July	20.08.2014	6 weeks	20.08.2014	6 weeks	4.08.2015	4 weeks	22.09.2015
Qtr.2	10 th October	30.10.2014	3 weeks	31.10.2014	3 weeks	7.10.2015	-	21.10.2015
Qtr.3	10 th January	10.02.2015	4weeks	30.01.2015	3 weeks	2.02.2016	3weeks	20.01.2016
Qtr.4	10 th April	30.04.2015	3 weeks	11.05.2015	4 weeks	11.05.2016	3 weeks	25.04.2016

Source OAG's Analysis of release data from the LGs

The longest delay of 6 weeks was noted in the first quarter and an average delay which ranged between 3 and 4 weeks in the second to fourth quarters.

MoFPED attributed the delays to late submission of release advices by the sector ministries before funds are released to LGs.

Failure to release funds within the stipulated time affects timely implementation of planned activities by LGs which sometimes results in unspent balances that are later returned to the consolidated fund. Delayed release of funds impacts service delivery within the LGs particularly with regard to development grant funded activities.

Management Response

- It should be noted that since FY 2013/14, the MoFPED revised the release timelines of all grants by the 10th day of the first month of the quarter and has ensured that all development grants are released to Local Governments by the end of January (3rd quarter), and this is complied with.
- In order to address the delay by the Sector Ministries to submit release advice for the LG grants under their mandate, this Ministry effective FY 2016/17 has undertaken a reform of transferring all the releases from the Legacy system to the IFMS in which all releases will be based on the annual and quarterly work plans submitted by Local Governments and confirmed by the Sector Ministries at the beginning of the FY. This was done to address the delays in the receipt of funds following the issuance of the quarterly expenditure limit by PS/ST

Recommendation

MoFPED should ensure that the release of funds to LGs is done in accordance with section 14 (2) and (3) of the PFM Regulations 2016 to ensure timely implementation of planned activities thus maximising the time value for money. MoFPED should ensure that the proposed reforms achieve the timelines prescribed in the regulations.

8.2.2 ENSURING EQUITY IN ALLOCATION OF RESOURCES TO LGS

a) Share of LGs financing against national budget

Sec 1.1 of the National Equal Opportunities Policy, 2006 requires that policy guides and directs the planning process and resource allocation with the aim of promoting equality of opportunities for all persons in Uganda. MoFPED allocates a limit in the MTEF for the central votes and LG votes based on national priorities. The sectors are then expected to use an objective, fair and equitable allocation formula to distribute funds across LGs.

Through a comparison of central government grant allocations to LGs with the national budget and domestic revenues for the last 13 years, it was noted that whereas the allocations in the National Budget (Domestic and external financing) have generally been increasing, the share of transfers to Local Governments has generally been decreasing over the same period. Table 55 below shows that the share of transfers to LGs against the National budget stood at 12.90% in 2015/16 compared to 25.47% in 2003/04.

Table 55: Showing the share of transfers to LGs against National budget and domestic collections

FY	Total Transfers to LGs in UGX Bn	National Budget in UGX Bn	Domestic collection in UGX Bn	% Increase of Domestic collections	% increase of the National Budget	%Share of LG transfers to Domestic revenue	% of Direct Transfers to National Budget
2003/04	741.5	2,911.80	1,662.80			44.8	25.47
2004/05	805.5	3,150.80	1,923.52	15.7	8.21	41.9	25.56
2005/06	856.3	3,425.50	2,231.05	16.0	8.72	38.4	25
2006/07	982.2	3,852.00	2,625.74	17.7	12.45	37.4	25.5
2007/08	1,060.90	4,465.00	3,161.70	20.4	15.91	33.6	23.76
2008/09	1,172.30	5,464.00	3,662.32	15.8	22.37	32.0	21.45
2009/10	1,338.90	7,044.50	4,205.69	14.8	28.93	31.8	19.01
2010/11	1,474.80	7,376.50	5,114.20	21.6	4.71	28.8	19.99
2011/12	1,655.70	9,630.00	6,208.35	21.4	30.55	26.7	17.19
2012/13	1,855.50	10,902.80	7,149.48	15.2	13.22	26.0	17.02
2013/14	1,979.30	12,904.00	8,031.03	12.3	18.36	24.6	15.34
2014/15	2,360.20	15,054.00	9,715.60	21.0	16.66	24.3	15.68
2015/16	2,361.41	18,311.37	11,230.87	15.6	21.64	21.0	12.90

Source: OAG analysis of MoFPED MTEF

(NOTE: National Budget figure stated in Table 55 includes total Expenditure by GOU and external funding excluding loans and interest payments)

Similarly, whereas there has been an increasing trend in the domestic revenues collections by Uganda Revenue Authority (URA), the share of LG transfers to domestic revenue has been declining. The share of transfers to LGs was 44.8% in the FY 2003/04 and declined up to 21.0% in the FY2015/16. There has been a mismatch between growth in domestic revenue collections and the transfers to LGs; URA revenues grew by 80.9% from UGX 6,208.35 billion in FY 2011/12 to UGX 11,230.87 billion in FY 2015/16¹⁰⁸, while Central government transfers to LGs grew by only 42.6% from UGX 1,655.70 billion to UGX 2,361.41 billion during the same period.

The declining share of allocations to LGs does not reflect equitable distribution of resources.

This reducing trend has affected the Local Governments' ability to deliver services in the key service sectors of education, health, water and roads.

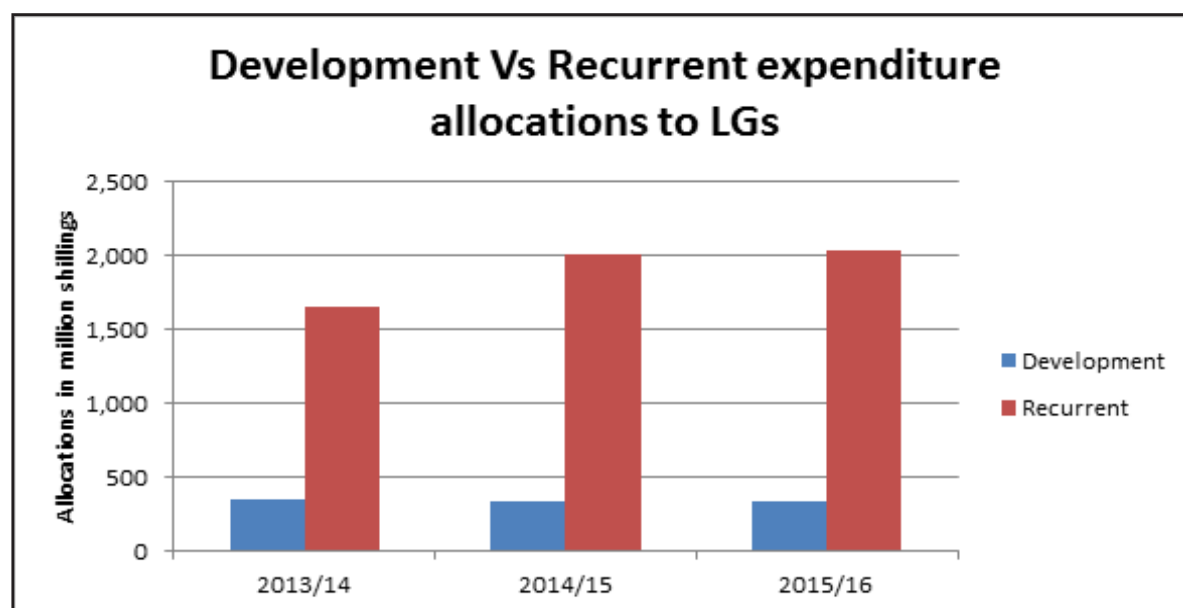
b) Allocation of LG grants to development and recurrent

