Uganda
Country Financial Accountability Assessment

January 10, 2001

Country Department 4
Africa Technical Financial Management
Africa Region

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# REPUBLIC OF UGANDA

## Country Financial Accountability Assessment

### Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbreviations and Acronyms</td>
<td>iii</td>
</tr>
<tr>
<td>Preface</td>
<td>iv</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>1</td>
</tr>
<tr>
<td>Development Action Plan: Salient Recommendations</td>
<td>4</td>
</tr>
<tr>
<td>1 Central Government - Legal and Institutional Framework</td>
<td>6</td>
</tr>
<tr>
<td>1.1 Present Framework</td>
<td></td>
</tr>
<tr>
<td>- The Constitution</td>
<td></td>
</tr>
<tr>
<td>- The Public Finance Act</td>
<td></td>
</tr>
<tr>
<td>- Treasury Accounting Instructions and Regulations</td>
<td></td>
</tr>
<tr>
<td>1.2 Assessment of the Present Framework</td>
<td></td>
</tr>
<tr>
<td>1.3 Conclusion and Recommendations</td>
<td></td>
</tr>
<tr>
<td>2 Central Government - Budgeting and Expenditure Control</td>
<td>9</td>
</tr>
<tr>
<td>2.1 Current Practice and Recent Initiatives</td>
<td></td>
</tr>
<tr>
<td>2.2 Assessment of the Present Position</td>
<td></td>
</tr>
<tr>
<td>2.3 Conclusions and Recommendations</td>
<td></td>
</tr>
<tr>
<td>3 Central Government - Accounting and Financial Reporting</td>
<td>14</td>
</tr>
<tr>
<td>3.1 Current Situation</td>
<td></td>
</tr>
<tr>
<td>3.2 Assessment of the Current Situation</td>
<td></td>
</tr>
<tr>
<td>3.3 Conclusions and Recommendations:</td>
<td></td>
</tr>
<tr>
<td>- Short-term Measures to Mitigate High Risks</td>
<td></td>
</tr>
<tr>
<td>- Medium-term Perspective</td>
<td></td>
</tr>
<tr>
<td>- Long-term Perspective</td>
<td></td>
</tr>
<tr>
<td>3.4 Information Technology Systems in Government and its Agencies</td>
<td></td>
</tr>
<tr>
<td>- Current Situation: An Overview of the Public Sector</td>
<td></td>
</tr>
<tr>
<td>- Conclusions and Recommendations</td>
<td></td>
</tr>
<tr>
<td>4 Oversight Arrangements</td>
<td>21</td>
</tr>
<tr>
<td>4.1 Office of the Auditor General (OAG)</td>
<td></td>
</tr>
<tr>
<td>- Present Position</td>
<td></td>
</tr>
<tr>
<td>- Assessment of the Present Position</td>
<td></td>
</tr>
<tr>
<td>- Conclusions and Recommendations</td>
<td></td>
</tr>
<tr>
<td>4.2 Public Accounts Committee (PAC)</td>
<td></td>
</tr>
<tr>
<td>- Present Position</td>
<td></td>
</tr>
<tr>
<td>- Conclusions and Recommendations</td>
<td></td>
</tr>
<tr>
<td>4.3 Committee on Commissions, Statutory Authorities and State Enterprises (COSASE)</td>
<td></td>
</tr>
<tr>
<td>- Present Position</td>
<td></td>
</tr>
<tr>
<td>- Conclusions and Recommendations</td>
<td></td>
</tr>
</tbody>
</table>
# Table of Contents (Cont'd)

5 Accountability in Local Governments (LGs)  
5.1 Legal and Institutional Framework  
5.2 Financial Management in the Local Governments  
5.3 Fiduciary Risks  
5.4 Mitigating Risks  
5.5 Conclusions and Recommendations  

6 Ethics and Integrity  
6.1 An Overview  
6.2 Directorate of Ethics and Integrity (DEI)  
6.3 Inspectorate of Government (IGG)  
6.4 Conclusions and Recommendations  

7 Accountancy Profession  
7.1 Present Position  
7.2 Assessment of the Present Position  
7.3 Conclusions and Recommendations  

8 Private Sector  
8.1 Legal Framework  
8.2 Assessment of the Legal Framework  
8.3 Financial Sector  
8.4 Insurance  
8.5 Capital Markets  
8.6 Conclusions and Recommendations  

Appendices  
1 Terms of Reference for the CFAA  
2 Bibliography  
3 Government Strategy and Plan of Action to Fight Corruption and Build Ethics and Integrity in Public Office  

Page  
26  
30  
32  
35  
38  
40  
43
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCA</td>
<td>Association of Chartered and Certified Accountants (UK)</td>
</tr>
<tr>
<td>AG</td>
<td>Auditor-General</td>
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<td>BOU</td>
<td>Bank of Uganda</td>
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<td>CAMA</td>
<td>Companies and Allied Matters Act</td>
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<td>CB</td>
<td>Cash Budgeting</td>
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<td>CCS</td>
<td>Commitment Control System</td>
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<td>CFMAA</td>
<td>Country Financial Accountability Assessment</td>
</tr>
<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
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<tr>
<td>COSASE</td>
<td>Commissions, Statutory Authorities and State Enterprises</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
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<tr>
<td>DEI</td>
<td>Director of Ethics and Integrity</td>
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<td>ECSAFA</td>
<td>East, Central and Southern Africa Federation of Accountants</td>
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<td>EFMP II</td>
<td>Economic and Financial Management Project II</td>
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<tr>
<td>FMC</td>
<td>Financial Management Committee</td>
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<td>FAP</td>
<td>Financial Accountability Project</td>
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<td>GDG</td>
<td>Global Development Gateway</td>
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<td>GOU</td>
<td>Government of Uganda</td>
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<td>IAD</td>
<td>Internal Audit Department</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IASC</td>
<td>International Accounting Standards Committee</td>
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<td>ICAS</td>
<td>Institute of Chartered Accountants of Scotland</td>
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<td>ICBP</td>
<td>Institutional Capacity Building Project</td>
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<td>ICPAU</td>
<td>Institute of Certified Public Accountants</td>
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<tr>
<td>IGG</td>
<td>Inspector General of Government</td>
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<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
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<tr>
<td>IFMS</td>
<td>Integrated Financial Management System</td>
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<tr>
<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
</tr>
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<td>LGDP</td>
<td>Local Government Development Program</td>
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<tr>
<td>LGFAR</td>
<td>Local Government Financial and Accounting Regulations</td>
</tr>
<tr>
<td>LGPAC</td>
<td>Local Government Public Accounts Committee</td>
</tr>
<tr>
<td>LGs</td>
<td>Local Governments</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium-term Expenditure Framework</td>
</tr>
<tr>
<td>MFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MPS</td>
<td>Ministry of Public Service</td>
</tr>
<tr>
<td>NARO</td>
<td>National Agricultural Research Organization</td>
</tr>
<tr>
<td>OAG</td>
<td>Office of the Auditor General</td>
</tr>
<tr>
<td>OOB</td>
<td>Output Oriented Budgeting</td>
</tr>
<tr>
<td>PAC</td>
<td>Public Accounts Committee</td>
</tr>
<tr>
<td>PAF</td>
<td>Poverty Action Fund</td>
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<tr>
<td>PEAP</td>
<td>Poverty Eradication Action Plan</td>
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<tr>
<td>RM</td>
<td>Records Management</td>
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<td>ROM</td>
<td>Results Oriented Management</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>TID</td>
<td>Treasury Inspectorate Department</td>
</tr>
<tr>
<td>UCS</td>
<td>Uganda Computer Services</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
</tbody>
</table>
The work on which this Report is based was undertaken between July and October 2000 by a team of World Bank staff and a Government Counterpart Team. The assignment was carried out through a combination of questionnaire enquiry, fact gathering, interviews with key officials, dialogue with key participants and desk research.

A one-day workshop was held on October 18, 2000 to discuss the draft findings and recommendations and to provide further inputs prior to the finalisation of the Report. The workshop was jointly chaired by the Government and the Bank and was attended by stakeholders and donors. Discussions were also held on the implementation of the Development Action Plan (DAP), as outlined on pages 4 and 5 of the Report. It was agreed that the Coordination Mechanism for the implementation of EFMP II and LGDP, subject to private sector participation, represented an appropriate arrangement for overseeing and implementing the DAP.

The Bank Team comprised: Anthony Hegarty (Team Leader, AFTQK), Brighton Musungwa (AFTQK), Joseph Kizito (AFTQK, Country Office), Daryoush Kianpour (AFTQK) and Kithinji Kiragu (DFID Consultant). The Government of Uganda Counterpart Team consisted of: John Muwanga (Ag Director of Accounts, Team Leader, MFPED); Director of Budget, MFPED; Commissioner, Treasury Officer of Accounts, MFPED; Commissioner, Internal Audit, MFPED; Commissioner, Treasury Inspectorate, MFPED; Commissioner, Uganda Computer Services, MFPED; Director, Financial Management Division, Ministry of Local Government; Office of the Auditor General; Secretary to the Inspectorate of Government; Executive Secretary, Institute of Certified Public Accountants of Uganda.

Peer reviewers were William B. Marke (LOAAS), Wijaya Wickrema (EAPCO) and M. Zubairur Rahman (ACTDR). The work was completed under the guidance of Brian Falconer (Regional Financial Management Advisor, AFTQK).

The World Bank thanks all those involved: central and local government officials, donors, representatives of the private sector, members of the Government Counterpart Team and the Government of the United Kingdom of Great Britain and Northern Ireland for financing Mr Kithinji Kiragu, Consultant. Appreciation is also extended to PricewaterhouseCoopers, who have undertaken extensive work on public sector financial management issues in Uganda, for their constructive comments on the Draft CFAA.