A review of allocations to LGs for recurrent and development expenditure revealed that for the years reviewed (2013/14, 2014/15 & 2015/16), development expenditure (in the sectors of water, roads, Health, Education and Agriculture) received on average 14% of total allocations in LGs. This implies that for the years reviewed, LGs were using on average 14% of their total allocations to provide services such as water supply, roads, health and education while the remaining over 85% was used for wages, allowances, and operational expenses. Table 56 below shows development and recurrent expenditure allocations to LGs.

Table 56: Development Expenditure Vs Recurrent Expenditure

F/Y	Development	Recurrent	Total	% Dev vs Total	% Dev of National Exp.	% Dev Exp. for Sectors
2013/14	352,988,131	1,656,141,514	2,009,129,645	17.57	58.29	67.11
2014/15	338,435,070	2,007,870,964	2,346,306,034	14.42	56.17	65.79
2015/16	334,558,279	2,026,852,451	2,361,410,730	14.17	60.84	69.07

Source: OAG analysis of LGs approved estimates for FY 2013/14 – 2015/16

Figure 21: Showing Development Vs Recurrent Expenditure Allocations to LGs

Source: OAG analysis of annual allocations to LGs by MoFPED for FY 2013/14- 2015/16

Table 56 above shows that development expenditure for LGs constituted on average 14% of total LG allocations for the period reviewed compared to an average of 67%, for sector ministries and 58% for the national budget during the same period. This shows that development expenditure is not getting a fair share of allocations to LGs.

The decreasing share of allocations to LGs for development expenditure by the sectors is partly due to the fact that sectors have over time been recentralising originally decentralised services stating that LGs were failing on their mandate of delivering the said services. For example, a review of approved budget estimates showed that the ratio of spending retained at sectors has been growing over time. Sectors are retaining the biggest proportions of their allocations despite devolving the responsibility of service delivery to LGs. Table 57 below illustrates the sharing ratios between sectors and LGs.

Table 57: Percentage Share of Sector Budgets between Local Governments and Sector Ministries

SECTOR	Level of Gov't	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Works & Transport	Local	4.67	7.22	5.47	4.27
	Central	95.33	92.78	94.53	95.73
Agriculture	Local	39.35	13.18	6.34	6.20
	Central	60.65	86.82	93.66	93.80
Education & Sports	Local	62.20	68.33	63.68	56.59
	Central	37.80	31.67	36.32	43.41
Health	Local	26.60	25.55	25.11	18.47
	Central	73.40	74.45	74.89	81.53
Water & Environment	Local	17.38	16.11	12.47	8.67
	Central	82.62	83.89	87.53	91.33
Accountability	Local	2.18	1.28	1.52	0
	Central	97.82	98.72	98.48	100.00
Tourism, Trade & Industry	Local	0.20	0.17	0.14	0
	Central	99.80	99.83	99.86	100.00
Lands, Housing & Urban Development	Local		60.22	41.53	0
	Central	100.00	39.78	58.47	100.00
Social Development	Local	13.55	8.44	7.92	3.96
	Central	86.45	91.56	92.08	96.04
Public Sector Management	Local	31.77	33.72	55.37	55.83
	Central	68.23	66.28	44.63	44.17

Source: OAG analysis MTEF allocations

The inadequate allocations to LGs for development expenditure have limited the ability of the LGs to finance their unique development needs.

Management Response

- There are a number of interventions in most Sectors which are being budgeted for at the centre but undertaken at the Local Governments, among others.

Recommendation

- MoFPED and MoLG should ensure that the sectors fully embrace the objectives of fiscal decentralisation by empowering LGs to implement development programs within their jurisdiction.
- Each sector should identify a development budget for LGs and distribute resources equitably amongst all LGs.

c) Sector allocations to LGs

Sectors are required to allocate resources to LGs based on agreed formulae to ensure equitable and fair distribution. However there were gaps identified in the allocation process as explained below;

i) Education Sector

Analysis of the allocation formulae and actual allocations made by Ministry of Education for FY 2015/16

showed that the allocation of the inspection grants was fairly and equitably distributed amongst the LGs on the basis of enrolments of children in school. However, unit rate per pupil for UPE capitation grant allocation under the variable component that is based on enrolment differs from district to district. While the national unit average stood at UGX 7,349, the districts of Amudat, Kaabong, Zombo and Nakapiripit received a unit rate of less than UGX 6,000 while Mbarara district and Jinja municipality received a unit rate above UGX 10,000 per pupil as shown in Table 58 below.

Table 58: Showing the unit per pupil allocation for the highest and lowest 5 LGs

VOTE	LOCAL GOVERNMENT	ENROLLMENT	VARIABLE COMPONENT ALLOCATION	UNIT PUPIL	PER
Lowest 5 LGs					
581	AMUDAT DLG	4,550	25,112,158	5,519	
559	KAABONG DLG	36,390	209,081,209	5,746	
587	ZOMBO DLG	65,939	382,127,813	5,795	
543	NAKAPIRIPIT DLG	16,120	94,640,164	5,871	
528	KOTIDO DLG	14,550	88,066,176	6,053	
Highest 5 LGs					
757	KABALE MC	8,907	75,013,383	8,422	
609	SHEEMA DLG	39,060	329,827,916	8,444	
539	MOYO DLG	24,212	239,094,263	9,875	
537	MBARARA DLG	53,551	544,088,618	10,160	
755	JINJA MC	14,947	165,280,933	11,058	
	COUNTRY TOTAL	7,036,366	51,708,314,686	7,349	

Source: OAG analysis of UPE capitation grant allocation FY 2015/16

The difference in the unit rate per pupil amongst LGs is attributed to the education sector allocating amounts to districts without using the standard unit rate agreed per pupil.

ii) Water Sector

The Ministry of Water and Environment developed a formula taking into consideration the following variables: sub-county population in June 2018, National safe water coverage as at June 2013, sub-county safe water coverage as at June 2013; Sub-county population as at June 2013, average district per capita cost of delivery of water and sanitation services and the district basic minimum allocation to cover the cost of office operations, overheads and maintenance follow-up and basic minimum new investments.

The objective of the formula is to allocate more funds to districts whose safe water coverage is below the National Safe water Coverage. The minimum target is set at 77% per district in rural areas. Whereas indicators exist at the sector level to measure achievement of the set target, the allocations to the LGs by the MoWE have not been in line with the target agreed upon. Allocations to districts for the last three years have been the same without any change to reflect improvement in safe water coverage or affirmative action for those districts relatively below the national average. This causes a risk of not achieving the national safe water coverages in all the districts. Table 59 shows allocations of water grant to LGs.

Table 59: showing allocation of the water grant to LGs and water coverage

Vote	District	2013/14	2014/15	2015/16	% Water coverage June 2014	%Water coverage June 2016
503	ARUA	788,662,420	788,662,838	788,662,838	72	76
507	BUSIA	436,808,492	436,808,870	436,808,982	73	78
508	GULU	751,145,164	751,145,164	751,145,069	94	90
509	HOIMA	383,567,317	383,567,317	383,567,177	71	66
511	JINJA	676,874,794	676,875,589	676,875,142	77	77
512	KABALE	356,128,582	356,128,950	356,128,739	81	79
513	KABAROLE	467,252,360	467,252,680	467,252,593	86	73
531	LIRA	741,548,368	741,548,520	741,548,458	90	94
533	MASAKA	364,684,884	364,684,450	364,684,488	83	78
534	MASINDI	467,502,320	481,410,430	467,502,194	83	94
536	MBALE	835,788,970	835,789,530	835,789,942	63	70
537	MBARARA	673,530,242	673,530,242	673,529,782	65	77
542	MUKONO	503,319,907	503,319,907	503,319,907	69	71
546	NTUNGAMO	441,359,439	441,359,439	441,359,428	73	76
553	SOROTI	655,676,690	655,676,410	655,676,690	77	91
555	WAKISO	676,874,794	676,875,589	676,875,142	61	42

Source OAG analysis of water grant releases and the sector performance reports.

Districts with better safe water coverage have continued to receive higher amounts of funds than those which are still below the national target there by going against the water grant objective.

Management Response

- The sector determines the portion of the funds available to be allocated to respective LG grants under their mandate taking into consideration the cost of service delivery.
- In FY 2015/16, MoFPED in consultation with the relevant Sector Ministries started a reform to ensure simplicity, equity and transparency in allocation of LGs grants. Under the reform, sectors have been supported to develop new allocation formulae and determine the parameters and Sector Grant guidelines.
- An Online Transfer Information Management System (OTIMS) has been developed and is used to transparently allocate resources based on the formula agreed by the Sectors.

Recommendation

- MoFPED should ensure that the sectors adhere to the agreed allocation formula to ensure equitable allocation of resources. This will require that the proposed review of the allocation formulae and the OTIMS are properly planned, understood and implemented in consultation with the stakeholders.

8.2.3 THE POTENTIAL OF LGS TO RAISE LOCAL REVENUE

Article 191 of the Constitution of the Republic of Uganda 1995 (as amended) and Section 80 (1) of the Local Government Act CAP 243, requires Local governments to levy, charge and collect appropriate fees and taxes, including rates, rents, royalties, stamp duties, personal graduated tax, and registration and licensing fees. Section 80 (2) of the same Act require each local government to draw up a comprehensive list of all its

internal revenue sources and maintain data on total potential collectable revenues.

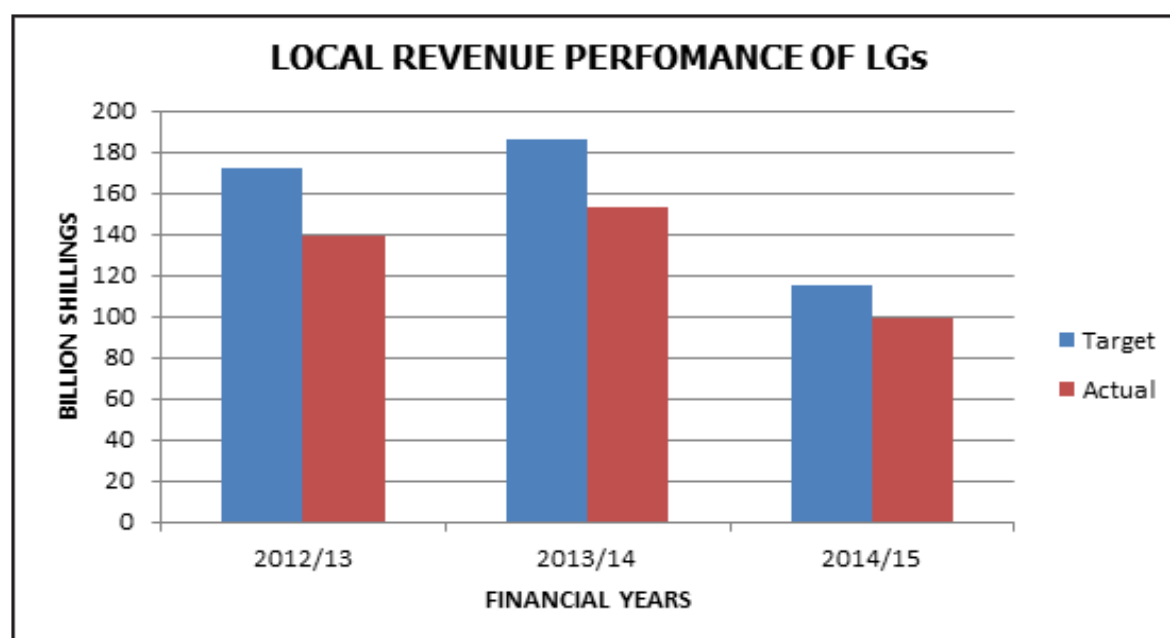
Review of the performance of LGs in regard to local revenue collection showed that LGs have not done much to fully exploit the potential they have to generate revenue. For the three years 2012/13, 2013/14, and 2014/15, financial statements showed that the local governments were not able to collect UGX 83.6 billion representing 17.6% of projected revenues as shown in Table 60 and the Figure 22 below;

Table 60: Local revenue Performance of LGs

FY	Budget	Actual	Variance
2012/13	172,333,587,503	138,753,393,596	33,580,193,907
2013/14	186,211,462,550	153,003,604,321	33,207,858,229
2014/15	115,542,108,840	98,764,108,877	16,777,999,963
Total	474,087,158,893	390,521,106,794	83,566,052,099

Source: OAG Analysis of the financial statements of LGs

Figure 22: Showing Local Revenue Performance of LGs



Source: OAG analysis of local revenue performance of LGs as per audited annual financial statements

The shortfalls in collection represent potential revenue that could be tapped by the LGs if existing gaps in local revenue management are addressed. Through a review of legal framework, revenue management records and interviews, the following gaps were identified:

a) Regulation/ legal framework for local revenue management

A review of existing laws and regulations for financing LGs revealed that the various laws and Acts governing domestic business registration, regulation and licensing have not been updated to reflect current operations and thus are complicated, hard to administer and to comply with, and do not represent best practices. Most laws governing licensing of businesses such as banks, drug shops, and health facilities are still reflecting direct Central Government control as operational license fees are paid to central regulatory bodies although in practice all their operations are in Local Governments.