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1 A Country Procurement Assessment Report (CPAR) for Uganda is presently under preparation.
2 A Report entitled Public Financial Management Issues in Uganda, that had been commissioned by NORAD, SIDA and DANIDA, was also presented at the workshop.
EXECUTIVE SUMMARY

1. A country financial accountability assessment (CFAA) considers the strength of financial accountability processes in both the public and private sectors. The aim is to assess whether existing processes are strong enough to ensure that funds are spent for their intended purposes. A CFAA is an assessment and not an audit and is carried out by Bank staff with the help of officials of the country concerned. Therefore its findings do not provide a complete assurance concerning the status of financial accountability processes. However, it provides a well-informed and objective assessment, a diagnosis of problems, advice on their resolution and an indication of the level of financial accountability risk in the country concerned. A CFAA also facilitates the design and implementation of action plans to meet a country’s development objectives for financial accountability.

2. Uganda has a relatively well established legal and institutional framework for public sector financial management and accountability that is underpinned by the Constitution 1995, the Public Finance Act 1964 and the Treasury Accounting Instructions (Part I 1991 and Part II 1968). Section 1 of the Report suggests that the present framework requires updating and strengthening and recommendations have been included to address the identified deficiencies.

3. When compared to most developing countries, Uganda has a good budget system. Successive initiatives in recent years (e.g. Cash Budgeting, the Medium Term Expenditure Framework and a Commitment Control System) have resulted in milestone achievements in the reform of the budget process and expenditure control. Nevertheless, considerable risks remain at the level of budget execution in ensuring that the allocated resources are utilized efficiently for the intended purposes and in obtaining comfort that value for money has been achieved. Section 2 of the Report contains proposals for further enhancing the budget and expenditure control system.

4. From the various reports of the Auditor General (AG), it is evident that accounting for public expenditure, using the present manual system, is often difficult because of: (i) the regular disregard for timely and accurate recording and reporting of transactions; (ii) the inadequate maintenance of ledgers and asset registers; (iii) the side-stepping of controls; and (iv) a lack of financial discipline. Many of the incidences reported by the AG point towards fraud, embezzlement and a waste in the use of public resources that exemplify the risks in budget execution. It also appears that insufficient attention is paid by Accounting Officers to their fiduciary responsibilities, including follow up on audit findings. A further issue is the acute shortage of professionally qualified and experienced accountants. Salary constraints are a major limiting factor and the development of a Pay Reform Strategy requires urgent consideration by the relevant authorities e.g. public sector salaries for new graduates and qualified accountants are respectively about 25/33% and 20% of private sector rates.

5. It is disconcerting to note that the Public Accounts of Government contain a number of material non-reconciled balances, including the Consolidated Fund. Those accounts should be regularized as a matter of priority. Otherwise, the accuracy and reliability of the Public Accounts will remain very doubtful, resulting in high fiduciary risk.

6. Recommendations (short, medium and long-term) for mitigating those high risks are presented in Section 3 of the Report and include: timely monthly reporting by line ministries as required by law; quarterly consolidated financial reports; establishment of a representative Financial Management Committee that would meet quarterly to monitor financial management activities; surcharge or censure errant public officers; capacity and salary issues; enhancing the quality of Public Accounts in compliance with the international accounting standards.
promulgated by the International Federation of Accountants (IFAC); the development and implementation of an Integrated Financial Management System (IFMS). Significantly, a number of major initiatives are being undertaken by the Government to address some of the identified weaknesses and donor support has been mobilized, especially through:

- the Economic and Financial Management Project II (EFMP II), an IDA supported project that became effective on August 1, 2000; and
- the Financial Accountability Project (FAP) that will be funded by DFID and is designed to complement the EFMP II.

7. Oversight arrangements - the Office of the AG, the Public Accounts Committee (PAC) as well as the Committee on Commissions, Statutory Authorities and State Enterprises (COSASE) - are assessed as being weak and require considerable strengthening. Several proposals are postulated in Section 4 and include: an annual audit certificate should be issued by the AG on the Public Accounts in accordance with international auditing standards and as required by law (no certificate has been issued by the AG for either of the last 4 years); auditor independence and the rights of access to all public bodies for audit purposes; quality assurance considerations; clearing the backlog of audits of state enterprises, addressing identified control weaknesses and regularizing reported anomalies; mobilizing resources to enable the oversight institutions to discharge their mandates; addressing the arrears of project audit reports; rigorous follow up of the AG/PAC/Treasury Reports in a timely manner, including the enforcement of sanctions and penalties.

8. The system of local government in Uganda is provided for in the 1995 Constitution and the Local Government Act 1997. Those provisions form part of the Government's decentralization policy which has evolved since 1996. Decentralization policy and programs have resulted in local governments (LGs) assuming direct responsibility for the management and control of an increasing proportion of Government funds. However, the systems and capacity for budgeting, expenditure control, accounting and reporting in the LGs are quite fragile; this results in high fiduciary risks. The Central Government has sought to mitigate those risks by disbursing most funds to the LGs as conditional grants\(^3\), and introducing some simple budgeting and accountability controls. Also, through the District Development Fund and the Local Government Development Project (LGDP, an IDA supported project that became effective on June 30, 2000), there are concerted efforts to build capacity and strengthen accountability in LGs. Inevitably, this will take time to bear results across the wide local government system. Meanwhile, measures to further strengthen financial accountability in the LGs, and to mitigate fiduciary risk, are submitted in Section 5.

9. As stated in Section 6, His Excellency the President of Uganda launched the "Government Strategy and Plan of Action to Fight Corruption and Build Ethics and Integrity in Public Office" on 26 July, 2000. In the Foreword to the Strategy Plan, the Minister of Ethics and Integrity intimated that: "Government is committed to the fostering of an ethical government in an ethical society, and remains committed to a policy of zero tolerance for corruption". One of the key challenges ahead, as intimated in the Executive Summary of the Strategy Paper, will be in ensuring the availability of adequate resources to facilitate the timely delivery of the very comprehensive objectives, activities and monitorable indicators presented in Annex 1 of the Strategy Plan.

\(^3\) It is understood that the review of fiscal transfer mechanisms to LGs is now complete and recommendations for streamlining transfer mechanisms (i.e. to collapse the current transfer mechanisms into three: a recurrent conditional grant; a development conditional grant, and a pilot program conditional grant) will be presented at a workshop on January 18, 2001.
10. Sadly, the development of the Institute of Certified Public Accountants of Uganda (ICPAU) has been stultified by the legal wrangle on membership criteria that has plagued the profession since its establishment by the Accountants Statute 1992. A number of further challenges are impacting adversely on the performance and effectiveness of the ICPAU e.g. in spite of Uganda’s manpower needs, little attention has been given to accounting at technician level and in establishing an educational pyramid on which to build professional level accountancy education; the present examination scheme with the Institute of Chartered Accountants of Scotland was due to end in December 2000 and no alternative examination scheme arrangements appear to have been made at the time of writing this Report; the Institute is financially weak as 60/70% of its income derives from the Government; about 25% of the accountants in Uganda are not regulated by the Institute as they are not registered as members, resulting in high fiduciary risk. Strengthening the capacity of the Institute to discharge its statutory obligations, thereby mitigating fiduciary risk, should be prioritized. As a starting point, as mentioned in Section 7, technical assistance should be sought to develop a Strategic Plan on which to build the future direction of the accountancy profession.

11. The accountability environment for private sector institutions is relatively weak. Although progress has been made by the Government in strengthening the legal framework in specialized areas of the economy (e.g. Bank of Uganda Statute 1993, Financial Institutions Statute 1993, Insurance Statute 1996, Capital Markets Authority Statute 1996), a large number of companies in the private sector continue to be regulated by the outdated Companies Act 1964 (which is modeled on the UK Act 1948). Thus, timely consideration and enactment by Parliament of the new Companies Bill and the Financial Institutions Bill is desirable. Also, resources are required by a number of regulatory bodies to strengthen their effectiveness in discharging their statutory mandates of monitoring and enforcing compliance with the laws and related regulations. Furthermore, as explained in Section 8, legal reform should not be limited to law revision; it should also include a review of related administrative capacity that is needed to implement the laws as well as judicial capacity to interpret and enforce them. Section 8 argues that a corporate governance model, encouraging the greater recognition of shareholder interests and empowering shareholders to demand accountability from the directors and executives of a company, should be developed with appropriate lessons being taken from similar models in South Africa (King), the United Kingdom (Cadbury) and elsewhere.

12. As many stakeholders are involved in the financial accountability process in Uganda, consideration should be given as to how best to: improve coordination; optimize the deployment of limited resources by reducing overlaps and omissions; enhance reporting and the sharing of information; enforce financial discipline etc. Although an Audit Forum was established to address some of those issues and held its inaugural meeting in Kampala on 25 November 1998, it appears to have lost its impetus and needs to be revitalized.

13. Tackling the many issues raised in this Report, as summarized in the Development Action Plan on pages 4 and 5, represents quite a daunting challenge for Uganda. However, through the collective efforts of the public and private sector, coupled with the technical and financial support of the international donor community, the challenges of today can become the reality of tomorrow.