The audit team through an interview with technical team at LGFC further established that government has not developed a policy and guidelines to guide local revenue collection and mobilization. Local governments are facing challenges in assessment and collection of Local Service Tax from private owned businesses as the Local Service Tax law is yet to be operationalized, and there are no guidelines in place. Through a review of existing regulations governing revenue sources, the audit identified various gaps as summarized in the **Table 61** below;

Table 61: Gaps in the revenue management legal framework

Tax Category	Governing Law	Comments
Local Service Tax	LG (Amendment No2) Act- 2008	LST law on private owned businesses not yet operationalised
Local Government Hotel Tax	LG (Amendment No2) Act- 2008	Section 7 (1& 2) – a rate shall be levied on hotels and lodges accommodation per room per night, this excludes day occupants that form majority clientele for lodges and hotels in LGs
	Part III sec 8(2) of the fifth schedule of the LG Act	Long period of one month for remittance of the deducted hotel tax to LGs by the hotels. This is long period for the hotel hold to the deductions
Trading Licence	Trade Licensing Act	Penalty of 10,000 shillings for non-compliance is too low to foster compliance. LGs should be allowed to recruit their own Enforcement officers like Urban councils.
Property Rates	LG (Rating) Act – 2005,2006	LGs are not allowed to collect property rates without an approved property valuation list.
	Second schedule Part 1 of LG (Rating) Act 2005	Exemption of owner occupied residential houses in urban areas yet they form large percentage of properties in Urban areas
Ground Rent	Land Act Cap 227	Non-payments of ground rent having to be referred to land tribunals yet not all LGs have the tribunals in place
Markets (Rent and Dues)	Markets Act Cap 94	A fine not exceeding five hundred shillings or imprisonment for a period not exceeding three months for non-compliance as provided for by the Act is quite low to foster compliance.
Royalties	Electricity Act 1999	The rates for royalties agreed upon are never reviewed though the generation company prices and inflation keep on increasing.
	National forest and tree planting Act 2003 (Sec 39-64)	LGs do not share on revenue generated from forest reserves
Agency fees	Fisheries Act	Agency fees from fish licences collected on behalf of MAAIF are never received.
	Statutory instrument no.38-4(11) Animal Disease ACT	Animal movement permits collected are sent to central government

Source: OAG review of existing regulations

There has not been much progress in operationalization and updating of laws and guidelines regulating local revenue because the Ministry of Local Government has not prioritized it.

Management Response

The Ministry of Local Government has done quite a lot in revamping locally generated funds for LGs. For example LST, LGHT, Tax on produce, valuation for LGs and advocating for negotiation of royalties with LGs that are endowed with resources. However, the challenge has been conflicting laws and regulations from MDAs that hinder local revenue generation.

Recommendation

The Ministry of Local Government should prioritize the review and update of the legal framework. This will require adequate consultations with the Ministry of Justice and Constitution Affairs, the Law Reform Commission and other key stakeholders.

b) Enumeration, assessment and registration for local revenue

Section 80 (2) of the Local Government Act CAP 243, requires each local government to draw up a comprehensive list of all its internal revenue sources and maintain data on total potential collectable revenues. Finance departments of LGs are responsible for gathering information to establish a comprehensive database of available sources of local revenue within the LG, assessing the potential collections, setting realistic targets, resource allocation, monitoring and evaluation.

Through a review of data for enumeration, assessment and registration at the 32 sampled districts and municipalities in central, eastern, western and northern regions of Uganda, and interviews held with the administrators; audit noted that none of the sixteen districts and sixteen municipalities visited had comprehensive registers for all internal revenue sources.

An assessment of the existing registers for the individual revenue categories in the thirty two LGs showed that only seven had up-to-date property valuation registers, none of the LGs had a register for leased properties for ground rent purposes, eight had partial Local Service Tax (LST) registers that maintained only employees on the public service payroll, four had lists of hotels in their jurisdiction but did not indicate the number of rooms each hotel had, and sixteen had business license registers which were however not comprehensive.

Local revenue identification, assessment and registration in local governments is conducted by teams consisting of Parish Chiefs, commercial officers, Accounts Assistants at sub counties, and Town Agents, however, interviews with management at the local governments revealed that they were unable to comprehensively carry out these activities due to staffing gaps as shown in Table 62 below:

Table 62: Staffing Levels at Local Government Units

Position	Station	Minimum required staff for LR Administration (LG Units)	Filled positions as per the government payroll	Staffing Gaps
Commercial officer	District, Town council and Municipality	341	109	232
Town Agents	Wards in urban authorities	869	552	317
Parish Chiefs	Parishes	6,600	3,652	2,948
Accounts Assistants	Sub County	1,463	607	856
Total		9,273	4,920	4,353

Source: OAG analysis of government payroll and administrative units for FY 2015/16

The management of the LGs also attributed the non-comprehensiveness of registers to inadequate resources allocated to local revenue administration and limited automation of revenue administration (heavy reliance on manual processes).

In the absence of comprehensive local revenue assessments and registration for all the local revenue sources at local governments, LGs cannot adequately determine their revenue potential and sources and as such a number of revenue sources remain untapped. This also distorts planning as revenue targets are not based on actual assessed potential and thus making collection difficult.

Management Response

- There should be an effort/mechanisms put in place to improve on Local Revenue collection such as enforcing the use of Local Revenue registers and Book Keeping
- LGFC has submitted a proposal to enhance Local Revenue collections through rollout of Establishment of Local Revenue databases that is under review and consideration in FY 2017/18

Recommendation

- The Ministry of Local Government, MoPS and MoFPED should ensure that critical staffing positions that support local revenue management at LGs are adequately filled to improve local revenue performance.
- MoLG should invest in building capacity for Local Governments to adequately conduct enumeration, assessment and registration for improved local revenue performance.

c) Mobilization and sensitization for Local revenue

The success of local revenue management requires that tax payers are properly sensitized of the importance of tax compliance.

A review of the approved budget estimates for all the sampled LGs showed that there were no specific budget lines for sensitization and or mobilization for local revenue. The LGs continue to rely on radio

talks shows with little or no direct customer engagements making it difficult to determine the reach and impact of the method used. Although management of LGs informed the audit that there were sensitization and mobilization activities undertaken, there were no reports in place to confirm that the activities were undertaken. Audit further noted that there were no fora in place at all the LGs through which the LG would account to the communities on how the locally raised revenue was utilized.

The limitations in sensitization and mobilization for local revenue have resulted in low local revenue performance.

Recommendation

- Local Governments should prioritise local revenue mobilisation and sensitisation by having clearly identifiable budget lines for the purpose.

d) Un tapped Local revenue sources

Property rates constitute the major source of LG revenue and therefore have the potential to substantially enhance the revenue of LGs if well administered. However, this potential has not been exploited as substantial amounts of assessed property rates are not collected as shown in Table 63 below;

Table 63: Showing Performance of Property rates tax

Local Gov't	Amount Due	Amount collected	Variance
Busia DLG	3,893,076,000	0	3,893,076,000
Fort portal Municipal	1,504,909,435	467,049,340	1,037,860,095
Hoima Municipal	1,186,387,200	94,106,902	1,092,280,298
Jinja Municipal	6,964,830,670	1,898,491,634	5,066,339,036
Lira Municipal	1,049,183,502	84,136,897	965,046,605
Masaka Municipal	1,749,971,407	236,635,422	1,513,335,985
Masindi Municipal	191,326,073	293,910,228	-102,584,155
Mbale Municipal	2,292,234,836	428,195,100	1,864,039,736
Mbarara Municipal	4,293,020,850	226,109,308	4,066,911,542
Total	23,124,939,973	3,728,634,831	19,396,305,142

Source: OAG review of property rating lists and actual property rates collected in selected LGs for 2015/16

Table 63 above shows that the 9 LGs which had property valuation registers registered collections of only 16% of the assessed property tax. The shortfall of UGX 19.4 billion (representing 84%) constitute untapped potential revenue.

The other 23 LGs which formed part of the sample did not collect any property rates due to lack of property valuation registers, and therefore their potential could not be ascertained.

The low collections for property rates are attributed to weak collection and enforcement mechanisms at LGs.

Recommendation

- MoLG should support LGs to come up with property valuation registers to boost local revenue collections.
- LGs should put sustainable efforts in valuation, registration and collection of property rates tax as this will go a long way in improving Local revenue collections since this particular source has been

seen to hold a big percentage contribution.

- MoLG should identify good local revenue enhancement practices in good performing LGs and roll them to low performing LGs to improve on revenue collections and management.
- MoFPED and MoLG should set local revenue performance targets to Accounting Officers of LGs as part of their performance contracts in order to improve their involvement in revenue management.

e) Setting and Revision of Local Revenue targets for LGs

A review of the LGs annual approved estimates and audited financial statements established that a number of LGs were revising their local revenue targets towards the end of the financial years as shown Table 64 below:

Table 64: Approved, revised and actual local revenue collected in UGX millions

F/Y	2013/14			2014/15			2015/16		
LGs	Approved Budget	Revised Budget	Actual	Approved Budget	Revised Budget	Actual	Approved Budget	Revised Budget	Actual
Fort Portal	1,786	1,786	487	2,825	2,825	1,435	2,685	1,681	1,487
Hoima DLG	1,045	626	626	1,098	379	379	1,544	1,372	1,159
Hoima Mun	1,993	1,061	864	2,293	1,397	1,154	2,031	1,329	1,184
Kabarole DLG	1,206	329	327	1,286	728	388	878	547	547
Masaka Mun	1,075	718	715	1,193	916	903	1,608	1,357	915
Masindi DLG	365	687	442	789	689	698	839	402	401
Mbale Mun	3,870	1,470	1,222	3,870	1,935	1,314	4,817	1,602	911
Mbarara DLG	891	1,192	1,065	1,744	1,421	838	1,691	1,157	824
Mbarara Mun	1,879	2,697	2,564	2,279	3,529	2,435	2,309	2,766	2,746
Ntungamo DLG	1,274	860	533	1,274	860	770	1,274	960	809
Jinja Mun	4,576	4,576	2,744	4,913	4,913	2,914	9,499	9,499	10,027

Source: OAG analysis of Approved annual budgets and financial statements for selected LGs.

From Table 64 above, the following observations are made:

- The municipalities of Fort Portal, Hoima, Masaka and Mbale and the districts of Hoima, Kabarole, Masindi, and Ntungamo revised their local revenue collection targets downwards at the time of preparing financial statements to reflect a good performance. This is intended to hide weaknesses in local revenue collection by these LGs.
- Mbarara municipality revised their local revenue target upwards as they were collecting more than initially budgeted. This implies that the municipality was not making accurate/realistic projections of their revenue.
- There were sharp increases in local revenue actual collections for Fort Portal Municipality from UGX 487 million in FY 2013/14 to UGX 1.4 billion in FY 2014/15 and also for Jinja Municipality from UGX 2.9 billion in FY 2014/15 to UGX 10 billion in FY 2015/16. This is an indication of weaknesses in local revenue management in the preceding FYs having been addressed through some specific interventions.

The revision of projections made indicate that there are errors in forecasting of local revenue caused by weaknesses in the revenue forecasting process, management, collection and reporting.

Management Response

The aspect of down ward or upward revision of any source of revenue is provided for in the law to allow room for adjustments. It is in Local Government Finance and Accounting Manual. May be what is to be scrutinized is the level of adjustment. If it is very arbitrary then there is a nut to fix here otherwise the same can apply for supplementary budget where budget can be adjusted upwards

Recommendation

- LGs should prioritize the need to have comprehensive Local revenue registers to improve on revenue forecasting.
- Revision of approved revenue targets should be undertaken with proper justification in accordance with the prescribed procedures.

f) Enforcement and arrears management

Regulation 10 and 11 (3-4) of the fifth schedule of the Local Government Act CAP 243 states that where the tax payable or any part of it remains unpaid at the end of the first six months of the financial year, the tax payer is liable to surcharge, conviction to imprisonment or can be sued by the local government for recovery. Sec 98 (1&2) of the Local government financial and Accounting Regulation 2007 require the Head of Finance and the heads of revenue collecting departments to ensure prompt reminders are sent to the defaulters when revenue becomes overdue and if the reminder fails to produce payment within thirty days of its dispatch, legal proceedings are to be instituted.

It was noted that although all the 32 LGs were not meeting their local revenue collection targets and had local revenue arrears reported in their annual financial statements, none of them had a detailed list of who the local revenue defaulters were or a database to help track the perennial defaulters. There was also no evidence at the local governments that prompt reminders were sent out for all overdue local revenue payments and or legal proceedings instituted to recover unpaid amounts. It was also noted that the LGs were not reporting on the proportion of local revenue arrears recovered in the proceeding financial years nor including the arrears as part of their revenue targets thus the audit team could not track management of local revenue arrears.

Interviews of management at the municipalities revealed that they were carrying out periodic enforcement routines, this was though limited to a few tax sources like trading license and market dues, however, there were no reports to confirm the claim and thus the audit could not assess the scope of enforcements undertaken and the effectiveness of the methods used.