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4 As stated in the Preface, discussions were held with the Government in Kampala on October 18, 2000 on the implementation of the Development Action Plan (DAP). It was agreed that the Coordination Mechanism for implementation of EFMP II and LGDP, subject to private sector participation, represented an appropriate arrangement for overseeing and implementing the DAP.
## Development Action Plan: Salient Recommendations

<table>
<thead>
<tr>
<th>Section of the Report</th>
<th>Recommendations</th>
<th>Action by</th>
<th>Indicative Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td>Short Term (&lt;12 months)</td>
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<tr>
<td>1. Legal and Institutional</td>
<td>1. Further scrutiny and final revision of the draft Public Finance Bill, and presentation to Parliament.</td>
<td>MFPED</td>
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<td>2. Finalize the Draft Treasury Accounting Instructions and Financial Regulations &amp; promulgate the new set.</td>
<td>MFPED</td>
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<td>3. Incorporate provisions in the Public Finance Bill defining the mandate and role of MFPED in ensuring the efficient and effective use and accountability by Local Governments of centrally funded programs.</td>
<td>MFPED &amp; MOLG</td>
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<td>4. Draft constitutional changes for an enhanced public accountability framework, and seek approval by Parliament.</td>
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<td>2. Budget and Expenditure Control</td>
<td>1. Improving on recent milestone developments:</td>
<td>MFPED</td>
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<td>o Pursuit of completeness of the budget framework by capturing all donor funds for programming under the MTEF;</td>
<td>MFPED</td>
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<td>o Measures to enhance budget execution;</td>
<td>MFPED &amp; other Mins</td>
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<td></td>
<td>o Measures to improve performance in domestic revenue mobilization;</td>
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<td>o Enhancing the transparency of the budget process.</td>
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<td>2. Consolidating and sustaining recent gains: requiring a strategic framework for integrating and sustaining the implementation of the on-going initiatives, and capacity building.</td>
<td>MFPED &amp; other Mins</td>
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### 3. Accounting and Reporting

1. Mitigating high risks in the short term:
   - Regularize material non-reconciled items in the Public Accounts;
   - Ensure timely monthly reporting by ministries;
   - Introduce quarterly consolidated financial reports;
   - Establish a representative Financial Management Committee to reinforce internal oversight;
   - Surcharge or censure errant public officers who are charged with the responsibility of managing and controlling public funds.
   - Developing a Pay Reform Strategy should be prioritized.

2. Reducing risks in the short to medium-term:
   - Improve the quality of Public Accounts;
   - Recruit, develop and retain better qualified staff;
   - Enforce financial discipline and minimize non-compliance with set procedures, rules and regulations;
   - Eliminate potential overlap in the mandates and roles of the Treasury Inspectorate/Internal Audit Depts;
   - Reinforce management and coordination of internal oversight.

3. Medium to long-term:
   - Implement Integrated Financial Mgt System (IFMS)
   - Complying with IFAC promulgations.

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### 4. Oversight Arrangements

1. Enhance OAG independence by having its own annual budget approved by Parliament.
2. An audit certificate should be provided by the AG on the annual audited Public Accounts as required by law and in line with international practice.
3. Salary issues: development of a Pay Reform Strategy should be prioritized.
4. Measures to strengthen quality assurance and other capacity building in OAG, including TA and establishing a Technical Services Dept.
5. Mobilize technical and financial support to enable the PAC to discharge its mandate effectively.
6. Mobilize technical and financial support to enable COSASE to discharge its mandate effectively.
7. Update accounts, clear the backlog of audits and address accounting weaknesses in commissions, statutory authorities and state enterprises.
8. Institute procedures to empower the OAG with rights of access to all public bodies for audit purposes.
9. Arrears of project audit reports should be addressed (Accounting Officers and OAG).
10. Divestiture arrangements require strengthening.
2. Technical assistance and incentives to enable local governments to prepare complete and reliable annual audited financial reports on a timely basis.  
3. Study to determine the optimum staff structures and new salary arrangements to attract and retain relevantly qualified staff.  
4. Change the legal and administrative set up of the Local Government PACs to ensure their effectiveness and sustainable funding of their operations.  
5. Implementation of LGDP | MOLG & MFPED | 4 | 4 |
| | | MOLG, MFPED Att Gen MOLG | 4 | 4 |
| 6. Ethics and Integrity | 1. Mobilize resources for identified agencies to effectively implement the GOU Strategy Plan to fight corruption and build ethics and integrity in public office.  
2. Enforce procedures to sanction and penalize for “informalities” in the management of public resources. | MMPF DEI, IGG etc MFPED & line mins. | 4 | 4 |
| 7. The Accountancy Profession | 1. Timely resolution of the legal wrangle on criteria for ICPAU membership.  
2. Develop and implement a Strategic Plan to strengthen the capacity of the ICPAU to discharge its statutory obligations. | ICPAU | 4 |
| 8. Private Sector | 1. Finalize and present to Parliament the draft Companies and Financial Institutions Bills.  
2. A corporate governance model should be developed.  
3. Strengthen the Judiciary and other law enforcement agencies. | MFPED & Attorney General | 4 | 4 |
SECTION 1: CENTRAL GOVERNMENT – LEGAL/INSTITUTIONAL FRAMEWORK

1.1 Present Framework

Uganda has a relatively well established legal and institutional framework for public sector financial management and accountability that is underpinned by the Constitution of the Republic of Uganda, 1995; the Public Finance Act, 1964; and the Treasury Accounting Instructions, Part I (1991) and Part II (1968).

The Constitution defines the principles and overall legal and institutional framework for governing the control, management and accountability for public resources. The ultimate authority for controlling the generation of public funds and for the deployment of such funds is vested in the Parliament. The Government (Executive) is mandated to initiate any measures required to raise and use public funds. The Constitution provides that all public revenues must be paid into the “Consolidated Fund” and that funds may only be disbursed from that account under the authority of Parliament or as explicitly provided for in the Constitution.

Article 164 of the Constitution stipulates that the Permanent Secretary or the Accounting Officer in charge of a ministry or department shall be accountable to Parliament for the funds in that ministry or department. Article 164 also provides that any person holding a political or public office who directs or concurs in the use of public funds contrary to existing instructions shall be accountable for any loss arising from that use and shall be required to make good the loss even if he/she has ceased to hold that office. Article 163 establishes the position of Auditor General (AG) and mandates the appointee to audit and report on the public accounts of Uganda and of all public offices and any public corporation or other bodies or organizations established by an Act of Parliament. The Office of the AG is discussed in Section 4.

The Public Finance Act, deriving from the constitutional framework, more specifically prescribes the controls and administrative framework for the management and accounting for public funds. It vests the authority and responsibility for supervision of the collection and use of public funds in the “Minister responsible for Finance” i.e. that Minister is charged with the management of the Consolidated Fund. However, for accountability and control purposes, the Minister is required to seek the authority of Parliament to use funds for specified purposes by submitting an Appropriations Bill. Moreover, the Minister and public officers, following Parliamentary approval: (i) may only use the appropriated funds for authorized purposes; (ii) may not incur expenditure in excess of the appropriated funds; and (iii) must use the appropriated funds within the financial year. At the same time, the Minister must ensure that a full account for the management of the Consolidated Fund and use of public funds is made to Parliament as required by the Constitution.

The Act establishes the “Treasury” which it defines as the Minister responsible for Finance and any public officer deputed by the Minister to exercise powers and to perform duties under the Act. The Act empowers the Secretary to the Treasury - i.e. the Permanent Secretary of the Ministry of Finance, Planning and Economic Development (MFPED) - and any public officer deputed by him/her to obtain full access and information to enable him/her to inspect all Government offices on the care and use of moneys, property, documents and records. The Act further provides for the appointment of “Accounting Officers” by the Treasury and outlines their responsibilities viz. to ensure that appropriated funds are spent for the purposes voted by Parliament, and that there are no unauthorized or irregular expenditures; to prepare and certify annual appropriation accounts, in the prescribed format, for the revenues and expenditures voted for their ministry or department, and to submit the same to the AG.
Treasury Accounting Instructions and Regulations: The Public Finance Act empowers the Treasury to make instructions in respect of the custody and handling of all funds and assets of Government that public officers must observe. The Treasury Accounting Instructions, and associated accounting regulations, constitute the manual of Government budgeting, accounting procedures and controls, and financial reporting.

The current edition of the Treasury Accounting Instructions on Finances (Part I) are dated 1991. Part II of the Instructions dealing with “Stores” is dated 1968. The Instructions require the Commissioner responsible for the Treasury Office of Accounts to compile and circulate to Accounting Officers all amendments to the Treasury Accounting Instructions on an annual basis e.g. the Treasury circulars on the introduction of new budget procedures (medium-term expenditure framework) constitute part of the instructions, as provided for under the Public Finance Act. However, this has not been done for many years.

1.2. Assessment of the Present Legal and Institutional Framework

The Constitution: there are fiduciary risks associated with the following:

- Under Article 155 (3), certain bodies designated as “Self Accounting” (e.g. the Electoral Commission, the Human Rights Commission and the Judiciary) have their annual estimates of expenditure exempted from the scrutiny of the Minister of Finance prior to their submission to Parliament. Under their respective Articles (65, 55 and 128), the administrative expenses of those bodies are a charge on the Consolidated Fund and are thus excluded from the Appropriation Act by Article 156 (1) and are permitted to be withdrawn from the Consolidated Fund under Article 154 (1) (a). Prima facie, it is not within the power of the Minister of Finance, or indeed Parliament, to refuse such withdrawals. Therefore, even if the Minister or Parliament had power to amend the annual estimates of those bodies, on the demand of the Constitutional Bodies, their expenses have to be met out of the Consolidated Fund. The objective presumably was to guarantee the independence of those bodies from interference by the Executive through budgetary constraints. It is therefore proposed that the Constitution should be amended to make those bodies subject to Parliamentary approval for the amount of resources allocated to them and to make them accountable to Parliament for the use of such resources.

- The independence of the AG is not assured. Whilst the Constitution provides that the appointment of the AG is subject to approval by Parliament, it provides that dismissal lies exclusively in the hands of the Executive through the President. Consequently, in effect, the officer is subject to control and undue influence by the Executive, who is primarily the auditee. The issue of audit independence is discussed further in Section 7.

- Supplementary appropriations and expenditures in excess of amounts approved by Parliament (i.e. extra-budgetary expenditures) are routinely approved by Parliament subsequent to the end of the transactions. This is in contravention of the constitutional principle of the prior approval of expenditure by Parliament; if abused, it could render ineffective the separation of duties between the Executive and the Legislature envisaged by the Constitution. It is suggested that Supplementary Appropriation Bills should be presented to Parliament in the same financial year as that to which they refer.

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1 In practice, however, the Minister through the Secretary to the Treasury invokes other Constitutional provisions that empower him/her to control expenditures within the available funds to decide what amounts to release to the Constitutional Bodies, and such releases have generally been falling below the amounts budgeted by those Bodies. But, clearly, this is a contentious issue.
The 1964 Public Finance Act requires updating and strengthening, for example:

- Recent improvements in public expenditure management (e.g. the MTEF-based budgeting and Commitment Control Accounting, as discussed in Sections 2 and 3 of this Report) are not explicitly provided for in the Act. However, one might argue that these are procedural controls, requiring regular review, and should be provided for as Financial Regulations.
- The Act does not compel Accounting Officers to obtain value for money nor for the AG to examine and validate for this.
- The AG is not explicitly empowered to have full and unhindered access to information on all public expenditure transactions; this may result in some limitation in the scope of audit work e.g. "Classified Expenditures", as mentioned in Section 4 of this Report.
- The provisions for imposing penalties and sanctions for non-compliance with the law and regulations are weak.
- It does not explicitly uphold transparency in the budgeting and use of public funds. Hence, the recent initiatives by the Treasury to promote participation and enhance transparency are not backed by the Act (please refer to Section 2 of this Report).

The Treasury Accounting Instructions date back to 1991 and do not incorporate the piecemeal changes introduced through Treasury circulars over the years. In addition, they will need to reflect the proposed amendments to the Constitution and the Public Finance Act.

In recognition of the need to update the Public Finance Act, the Treasury has drafted a Public Finance Bill to replace it. At this juncture, Government has not taken any steps to amend the Constitution in order to mitigate the risks identified above. However, it is noted that re-drafted Treasury Accounting Instructions and Financial Regulations have been prepared with the support of PricewaterhouseCoopers.

Regarding the draft Public Finance Bill, a cursory review suggests that a more detailed and comprehensive assessment is advisable. For example, it is suggested that the draft Bill should address the following concerns: (i) executive functions (such as establishing systems and ensuring proper control procedures) should, in practice, be left to the Secretary to the Treasury. The Minister should focus on policy decisions and pronouncements, and deal with Cabinet and Parliamentary aspects of public financial accountability, including the proper use of resources; and (ii) the Minister should not be appointing the Accountant General or any of the public officers specified in the Act. To safeguard meritocracy in the appointments process, this function should be carried out by the Public Service Commission.

1.3. Conclusions and Recommendations

(a) Although Uganda has a relatively well established legal/institutional framework for public sector financial accountability, the present framework requires updating and strengthening: (i) the draft Public Finance Bill should be comprehensively reviewed prior to being tabled in Parliament during the fiscal year (FY) 2000/2001; (ii) finalize the Draft Treasury Accounting Instructions and Financial Regulations before the end of FY 2001/2002. Thereafter, the Instructions should be updated and circularized annually; and (iii) the Constitutional changes required to improve the public accountability framework should be systematically identified and an amendment bill should be drafted during the FY 2000/2001. Thereafter, the bill should be presented to Parliament within a further 18 months.

(b) To address the aforementioned recommendations, the Treasury will need to work in close collaboration with the relevant legal services departments of the Government. Short-term technical assistance may be required.
SECTION 2: CENTRAL GOVERNMENT - BUDGETING AND EXPENDITURE CONTROL

2.1 Current Practice and Recent Initiatives

Historically, the system of budgeting was highly centralized, non-participatory and non-transparent to all except MFPED. Key features included: MFPED issued budget guidelines to line ministries; thereafter, the line ministries submitted their estimates; the MFPED decided on the budget estimates, obtained Cabinet and Parliamentary approval and finally presided over its execution. The approach to determining the need and allocation of funds was incremental as allocation decisions emphasized inputs and not outputs and outcomes. It is also significant that the budget system and practices largely evolved before the onset of decentralization and is still evolving. During the 1990s, the GOU launched several initiatives to improve the budget process with varying degrees of success.

Cash Budgeting and Cash Flow Management (CB), in the context of structural adjustment measures, was introduced in the early 1990s to deal with pervasive breakdown in fiscal discipline that had given rise to ever rising budget deficits, with serious adverse consequences on macro-economic stability. Under the CB system, the release of funds is based on the rationing of available funds to “priority” expenditures as determined by MFPED, and not on the basis of proportionate distribution across the approved estimates. As a tool for aggregate expenditure control, the CB has been very effective and Uganda has transited from double digit fiscal deficits (including grants and concessional loans) to surplus positions in the past 3 years.

The down-side of the CB system viz. unpredictable flow of funds to the spending agencies as well as non-transparent and somewhat arbitrary allocation of funds, has become increasingly apparent, especially in the quest for improved service delivery and accountability. With effect from the last fiscal year, although MFPED introduced measures to facilitate quarterly predictability in the monthly releases of funds, the situation regarding predictability and transparency in releases remains unsatisfactory.

The Uganda Revenue Authority (URA) was established in 1991 as an autonomous agency for collecting Government revenues. The URA performed commendably in its initial years, raising Government revenue share of the GDP from 4% to about 12% three years ago. Performance has now stagnated and, as a result, Government has been unable to realize the domestic revenue estimates in the budget. Furthermore, the level of domestic resource mobilization remains well below target, especially compared with the Sub-Saharan Africa (SSA) average of about 16%. For its part, the URA complains that MFPED is starving it of the resources needed to build capacity and motivate its staff to achieve the revenue collection targets.

The Medium Term Expenditure Framework (MTEF) was introduced as a budget instrument in FY 1996/97. It was a particularly significant initiative as it broke the traditional incremental approach. The MTEF was introduced to: (i) facilitate the alignment of government expenditures with macroeconomic policy goals within a 3-year time frame; (ii) ensure that budgetary resources were allocated in accordance with priority sector policies and plans as set out in the Poverty Eradication Action Plan (PEAP); and (iii) link inputs to outputs and outcomes in order to maximize the efficiency and effectiveness of public expenditures. The MTEF, as applied, is a relatively comprehensive and robust instrument for defining policy and program priorities, and

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4 The problems associated with “cash budgeting” are accentuated by revenue shortfalls in an economic situation where these shortfalls cannot be bridged with Bank borrowing without risking macroeconomic instability. The problems are also exacerbated by cash demands from the more influential ministries for supplementary funds.
the strategic allocation of public resources. However, in spite of the progress to date, MTEF is not yet a fully effective tool in a number of respects: (i) the framework is partial as a large proportion of development partners' funds are not programmed within the framework; (ii) there is limited integration in the planning and budgeting of development and recurrent expenditures; (iii) adequate and reliable indicators to facilitate monitoring and evaluation of sector plans and budgets are still in the process of being put in place; and (iv) ministries and LGs are inclined to prepare their annual budgets on the traditional incremental basis, as these organizations are struggling to catch up with the center in the use of the MTEF.

Enhancing participation and transparency of the budget process. In FY 1997/98, MFPED introduced a more inclusive and transparent budget process. Workshops/seminars were organized for representatives of various public agencies, private sector organizations, donors and select civil society organizations to participate in exchanging views and information on economic forecasts, tax policies, sector goals and policies, planned programs outcomes and the priorities for resource allocations. Furthermore, a pamphlet explaining the budget process was published and widely circulated.

Introducing Output-Oriented Budgeting (OOB). OOB implementation is planned to augment the MTEF and to facilitate the objective of maximizing operational efficiency of public expenditures. However, OOB has barely started, with sector working groups being required: (i) to identify key performance indicators at the center and district levels; and (ii) to measure and evaluate performance at these levels. Furthermore, the introduction of the OOB has four significant drawbacks:

- difficulties of gathering reliable data and information as no system is in place;
- implementation is technically challenging;
- staff in ministries and local governments may not have sufficient information, knowledge and skills to undertake OOB as the system is not well articulated;
- it may not be efficiently implemented and sustainable without linking it to the Results Oriented Management (ROM) initiative that was introduced under the Public Service Reform Program. There is logic and synergy in synchronizing the implementation of OOB and ROM. At present, these are parallel initiatives by MFPED and the Ministry of Public Service (MPS). It is feasible that a framework performance improvement cycle, encompassing both initiatives and the MTEF, can be defined and agreed.

Introducing measures to improve budgeting and expenditure control in local governments (LGs). These measures are necessary following recent developments under the PEAP and decentralization strategies that have resulted in substantial development expenditures being disbursed directly to LGs from the MFPED. Salient features of the initiative, that commenced in FY 1998/1999, include: (i) the mandatory preparation of medium budget framework papers by the LGs in accordance with MTEF and PEAP principles and priorities, using guidelines and training provided by the MFPED and the decentralization secretariat; (ii) requiring the LGs to be widely participatory and transparent in their budget process; (iii) use of work plans agreed with sector ministries as the basis for releasing funds to the LGs; and (iv) use of approved work plans as the basis for releasing funds to departments within the LGs. However, most LGs do not have the capacity to fully and effectively implement those measures.