The inadequacies in enforcement were attributed to staffing gaps for enforcement officers as none of the districts had enforcement officers in place, and whereas the municipalities had enforcement officers in place, interviews with the municipal officials indicated that the officers available were few to cause the desired continuous effective presence on the ground. The districts did not have fully designated revenue officers in place but rather the responsibility for local revenue handling was delegated to senior finance officers or senior accountants.

In the absence of strong enforcement mechanisms, the LGs were unable to meet their budgeted local

revenue collections and this also affects service delivery

Management Response

The challenge of enforcement is the structure. All Local Admin Police have been integrated into the central Government Police Force thereby making enforcement at LG level very difficult especially in the rural LGs.

Recommendation

- LGs should ensure that arrears register is in place to enable in tracking tax payers who have not honouring their obligations as required by the different LGs
- Government should invest in creating enabling environment and enforcement mechanism to allow LGs collect local revenues in LGs without political pronouncements or directives that deter the masses from compliance in payment of the assessed revenues
- LGs should ensure that the designated revenue officers and enforcement teams are in place with full responsibilities to check on non-payments of assessed local revenue and management.

g) Local revenue data management

Section 80 (2) of the Local Government Act CAP 243 requires local governments to maintain data on total potential collectable revenues. The Head of Finance shall be the chief accountant and shall among others submit monthly returns of the revenue collected on behalf of lower local governments to the relevant councils.

Through interviews with management of LGs and field inspections, audit noted that the LGFC was supporting the LGs with software for setting up local revenue databases for systematic updating, tracking and reporting. An interview with the Director Research and Policy analysis at LGFC revealed that while there are 1,804 LG units that collect and manage local revenue, the commission

was only supporting 122 local government units and mostly in urban authorities. The remaining units were using non automated systems in Microsoft excel/ word while many others especially rural sub counties were still maintaining manual systems of record keeping.

An assessment of the LGFC data management system provided to LGs and interface with the users revealed a number of challenges: the system was not real time and thus not interlinking the lower local governments with the main local governments implying that data between the LGs had to be transferred manually, the users still had training gaps in terms of their ability to navigate through the system, generate appropriate reports, customize the system to the user requirements and were not getting regular technical support from the Commission.

The Commission informed the audit team that their inability to support all the local government units with the database software was due to limitation in funding but indicated that the support was continuing and expanding to the remaining LG units as and when funds are available. The audit however, notes that the LGs have not on their part prioritized investing in this intervention.

The maintenance of unautomated local revenue data management systems has made the processes of enumeration, assessment, update of registers, collection, monitoring, reporting and management of arrears a tedious exercise and this has contributed to low levels of local revenue collections in LGs.

Recommendation

- LGs should prioritize investing in appropriate automated local revenue management systems to improve data management and enumeration, assessment, update of registers and collection of revenue.

9 FOLLOW UP REPORT ON THE PRODUCTION OF PRICE INDICES BY UGANDA BUREAU OF STATISTICS

9.1 INTRODUCTION

The Office of the Auditor General undertook a Value for Money audit on the production of Price indices by Uganda Bureau of Statistics (UBOS) during the Audit year 2013/14 and a report was submitted to the Parliament of Uganda in March 2014. The major objective of the study was to evaluate the process of production of three categories of indices namely: Consumer Price Indices (CPI), Producer Price Indices (PPI) and Construction Sector Indices (CSI), in order to establish the extent to which they could be relied upon to produce credible statistics for decision making. In order to identify the value added by the audit, it was necessary to undertake a follow up on the implementation of Auditor General's recommendations by Uganda Bureau of Statistics.

The scope of the previous audit covered three broad areas, namely: sampling methodology, price indices methodology and integrity of the computer systems used in the production of indices. Findings of this follow up report are therefore structured according to these 3 areas.

9.1.1 METHODOLOGY OF THE FOLLOW UP AUDIT.

The audit was carried out in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) Performance Auditing Standards and Performance Auditing guidelines prescribed in the Value for Money Audit Manual of the Office of the Auditor General (OAG). The standards require that the audit is planned in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

The auditors undertook the following steps to assess the actions undertaken by UBOS.

Review of Documents; Upon request, UBOS provided a report of actions undertaken in response to the findings and recommendations of the 2014 OAG report on price indices. In order to verify the responses, the audit team undertook a review of various documents including: Draft Manual of rebasing exercises undertaken, policy documents developed since 2014, and release reports for price indices.

Interviews; Physical and telephone interviews were held with officers responsible for the production of CPI, PPI and CSI. These served the purpose of obtaining clarifications and explanations for information obtained from documents reviewed.

9.2 SUMMARY OF FINDINGS AND RECOMMENDATIONS OF PREVIOUS AUDIT REPORT¹⁰⁹ AND ACTIONS TAKEN BY UBOS

9.2.1 SAMPLING METHODOLOGY

- Locations for CPI data collection were not selected using Probability Proportional to Size (PPS) systematic sampling methodology as recommended by international practice, instead one town in each of the regions was deliberately/purposively selected considering the town with largest population in a region. As a result, the sample size was not scientifically determined using random sampling design and cut off points were used where all units above the cut-off point were included in the sample.
- It was further observed that the geographical coverage of the CPI was only in urban centres of; Kampala High Income, Kampala Low Income, Jinja, Mbale, Masaka, Mbarara, Gulu, and Arua. The review revealed that UBOS was not covering the prices for rural areas and institutional households.
- UBOS had not reviewed the changes in samples and weights to ensure the on-going integrity and representativeness of the indices. Additionally, for the CSI, the sample was developed based on the Census of Business Establishment (COBE) of 2001 which established the number of construction firms as 247. The latest COBE 2009/10 registered an increase in construction firms to 653. Given the increase the sample that was being used might not be representative.

It was recommended that UBOS:

- Adopts a random sampling process of selecting representative locations (both rural and urban). If most populated towns were to be preferred as indicated by UBOS, it would be better to have at least 2 towns instead of one town from each region. This would mean that the five statistical regions would have a minimum of 10 towns. It was observed that Towns were not too many per region and as such could be listed by population size and representative towns chosen.
- Establishes whether there are significant differences between rural and urban price changes.
- Rebases the indices every 5 years to ensure that representativeness of the basket is maintained.

Remedial action Reported by UBOS management

PPI rebasing is near to completion. The base year has shifted to 2009/10 as in the case of CPI. It has been expanded to include Utilities. The rebased PPI is expected to be in place in January 2017.

The CSI rebasing has not commenced. However, invitation of bids for consultancy has been concluded and a bid to recruit international consultant has been displayed. The International Consultant is expected to commence work in January 2017. Bids for local counterpart are also being concluded

In addition, UBOS introduced a new urban centre of Fort Portal and the Kampala region has been

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decomposed into 3 baskets namely: Kampala High income, Middle income and Low income during the general rebasing of the CPI.