7 The relevant proportions in the FY 2000/01 budget are: total resources disbursed to districts as a % of total GOU-funded expenditures is 33%; total recurrent resources disbursed to districts as a % of total GOU-funded recurrent expenditures is 35%; total development resources disbursed to districts as a % of GOU-funded development expenditures is 21%.
As a result of the aforementioned initiatives, Uganda has made milestone achievements in the reform of the budget process and expenditure control. Conventionally, public sector budgeting and expenditure control systems should be evaluated on three criteria: (i) the aggregate level of public spending is consistent with the medium term macro-economic framework, yielding a sustainable deficit and public debt (i.e. aggregate fiscal discipline); (ii) resource allocations should accord with policy priorities, as reflected in spending by the priority sectors; and (iii) expenditure inputs should reflect the most efficient use of the resources to maximize outputs.

Against the first two of the above criteria, the Uganda budget system scores very well. Regarding aggregate fiscal discipline, it is noteworthy that at the time of launching the “cash budgeting” in 1992, the overall budget deficit was 14.5% and inflation was in 3 digit figures. In subsequent years, the deficit gradually turned to a surplus (in FY 1996/97), and the annual rate of inflation reduced to single digit figures.

The practice of “cash budgeting” usually undermines efficiency in allocations as those making release decisions respond to political or other non-policy exigencies, thereby depriving the priority programs for implementation of resources. In Uganda, however, the evidence is that “cash budgeting” has in recent years been managed without resulting in expenditure cuts on priority (poverty reduction) programs e.g. in FY 1998/99, budget performance for the high priority areas of education, health, and roads sectors exceeded the original provisions; and the under-performance in agriculture, another priority sector, was only marginally lower at 94%.

2.2 Assessment of the Present Position

Major Risks Remain in Budget Execution: Although Uganda has an exemplary budget system today compared to most developing countries, considerable risks remain at the level of budget execution i.e. in ensuring that the resources allocated are utilized efficiently to achieve the intended outputs and outcomes. Several factors underlie this shortcoming:

Firstly, the MTEF remains underdeveloped at the third (operational efficiency) level as: (i) there are no clear links between inputs and outputs in the budgets prepared by the ministries and LGs; (ii) there is a significant degree of parallel planning and budgeting of development and recurrent expenditures; and (iii) there is no regular and reliable monitoring and evaluation of outputs and outcomes. These are the challenges that the OOB initiative targeted, but so far unsuccessfully. Consequently, it is difficult at present to ascertain efficiency and value for money in the use of resources.

Secondly, the weaknesses in accounting and reporting of public expenditures, as outlined in Section 3, may result in the undetected diversion and inappropriate use of budgeted resources.

Thirdly, under the decentralization and poverty reduction programs, substantial development resources are now being directly disbursed to LGs who are therefore responsible for ensuring the efficient use of those resources in achieving the planned outputs and outcomes, i.e. improved delivery of services in key sectors. However, as elaborated in Section 5, LGs have capacity constraints in formulating budget frameworks and budget execution plans that are consistent with the policy objectives contained in the overall MTEF.

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9 Emmanuel Tumusime-Mutebile (1999), Medium Term Expenditure Framework: Lessons of Experience from Uganda (unpublished presentation to the Kenya MTEF Workshop for Permanent Secretaries in Nairobi).
10 World Bank (ibid.).
The MTEF is a Partial Framework: The MTEF is a partial framework as a large proportion of development partners’ funds are not programmed through it.

Budget Performance Undermined by Domestic Revenue Falling Short of Forecasts: Failure to meet the annual domestic revenue estimates has been undermining the overall performance of the budget. Meeting budgeted domestic revenue collection targets will facilitate higher predictability in the flow of funds. The MFPED has recently promulgated a comprehensive set of measures to strengthen revenue collection.

Further Enhancing the Transparency of the Budget Process: Although broadened participation and enhanced transparency are noteworthy features of the Uganda budget process, a recent study suggests that there is still some scope for improvement:

- there is lack of understanding of the planning and budget process among many stakeholders, including members of Parliament;
- key stakeholders such as line ministries and local governments are not well informed about the basis of calculation of funds released, and why releases are sometimes late and less than what is indicated in the budget; and
- the media is not yet satisfied with the level and quality of information provided.

An Overarching Strategic Framework for the Reform Initiatives is Lacking: There is no shortfall in the number of Government initiatives being taken to improve the budget system. Furthermore, under the EFMP II Project, the Government and donors have agreed on the broad strategy and earmarked resources to support improvements in the budget process under the various initiatives outlined above. However, the CFAA Team was unable to identify a single document that charts the vision; overall strategy and coordinated action plans for these disparate initiatives. The Team feels that such a strategy and action plan is needed to fully integrate the on-going initiatives and to effectively monitor, evaluate and sustain progress in their implementation.

2.3. Conclusions and Recommendations

(a) Improving on Recent Milestone Developments: Although the Uganda budget and expenditure control system has advanced to substantially ameliorate the fiduciary risks associated with budget deficits and non-strategic allocation of resources, further improvements are achievable by addressing the following:

- The completeness of the budget framework by ensuring that, as far as feasible, all funds from development partners are planned and programmed as part of the MTEF.

- Enhancing budget execution by: (i) strengthening the MTEF process by linking inputs to outputs and outcomes, integrate the development and recurrent budgets, and the effective implementation of the OOB and ROM; (ii) strengthening procurement controls and practices, and introduce value for money audits in the use of resources; (iii) improving financial accounting and reporting, including regular monitoring and evaluation of budget outputs and outcomes.

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12. These measures are outlined in the “Memorandum of Financial and Economic Policies” agreed with the International Monetary Fund in June 2000.
• Improve performance in domestic revenue forecasting and mobilization by implementing the measures to strengthen revenue collection as promulgated in the “Memorandum of Financial and Economic Policies” by the MFPED in June 2000. The performance and capacity of the URA and the MFPED’s Macroeconomic Department should also be independently assessed.

• Further enhancing the transparency of the budget process by: (i) improving the information and knowledge base of Parliamentarians and other stakeholders to participate more meaningfully in the budget process through education and training; (ii) facilitating the participation of Parliamentary Committees in more detailed discussions with the MFPED about policies, plans and performance at different stages of the budget cycle; (iii) improving the quality and regularity of information on resource allocations and disbursements to ministries and LGs; and (iv) widening the window for transparency and public accountability by posting such documents as the PEAP, the MTEF and the budget estimates on the GOU web-site.

(b) Consolidating and Sustaining Recent Gains: Firstly, a strategic framework that captures the vision, milestones and ultimate structure of the GOU budgeting system should be developed. This framework would also guide the implementation of the disparate on-going initiatives in this area. Secondly, there is a need to build capacity at all levels. As Uganda aspires for a modern and performance oriented budget system, staff with the necessary skills to implement and maintain such a system, especially in ministries and LGs, must be attracted and retained in the public service. To this end, public service pay reform and the implementation of other incentives for staff performance should be accelerated.

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15 Robert B. Blake, Country Program Manager at the World Bank Office in Kampala observed: "There is a need to raise the revenue to GDP ratio and to base expenditures on realistic estimates of revenue availability. In the Ugandan MTEF, expenditure levels are a function of projected resources, both internal and external. Budgetary management problems arise when the projected resources do not occur. The budgetary problem last year was due in large part to the fact that the revenue to GDP ratio was forecast to increase, when in fact it fell. As a result, the Government had to cut expenditures, making budgetary management more problematic. If the Government had assumed, more conservatively, no increase in the revenue to GDP ratio then the budgetary disruption would have been significantly less. This is in fact what is happening this year: the Government based its expenditure levels on an unchanged revenue to GDP ratio. As a result, budgetary management this year has been made significantly easier. The point is that from a budget management point of view, what matters is that forecasts of revenue be as accurate or realistic as possible. This is true irrespective of whether the administrative measures are implemented or not. The need to increase the revenue to GDP ratio (and hence the rationale for implementing the administrative measures) relates to a different objective: fiscal sustainability. The two points are quite distinct."
SECTION 3: CENTRAL GOVERNMENT - ACCOUNTING AND FINANCIAL REPORTING

3.1 Current Situation

The accounting system in Uganda virtually collapsed during the political, social and economic chaos that prevailed in the late 1970s and early 1980s. Over the past decade, much effort has focused on the rehabilitation of that system – a manual system that was inherited from the colonial administration.

| Record keeping is manual | the transactions-originating documents (local purchase orders, payment vouchers, etc) are manually prepared, entered into a "vote book", internally examined, coded and audited. Cash books and ledgers are also manually maintained. Monthly trial balances and annual appropriation accounts are extracted therefrom. The only computerized aspect of the system is the preparation of checks for payments, a function that is centralized at Uganda Computer Services (UCS). The internally verified payment vouchers are batched in the spending units and forwarded to the UCS on a weekly basis. The units receive from UCS the printed checks and supporting lists, and monthly summary statements of the payments and the balances of approved levels of expenditure (budget releases).
Cash-based: | there are no accruals, receivables, prepayments, payables or other liabilities. Records of assets and inventories, when kept, are not part of the accounting system as such. The conventional balance sheet is not part of the annual accounts and reporting. However, the Treasury Accounting Instructions provide for memorandum records of transactions, including payments arrears, loans, etc.
Simple to operate and maintain: | it was designed to be operated and maintained by staff with minimal accounting knowledge and skills. The system is prescribed by the Public Finance Act, the Treasury Accounting Instructions and the Financial Regulations and Directives issued from time to time by the Secretary to the Treasury or the Director of Accounts. The quality of the accounting staff available at present are unable to support accrual accounting.
Treasury Accounting Instructions (and Financial Regulations) | outline the procedures, controls and formats for accounting and reporting. These Instructions should be revised annually by incorporating any changes introduced by circulars issued from the Director of Accounts, or in respect of other improvements deemed necessary. However, this has not been happening, and the current edition of the Instructions dates back to 1991.
A Commitment Control System (CCS) was introduced in FY 1998/1999. The CCS has two main objectives. (i) to tackle the problem of domestic arrears; and (ii) to ensure that expenditures are contained within expenditure limits and cash releases set by MFPED. The system requires that Accounting Officers submit a Monthly Commitment Control return to the Director of Accounts as otherwise the release of fresh funds will be withheld.