Follow up audit comments

The rebasing of the CPI was in line with the Auditor General recommendations and it has improved the representativeness of the CPI especially in western Uganda and the Kampala region. However, UBOS has not yet conducted a study to establish the significance of including rural prices in the computation of the national CPI and in the absence of such a study, it may be unknown whether the urban CPI produced by UBOS provides a representation of all price changes in Uganda – both in urban centres and the rural areas.

The delay to rebase the PPI and the CSI continues to pose a risk to the representativeness of these indices.

9.2.2 PRICE INDEX METHODOLOGIES

a) Methodology of the CPI

The following issues were identified relating to the methodology of producing the CPI:

- The weight reference period for the Ugandan CPI is on average 8 years in contravention of the recommended best practising guidelines that recommends 5 years. The current CPI weighting reference period is 2005/06 updated from the previous weighting reference period of 1997/98.
- The methodology used for the production of the CPI limited its use to inflation targeting and setting of interest rates. The CPI produced by UBOS was not suitable for other uses such as indexation of wages, rents, contracts and social security payments.
- It was observed that UBOS was using the Uganda Country product classification system for product classification. This made it difficult to compare Uganda's inflation with other countries. Internationally, the recommended product classification system is Classification of

Individual Consumption by Purpose (COICOP).

- Contrary to best practise, strongly seasonal products are excluded from the CPI in Uganda.
- Although the UBOS CPI manual showed that elementary aggregates that were no longer representative were excluded from the revised CPI basket at rebasing, it was not specific on what was to be done when a product permanently disappeared during the inter-rebasing period (period between rebasing years).

It was recommended that rebasing should be done every 5 years to ensure the representativeness of the basket was maintained. This would cater for updating weights of products and towns, inclusion of strongly seasonal products, changing the classification system and providing for more CPI uses based on broader user requirements.

Remedial action Reported by UBOS management

The CPI was rebased from the base year 2005/06 to 2009/10. During the rebasing, weights of the products in the urban centres were changed according to new expenditures patterns using results of the Uganda National Household Survey 2009/10. This also resulted in inclusion of strongly seasonal products like mangoes, lemon, okra. The bureau now uses the recommended product classification system called the COICOP.

Follow up audit comments

The rebased index provides a better representation of expenditure patterns of households with the product classification being ideal for international comparisons.

However, CPI for different users was not incorporated into the workings during rebasing. This implies that other uses such as indexation of wages, rent and social security are still not applicable with the current CPI.

b) Methodology of the CSI

The following issues were identified relating to the

methodology of producing the CSI:

- Interviews with the CSI team revealed that weights for the Construction Price Indices had never been reviewed since inception in 2006/2007. Consequently, weights for CPI might be out-dated leading to an index which did not reflect the true changes in the construction cost.
- The Construction Sector Index - Input Price Index - produced by UBOS only provides a reflection of changes in the prices of construction inputs, specifically: material costs, equipment hire and labour costs. The index produced is a production cost rather than a production price index.
- The Construction Sector Index does not take into consideration regional differences in construction costs. Regional differences can have a major impact on costs, prices, size, style (single dwelling versus multiple dwelling constructions, low versus high density dwellings, etc.), construction materials used, methods used, etc. The Construction Sector Index does not take into account rural/urban differences in construction costs.
- The bureau compiles Construction Sector Indices (CSI) quarterly although the release contains monthly data. Consequently, the monthly data published in the quarterly index are untimely since the index is published at the end of the quarter.
- The data on wages paid for construction labour is collected from construction companies every quarter instead of trade unions; trade associations; Collective bargaining agreements registered with government; Government agencies charged with responsibility for regulating wages, Enterprise surveys of employers and household surveys of employees.

Recommendations

- Weights for the Construction Price Indices should be reviewed every five years due to the high pace of structural and technological changes taking place in the construction industry in Uganda.
- UBOS should expand the scope of the present input price index to incorporate; materials, labour, equipment hire, land preparation costs, bathroom/kitchen fittings, overheads, profits, and trade margins.
- Data on wages should be obtained directly from employees or employee associations instead of the construction firms.
- UBOS should strive towards publishing the Construction Sector Index on a monthly basis.

Remedial action reported by UBOS management

The Bureau now produces CSI on a monthly basis with 1-month lag as opposed to quarterly.

Follow up audit comment

Dissemination of the CSI on a monthly basis addresses the Auditor General's recommendation and enables the users of the index such as Uganda National Roads Authority, Ministry of Works and Transport, KCCA to make payments based on CSI variations on time.

However, the CSI has not been rebased to provide an opportunity for the update of the weights and expanding the scope of the index. Data on labour of construction employees are not collected in line with recommended sources such as trade unions, trade associations and/or other government agencies with wage information. The main consequence of collecting data on wages from construction companies is that the labour costs may be inflated, especially if the construction firms are aware that the data being provided is to be used for purposes of compiling CSIs.

c) Methodology for the PPI

According to the Monograph for producing Price Index for Manufacturing produced by UBOS, UBOS was calculating the Output PPIs for the Manufacturing sector (PPI-M) only excluding other sectors such as mining, agriculture and fishing. An output PPI-M measures the rate of change in the prices of products sold as they leave the producer. The PPI compiled by UBOS was limited in scope. It is suitable for deflation of output or sales data for the compilation of production volumes and the deflation of capital expenditure and inventory data in the manufacturing sector alone.

It was recommended that UBOS expands the scope of the PPI to include all domestic goods and service-producing establishments. Traditionally the PPI has been compiled as a measure of price change for the goods-producing sectors of the domestic economy. These include agriculture, forestry, fishing, mining, manufacturing and public utilities.

Remedial action reported by UBOS management

The proposed rebasing of the PPI will bring on board the Utility Sector (Water and Electricity). During the same process, UBOS is developing PPI-Agriculture as a stand-alone index while other sectors will be brought on board gradually through future rebasing processes.

Follow up Audit Comment

Inclusion of utilities section in the PPI is a step in the right direction. The bureau should also consider including other vital sectors recommended in the previous audit report such as mining, fishing and forestry.

9.2.3 PRICE INDEX COMPUTING SYSTEMS

UBOS had undertaken efforts to develop and deploy computing systems for the production of consumer, producer and construction sector indices. The computing system for production of

the PPI and CSI had been evolving from a manual system to an automated system. The version for the computation of the PPI and CSI was an MS Excel-based spread sheet running with an MS Access database at the backend. However, the CPI system was entirely based on MS Excel spread sheets functioning as well as a Database. Internationally, it is well acknowledged that MS Excel is a spread sheet and therefore cannot provide the much needed database capabilities for computing the CPI. Therefore, the current CPI system did not offer the required differentiation between users for data capture, validation and analysis. The lack of segregation of duties and tracking of user system logs in the CPI system meant that errors could go undetected.