According to the Treasury Accounting Instructions, Accounting Officers (ministries and other accounting units) are required to submit to the Treasury Officer of Accounts monthly reports of actual versus budgeted expenditures, and provide explanations of variances from the estimates. The Treasury Officer of Accounts should use those returns to compile a Monthly Consolidated Report, to serve as an interim management report. However, ministries have generally failed to prepare the monthly returns due to: (i) delays by the UCS in making returns to the ministries of check payments; and (ii) inadequate numbers of competent accounting staff in the ministries.

Recent years have witnessed appreciable improvements in accounting and reporting e.g. the annual Public Accounts of Government have been produced within the statutory period of four months after the end of the financial year for each of the past four years. Significantly, however, an audit certificate has not been issued by the AG on the Public Accounts since FY 1993. Indeed, each of the AG’s reports reveal major weaknesses in accounting and reporting. In particular, the accuracy and reliability of the accounts, as pointed out in Section 4 of this Report, are seriously undermined due to the presence of material non-reconciled differences.

Organizationally, the MFPED is responsible for: managing and controlling government finances; ensuring efficiency and effectiveness of spending; and reporting to Parliament in line with the requirements of the Constitution and the Public Finance Act. To enable it to discharge
its responsibilities, the MFPED has established a Directorate of Accounts that has three Departments, each headed by a Commissioner, as follows:

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<th>Directorate of Accounts – Three Departments:</th>
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<td>Treasury Officer of Accounts is charged with the management, control, accounting and reporting of all public funds in compliance with the law and prevailing regulations. In that role, it is the &quot;exchequer&quot; of the Government. It also guides and supervises the ministries and other departments in the use and accounting for public funds.</td>
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<tr>
<td><strong>Treasury Inspectorate Department (TID)</strong> is mandated to: (i) inspect all ministries, departments and LGs for compliance with legal provisions, regulations and procedures relating to budgeting, accounting, control and reporting on the collection and use of public funds; (ii) develop and disseminate new standards, regulations and procedures for management and accounting of public funds; (iii) train and develop accounting personnel; and (iv) follow-up the recommendations of the Public Accounts Committee with specific measures and actions and compiling a Treasury Memorandum for tabling in Parliament by the Minister of Finance. Recently, the TID has been particularly active in inspecting LGs to ensure that they comply with the policies, procedures and controls on the use of conditional grants.</td>
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<td><strong>Internal Audit Department (IAD):</strong> Up to recently, the IAD was understaffed and focused primarily on pre-audit activities. Following a major recruitment drive over the past six months, about 20 new staff joined and the IAD currently has a full establishment of 45 professional staff comprising: 2 fully qualified accountants (ACCA and CPA), 1 masters degree holder, and 42 first degree graduates (13 of whom are registered as ACCA students). Thus, subject to adequately addressing capacity building and quality assurance issues (very similar to those identified for the OAG in Section 4), the IAD should in time discharge its mandate, as promulgated in the MFPED Policy Statement of June 2000 i.e. to review, appraise and report upon: (a) the soundness, adequacy and application of internal controls; (b) the extent to which the Government's assets and interests are accounted for and safeguarded; and (c) the sustainability and reliability of financial and other management data developed within the ministries.</td>
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Until a few years ago, the organizational framework and capacity for accounting and reporting was substantially under-developed as the staff operating the accounting system had limited education and skills and little exposure to modern accounting practices. As a result, they were ill-equipped for the ever expanding volume of Government business. Following a restructuring initiative under the Public Service Reform Program in 1998, the organization structures and staff establishment of the Directorate of Accounts were expanded. Since then, the recruitment of an internationally qualified accountant to head the Directorate and university graduates, coupled with a new emphasis on training, has considerably improved the quality of accounting staff. Currently, all ministries and independent departments (commissions) have accounting units headed by a Principal Accountant, who usually reports to the Permanent Secretary/Accounting Officer through an Under-Secretary (Finance and Administration). Significantly, however, a large number of senior and middle level positions remain unfilled because of salary constraints e.g. a qualified accountant in the public sector is paid about 20% of private sector rates\(^\text{16}\).

3.2 **Assessment of the Current Situation**

**Major Fiduciary Risks:** The annual reports of the AG cite numerous incidences of fraud, waste, poor documentation of transactions and the failure to reconcile comparatively large account balances over many years. In addition, the systems remain manual which exacerbates the problems of accounts reconciliation and delays in the preparation of reports. In due course, the manual system will be superceded by a new Integrated Financial Management System (IFMS) that will be developed under EFMP II – as discussed in paragraph 3.4 below.

**Accuracy and Reliability of Accounting and Reporting not Assured:** The accuracy and reliability of the current financial reports are in doubt as many ledger accounts, as outlined in Section 4 of this Report, have not been reconciled for several years. Also, most ministries have been failing to prepare monthly trial balances.

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\(^{16}\) KPMG (1998), Uganda Public Service Pay Study, unpublished report to the Ministry of Public Service
**Non-compliance and Weak Enforcement of Financial Discipline:** From the AG’s reports, it is evident that accounting for public expenditures is often difficult because of: (i) the regular disregard for timely and accurate recording and reporting of transactions; (ii) inadequate maintenance of ledgers and asset registers; (iii) the side-stepping of controls; and (iv) a lack of discipline. Many of the incidences reported by the AG point towards fraud, embezzlement and waste in the use of public resources. It also appears that insufficient attention is being paid by Accounting Officers to their fiduciary responsibilities, including follow up on audit findings.

**Poor Record Keeping:** The AG repeatedly alludes to poor record keeping and the regular failure by auditees to produce appropriate supporting documentation for audit purposes.

**Annual Reporting is not Comprehensive or Complete:** The annual Public Accounts prepared for submission to the AG, and ultimately to Parliament, fail the comprehensiveness test as a Cash Flow Statement is not produced as required by international practice. The Public Accounts are also incomplete as the following are either not included or are not fully reflected:

- Expenditures funded directly by donors (mostly project accounts). It is estimated that they account for about a third of the total external funding.
- Classified expenditures allocated to the State House, the military, intelligence and internal security agencies.
- Contingent liabilities.
- Pensions expenditures which are directly charged to the Consolidated Fund.

**Backlog of Non-Reconciled Accounts,** including the Consolidated Fund, should be regularized. Otherwise, the accuracy/reliability of the annual Public Accounts will remain very doubtful. The CFMAA Team was advised that some of those balances relate to the early 1980s and the burning down of the old Treasury building that destroyed the records needed to clear some of the material reconciliation items. Under these circumstances, a cut-off exercise should be undertaken as a priority in consultation with the AG and the PAC on a time bound basis in order to regularize the material anomalies. Items that cannot be reconciled should be written-off and the opening balances for FY 2000/01 should be determined.

**Low Salaries – A Constraint on Staff Recruitment and Retention:** Both the TID and IAD have been established within the past few years. Most of their staff are recently qualified graduates from universities and colleges and lack relevant experience. Furthermore, the senior officers in those Departments are inexperienced in modern auditing techniques. Thus, considerable capacity development is required. Overall, there is a dearth of professionally qualified and experienced accountants and accounting technicians in the Government accounting units both at the center and in the ministries, departments and agencies. Salary constraints are a major limiting factor as new graduates are paid about 25/33% of private sector rates.

**TID and IAD: Mandates, Roles and Functions Potentially Overlap:** The establishment of the TID about two years ago reflected, to a large extent, the ineffectiveness of the IAD. A well functioning IAD could have performed the tasks undertaken by the TID viz. (i) ensuring compliance with the CCS by line ministries; (ii) ensuring adherence to procedures and controls on the use of UPE and PAF funds by local governments; and (iii) carrying out investigations as directed by the Treasury. Although there is a conscious effort to avoid duplication in the tasks performed by the two departments, nevertheless, the mandates, roles and functions of the two potentially overlap. Some rationalization would seem to be desirable e.g. the TID could be mandated to undertake systems development and maintenance whilst the IAD might be responsible for reinforcing compliance with regulations, procedures and controls, and investigating cases of non-compliance.
3.3 Conclusions and Recommendations

(a) **Short-term Measures to Mitigate High Risks**: From a stakeholders' perspective, risk mitigation is achievable by effectively responding to the following proposals:

**Clearing and/or regularizing material non-reconciled items in the 1999 Report of the AG during the present financial year.** The objective should be to produce Public Accounts for FY 2000/2001 of sufficient quality to enable the AG to issue an audit certificate/opinion. In addressing the backlog, it may be necessary to contract a private firm to assist the Treasury staff. If any non-reconciled items predate the fire destruction of Treasury records in 1986, the authority to write-off outstanding items and regularize the account balances should be obtained following consultation with the AG and the PAC.