Other matters impacting on the reliability and integrity of the production system were; lack of security policy to provide control over its information systems and lack of documented business continuity procedures to mitigate the risks of loss of vital data in the event of system failure. Generally, controls over backup of price data, planned validation of backups and indices production system audits were non-existent.

It was recommended that UBOS:

- Puts in place a security policy to guide the control and management of the information system assets and resources. Such a policy should clearly articulate the roles, responsibilities, management commitment and coordination among the key players involved in the indices production process to ensure their reliability.
- Puts in place a comprehensive Business Continuity Plan. The plan should be regularly tested to ensure that critical Bureau operations are maintained in the event of catastrophic events. There should also be regular audits conducted on the back-ups to account for all backups as well as for verification of the integrity of data.

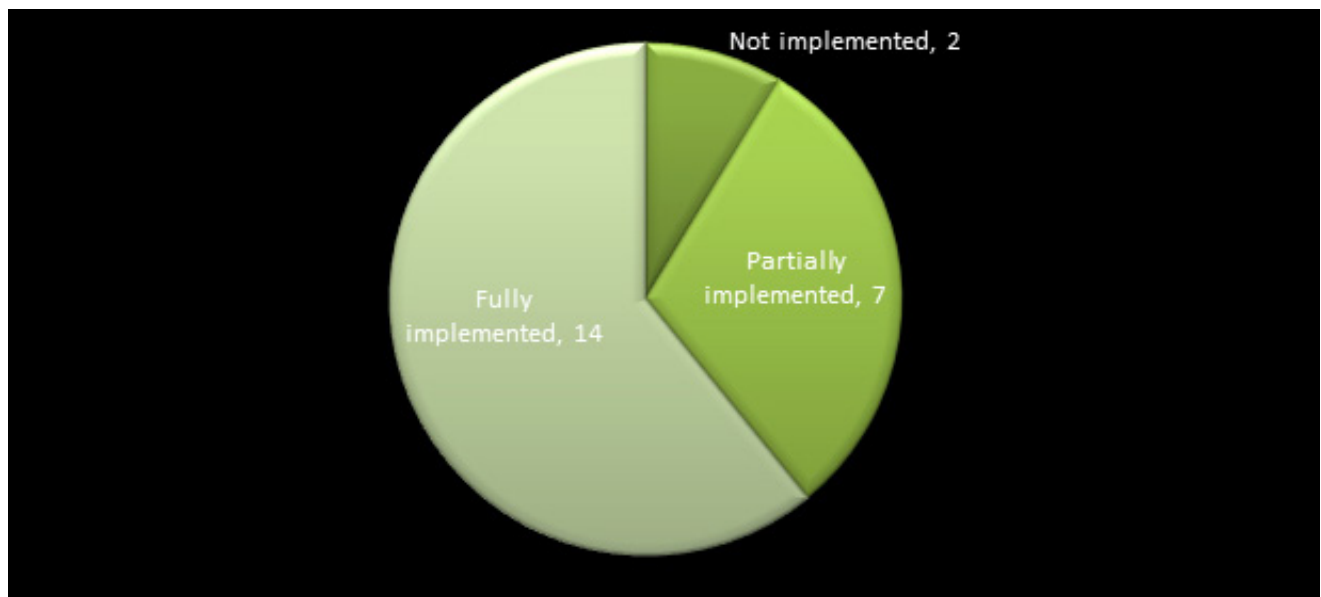
Remedial action undertaken by UBOS management

UBOS developed and is implementing a Risk Management Policy. It also established a Data Recovery Site outside UBOS premises.

Follow up Audit Comment

The Risk Management Policy and framework provide an environment for identifying, assessing and managing potential risks in all areas of operations including information technology. This if effectively implemented may enhance the security of the system used to compute indices.

9.3 SUMMARISED STATUS OF IMPLEMENTATION OF RECOMMENDATIONS



9.4 OVERALL AUDIT CONCLUSION

It was observed that, out of 23 recommendations made by OAG, 14 were fully implemented, 7 were in the process of being implemented while 2 recommendations had not been implemented by UBOS.

GLOSSARY OF TERMS

Cess	A levy on the value of sales ex ginnery of all lint cotton.
Cotton lint	Ginned cotton which has been removed either mechanically or chemically.
Cotton seed	Seed produced from seed cotton after ginning.
Employer	Person or organization employing workers under a written or verbal contract of employment which establishes the rights and duties of both parties, in accordance with national law and practice. Governments, public authorities and private companies as well as individuals may be employers.
Farm gate price	The price received by cotton farmers.
Fibre/staple length	The Average length of a spinnable fibre
Foundation seed	Seed produced from breeders' seed or produced under the control of NaSARRI at Serere
Ginning	The process of separating cotton lint from cotton seed
Ginning Outturn	The ratio of lint/or seed produced from seed cotton ginned
Health	A state of complete physical, mental and social well-being and not merely the absence of disease or infirmity
Ill health	A state in which one is unable to function normally and without pain. It is an abnormal process in which aspects of the social, physical, emotional, or intellectual condition and function of a person are diminished or impaired compared with that person's previous condition.
Mark up	A mark-up represents the additional charges and costs that are applied to the price of a commodity in order to cover overhead costs, distribution charges, and profit
Occupational accident	An occurrence arising out of, or in the course of, work which results in: fatal occupational injury or non-fatal occupational injury.
Occupational disease	A disease contracted as a result of an exposure to risk factors arising from work activity.
Occupational Hazard	Anything that has potential to cause harm to a person at work
Occupational Health	The promotion and maintenance of the highest degree of physical, mental and social well-being of workers in all occupations by preventing departures from health, controlling risk and the adaptation of work to people, and people to their jobs.
Occupational injury	Refers death, any personal injury or disease resulting from an occupational accident.
Reasonable price	Lowest possible price at which the drug can be delivered to the health facility.

Reference Price/ Median International Price	The practice of using the price of a pharmaceutical product (generally ex-manufacturer price, or other common point within the distribution chain) in one or several countries to derive a benchmark or reference price for the purposes of setting or negotiating the price of the product in a given country
Risk	The likelihood of an undesired event with specified consequences occurring within a specified period or in specified circumstances. It may be expressed either as a frequency (the number of specified events in unit time) or as a probability (the probability of a specified event following a prior event), depending on the circumstances.
Risk assessment	The process used to determine the likelihood of people being exposed to injury, illness or disease in any situation identified during the hazard identification process; and also the severity of the illness, injury or disease.
Safety culture	The ways in which safety is managed in the workplace, and often reflects “the attitudes, beliefs, perceptions and values that employees share in relation to safety”
Seed cotton	Cotton which is not yet ginned
Segregated areas	specifically selected areas used for seed multiplication
Work related disease	A disease with multiple causal agents which may include factors in the work environment.
Workers’ compensation	A system of benefits provided by law to employees who experience work-related injuries or occupational diseases regardless of fault
Workplace	All places where workers need to be or to go by reason of their work and which are under the direct and indirect control of the employer

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