**Ensuring timely preparation and submission of monthly financial statements by ministries to the Treasury Officer of Accounts.** This will require: (i) adequate staffing of the ministries' accounting units; (ii) timely availability of bank statements for bank reconciliation purposes from the Bank of Uganda; (iii) strict enforcement of the reporting deadlines by the Treasury, as is presently the case for the monthly Commitment Control Statements.

**Introducing quarterly interim consolidated financial reporting.** With effect from FY 2001/2002, the consolidation of the monthly financial reports, comparing budget and actual figures with an explanation of material variances, should constitute the basis for quarterly interim financial reporting by the Directorate of Accounts.

**Recruiting and retaining qualified and experienced staff:** A short to medium-term solution to the problem of recruiting and retaining qualified and experienced staff must be developed to ensure that there is capacity to: (i) implement the priority measures recommended in this Report; and (ii) support the implementation of the IFMS. Capacity development arrangements (Training Plan) should also be put in place for all accounting staff. Specifically, the following is recommended:

- strengthen quality assurance in the IAD and TID by recruiting relevantly qualified and experienced audit managers;
- design and implement a comprehensive staff development program (Training Plan),
- hire professionals on contract to fill key vacant posts in ministries,
- in the absence of a responsive public service pay enhancement policy, introduce measures to selectively enhance the compensation levels for accountants in the public service; and
- examine the possible need for establishing specialized public sector accounting qualifications at technician and professional levels under the auspices of the Institute of Certified Public Accountants of Uganda (ICPAU) – referred to in Section 7

**Eliminate the potential overlap in the roles of the TID and IAD.** It is desirable to eliminate the potential overlap in the mandates and roles of the TID and IAD. It is suggested that the TID should be developed as the Technical Services Department with responsibilities for developing and maintaining the accounting and financial management systems across Government. The IAD should retain the traditional role of policing the operation of the systems, including reinforcing compliance and investigating cases of non-compliance with the statutes, regulations, procedures and controls. Both departments would require strengthening in order to perform the re-defined roles effectively i.e. the TID would need more IT specialists whereas the IAD would need specialists in investigations. The need for a specialized internal audit qualification under the auspices of ICPAU should be explored – referred to in Section 7.

**Improved financial discipline** is necessary and achievable through leadership, example and serious enforcement, i.e. the greater use of sanctions and penalties to deter the underlying causes of “informality” in financial management. It is also essential that enforcement is transparent and equitable. Senior management has a particular responsibility for ensuring that all instances of loss or potential loss are openly investigated regardless of the seniority of the perpetrator.

**Establishing a representative Financial Management Committee (FMC) to reinforce internal oversight and enforce financial discipline.** This Committee, with the Secretary to the Treasury as Chairperson, should meet quarterly to: (i) review the consolidated financial statements, (ii) examine material variances between budget and actual figures, seeking remedial action as appropriate within an agreed time-frame; (iii) review the Reports of the IAD and the TID; (iv) follow up cases of financial impropriety, (v) review the Reports of the AG and PAC; and (vi) ensure the timely preparation of the Treasury Memorandum in response to the Report of the PAC and follow up actions as appropriate.

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17 Please refer to The OECD Fiscal Transparency Guidelines, 2000, that are in 4 parts: Part I lists the principal fiscal reports that governments should produce and their general content. Part II describes specific disclosures to be contained in the report. Part III highlights good working methods for assuring the integrity of the reports. Part IV focuses on public and parliamentary scrutiny of the reports.
### 3.3 Conclusions and Recommendations (Cont’d)

#### (b) Medium-term Perspective

**Government Initiatives.** A number of major initiatives are being undertaken to address the identified weaknesses in accounting and reporting of public finances. Importantly, donor support for those initiatives has been mobilized, especially through two key projects:

- the Economic and Financial Management Project II (EFMP II) is being funded by the World Bank; and
- the Financial Accountability Project (FAP) will be funded by DFID and is designed to complement the EFMP II.

The successful implementation of these two projects, including progress in the implementation of the IFMS (paragraph 3.4 below) and complemented by the enactment of the new legislation (as discussed in Section 1), should upgrade and strengthen the accounting and reporting system to comparatively high standards.

**Reporting should meet generally accepted qualitative characteristics.** The Treasury Accounting Instructions should be updated so as to guide the preparation of Public Accounts in meeting the qualitative characteristics of public sector financial reporting, as promulgated by the International Federation of Accountants (IFAC) i.e. relevant, reliable, understandable, objective, timely, complete, consistent and comparable.

**Enhancing the transparency, relevance and usefulness of Public Accounts to a wider cross-section of stakeholders**

It is recommended that:

- there should be a two-tier financial reporting arrangement, with a simplified version for non-specialists and the full report for those with expertise;
- the concept of materiality should be applied (in a financial report, a matter is material if its non-disclosure, misstatement or omission is likely to distort the view given by the report); and
- public financial documents (e.g. Reports of the Auditor-General, the Public Accounts Committee and the Treasury Memorandum) should be posted on the GOU web-site.

#### (c) Long-term Perspective:

The long-term goal is to install an accounting and financial reporting system that will meet international standards and practices, including accrual accounting, as promulgated by IFAC. Furthermore, such a system should avail of modern information and communication technologies so that it will be efficient and provide high quality and timely reports. That is what is envisaged for the IFMS under EFMP II.

For the short to medium-term, accounting and financial reporting will continue to rely on the present manual system. However, without carefully prioritizing and sequencing the implementation of the proposed measures for the short to medium-term, the pervasive weaknesses in the present system could prevail into the long-term.

### 3.4 Information Technology Systems in Government and its Agencies

#### 3.4.1 Current Situation: An Overview of the Public Sector

Uganda Computer Services (UCS) was established in the 1960s and is the Management Information Systems (MIS) Services Department in the MFPED. It is responsible for providing computer related services and for overseeing computer activities for all public sector institutions. UCS also functions as the IT training center for GOU and could be an excellent IT Resource Center provided it has adequate funding. At present, UCS assists in payroll processing, prepares all Government payment checks and prepares monthly summaries of payments alongside the approved expenditure levels (budgets). The system runs on old mainframes and generation software with limited technical capacity for improvement or for dealing with modern technologies.

Throughout the public sector, there are a multiplicity of stand-alone micro-systems for work programming, budgeting and accounting. These systems are generally not compatible and are not designed to exchange data e.g. the National Agriculture Research Organization (NARO),
with support from DANIDA, has designed a system entitled NAVISION that produces the budget and accounts for NARO; the Ministry of Education is in the process of designing and implementing a new MIS that will not necessarily be compatible with NAVISION; and the Ministry of Health is moving ahead with the design of its own budgeting and accounting system that is similar to NARO's.

The Uganda Revenue Authority (URA), a parastatal, is under-funded from an IT perspective. It is partially networked at headquarters and at some of its borders posts. It's present IT status is generally unsatisfactory. Encouragingly, a new system, to be funded by the Swiss, will soon be installed and a major training program to support implementation is underway.

The Bank of Uganda (BOU) has the most advanced IT-based system among public institutions. It has a strong MIS Department with 40 professional staff comprising several programmers, network administrators, end user support staff and database specialists. The banking system, and the majority of other systems in BOU, are running under an Oracle platform. Most application development and customization is performed in-house. However, due to the rising cost of systems development, the BOU will increasingly rely on off-the-shelf software packages that will require minimum customization. The BOU IT Strategy is making provision for integration with other systems, especially GOU's IFMS.

Integration of systems will undoubtedly be constrained by the absence of a GOU IT Strategy. Such a strategy would provide a roadmap, guidelines and standards for the efficient and coordinated use of IT technologies among public institutions. National standards would ensure that investments in IT hardware and software, infrastructure and training are protected through appropriate management measures, including maintenance. The GOU IT Strategy should also address Records Management (RM) issues simultaneously with the IFMS issues. Critical areas in RM include: administrative activities, personnel and training, record scheduling, disaster recovery plans, forms management, records storage, internal controls, and interdisciplinary linkages. A reliable RM system should provide the controls needed to track the movement of records from "the cradle to the grave".

The lack of IT human resources is the most significant obstacle to the development and maintenance of IT systems in Uganda. Although Makerere University has been trying to address IT capacity issues over the past few years, the fundamental problem remains viz. inadequate salary levels, a problem that is particularly acute in the public sector.

Uganda should position itself to benefit from the Global Development Gateway (GDG) initiative by the World Bank. GDG is intended to serve the needs of a broad array of stakeholders, including developing country governments, the donor community, civil society, the private sector and other key partners. It will assist these stakeholders by providing them with links to ideas and good practices, information about development activities and trends, funding and commercial opportunities. Through Country Gateways, local government and civil society in developing countries are expected to play a vital role. A key goal is to facilitate the availability of better information and communications technologies for grassroots and indigenous groups, civil society organizations, and poor communities as tools to overcome poverty and improve living conditions. If all groups participate and contribute, the content will be rich and varied, reflecting the different perspectives and experiences of the development community. Gateway services could include on-line training modules, research findings, best practices and ideas, case studies, procurement services, information on development projects, funding, commercial opportunities, product reviews, news, jobs, and directories - all tailored to the needs of specific audiences such as community leaders, private investors, policy makers, local government officials and academics.
3.4.2 Conclusions and Recommendations

(a) Developing an Overarching Government Information Technology Strategy: To ensure efficient and effective utilization of IT for systems development throughout Government and its key agencies, an overarching strategy for IT applications should be developed as a priority. The strategy would also serve: (i) to promote the use of information and communication technologies for development; (ii) to establish a framework for strengthening technical and social capabilities; and (iii) to develop capacity building to support regional, sectoral and institutional development.

On a more immediate basis, that strategy should establish the technological parameters for ensuring the eventual integration of: (i) the proposed Integrated Personnel and Payroll System (IPPS) spearheaded by the Ministry of Public Service (MPS), and (ii) the Integrated Financial Management System (IFMS) that MFPED is developing under the EFMP II.

(b) Development of an Integrated Financial Management System (IFMS): The next steps comprise:

<table>
<thead>
<tr>
<th>Phase I (6 - 12 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finalize TORs for the FMS technical consultant.</td>
</tr>
<tr>
<td>Commissioning the FMS study that includes the design of the budget classification system including the formulation of a comprehensive Chart of Accounts so as to permit the reporting of expenditures by the same codes as in the budget.</td>
</tr>
<tr>
<td>The functional design of the system, process, procedures for expenditures controls.</td>
</tr>
<tr>
<td>Design of reporting by treasuries and consolidation of treasury reports by appropriate committee.</td>
</tr>
<tr>
<td>Design of linkage system to the payroll system or design of a new payroll system to link electronically to IFMS.</td>
</tr>
<tr>
<td>Adoption of these studies, or the system architecture, business process architecture, and future structure of the UCS. Training issues for the first phase should be included in the system architecture and design.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Phase II (13 - 36 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of the System Architecture (SA) by commissioned consulting firm, and supervised by IFMS technical consultant.</td>
</tr>
<tr>
<td>Implementation of the infrastructure by local consulting firm under the supervision of SA, including appropriate training.</td>
</tr>
<tr>
<td>Training and capacity implementation by consulting firm including relevant training.</td>
</tr>
<tr>
<td>Design and Implementation of Software for IFMS including training for several tiers of systems users such as end users, technical users, and management users.</td>
</tr>
<tr>
<td>Implementation and installation of the hardware including maintenance, warranties, and training.</td>
</tr>
<tr>
<td>Implementation of Facilities Management, technical capacity issues to sustain the system.</td>
</tr>
<tr>
<td>Acceptance testing and delivery of the system within each step.</td>
</tr>
</tbody>
</table>

Effective management control through a proactive IT Steering Committee, coupled with an experienced Project Team Leader, will be crucial to the success of the IFMS Project. Timely consultation with collaborating partners is also essential.

(c) Recruitment and Retention of Staff: To enable the recruitment and retention of appropriately qualified staff, salary levels for IT specialists in public sector institutions will need to be raised and/or such specialists may be hired on contracts at the prevailing market rates.

(d) Uganda Computer Services: The recommendations contained in the Consultant's Report entitled “EFMP II UCS Future Structure” should be considered as a basis for the rationalization of its roles, functions and reorganization.

(e) The establishment of a Global Development Gateway should be supported.
SECTION 4: OVERSIGHT ARRANGEMENTS

4.1 Office Of The Auditor General (OAG)

4.1.1 Present Position


The AG is appointed by the President with the approval of Parliament and may be removed from office by the President for inability to perform, misbehavior, misconduct or incompetence. The salary and allowances payable to the AG are chargeable to the Consolidated Fund. The AG is required to produce his/her annual report within 9 months of the financial year end. The OAG work is managed by 4 Directors of Audit (Central Government, Local Government, Parastatals and PTA – Projects, Administration and Training) with the following staffing:

A: Analysis by Job Grade

<table>
<thead>
<tr>
<th>Position</th>
<th>Central Government</th>
<th>Local Government</th>
<th>Parastatals</th>
<th>Projects, Administration, Training</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors of Audit</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Principal Auditors</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Senior Auditors</td>
<td>4</td>
<td>9</td>
<td>5</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Auditors</td>
<td>27</td>
<td>20</td>
<td>14</td>
<td>1</td>
<td>62</td>
</tr>
<tr>
<td>Principal Examiners</td>
<td>5</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Senior Examiners</td>
<td>10</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Examiners Grade I</td>
<td>16</td>
<td>21</td>
<td>12</td>
<td>-</td>
<td>49</td>
</tr>
<tr>
<td>Examiners Grade II</td>
<td>40</td>
<td>86</td>
<td>8</td>
<td>-</td>
<td>134</td>
</tr>
<tr>
<td>Total</td>
<td>106</td>
<td>139</td>
<td>47</td>
<td>4</td>
<td>296</td>
</tr>
</tbody>
</table>

B: Analyzed by Qualifications

<table>
<thead>
<tr>
<th>Position</th>
<th>Central Government</th>
<th>Local Government</th>
<th>Parastatals</th>
<th>Projects, Administration, Training</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Qualifications</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Masters Degree</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Primary Degree</td>
<td>26</td>
<td>31</td>
<td>19</td>
<td>2</td>
<td>78</td>
</tr>
<tr>
<td>Diplomas</td>
<td>50</td>
<td>81</td>
<td>18</td>
<td>-</td>
<td>149</td>
</tr>
<tr>
<td>School Leavers</td>
<td>25</td>
<td>25</td>
<td>8</td>
<td>-</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>106</td>
<td>139</td>
<td>47</td>
<td>4</td>
<td>296</td>
</tr>
</tbody>
</table>

Notes
1 The OAG currently has a full establishment. Some 80 to 90 staff were recruited over the past 6 months following the suspension of the public sector freeze on recruitment.
2 The 8 professionally qualified staff (7 ACCAs and 1 CPA, Kenya) passed their final examinations fairly recently and are at the job grade of "Auditor".

Although the Constitution requires the AG to be a professionally qualified accountant (i.e. a CPA, ACA, ACCA or other internationally recognized accountancy qualification) with at least 15 years of relevant experience, this has not been the case in the past. However, with effect from 2001, compliance with this requirement will be achieved following the recent appointment of a professionally qualified accountant as the Auditor General.

The AG is required under the Constitution to conduct financial and value for money audits in respect of any project involving public funds. Heretofore, the AG has focused almost exclusively on financial audit whilst internal capacity development to conduct value for money audits is underway.
The OAG, as a member of the International Organization of Supreme Audit Institutions (INTOSAI), is expected to apply auditing standards promulgated by that body. There are some quality controls in the OAG as audit work is reviewed at various stages in the hierarchy until the final audit report is issued. Significantly, in line with Section 163 (9) of the Constitution and following a Parliamentary resolution, the Government is arranging to have the accounts of the OAG audited and reported upon by an external auditor appointed by Parliament.

4.1.2 Assessment of the Present Position

Independence: Consistent with international practice, the OAG should be independent: "An adequate degree of independence from both the legislature and the executive branch of government is essential to the conduct of an audit and to the credibility of results" (Chapter II, International Auditing Standards, INTOSAI. Presently, the MFPED and the MPS control various aspects of the OAG’s budget and personnel responsibilities. In his 1999 Annual Report, the AG stated: "It is important that the OAG gets a budget which is a direct charge on the Consolidated Fund so that its work is not interrupted by frequent audit cuts by the Treasury".

Audit Board: It would be unrealistic to allow any organization unlimited access to public funds. Thus, the desirability of establishing an Audit Board - in line with arrangements prevailing in the UK, Ghana and South Africa - is under consideration by Government. Under this possibility, it is envisaged that Parliament would approve the OAG’s budget in accordance with the recommendations of the proposed Audit Board. In arriving at its recommendations to Parliament, the Audit Board would examine and approve the OAG’s business plans (work programs) and seek the views of the PAC and COSASE (on priorities to be audited) as well as MFPED and MPS (on proposed estimates). A further issue that is currently under consideration by the GOU is whether the OAG should be empowered to charge audit fees for its services.

Classified Expenditure: Powers of access and examination are not specified in the Constitution and appear to be inadequately accepted by auditees. A fully independent AG should have access to all public bodies for audit purposes. In many countries, military budgets are not adequately reported upon and escape effective audit, creating substantial fiscal risks of overspending, unauthorized debt commitments and waste of resources. Uganda appears vulnerable to such risks with the AG regularly reporting that he is unable to complete a statutory audit of classified expenditure e.g. in his 1999 Annual Report, the AG stated: "Modalities being worked out with the relevant authorities to have all classified expenditures audited are taking a long time to finalize”

Audit Certificate/Opinion: Although the annual audited Public Accounts of Government have been produced within the statutory period of 9 months after the end of the financial year for each of the past 4 years, an Audit Certificate has not been issued on those Accounts. This is in contravention of: (i) Section 28 (1) (b) of the Public Finance Act 1964; and (ii) Auditing Standards (Chapter IV, Reporting in Government Auditing), as promulgated by the INTOSAI. The last Public Accounts of Government for which an Audit Certificate was issued was for the 1993 financial year (Certificate dated 31 July 1995).

Anomalies/Reconciliations: Pages 4 and 6 of the OAG Report 1999 refer to: (i) Debits on the bank statement not credited in the cash book Shs 108 billion, not supported by documentary evidence; and (ii) Difference in the Consolidated Fund Shs 68 billion. Apparently, these material amounts relate to previous financial periods. Nevertheless, they require timely reconciliation and a time bound action plan should be prepared to regularize the position. It is understood that DFID may be willing to offer some technical assistance in addressing the backlog.
Capacity Building, Twinning and Quality Assurance Managers: The possibility of establishing twinning arrangements with OAGs elsewhere should be explored. Whilst acknowledging that important classroom training is being undertaken through OAG 2000 (DFID), consideration should be given to strengthening quality assurance in each of the OAG’s 4 Directorates by recruiting relevantly qualified and experienced Audit Managers. Extensive and continuous training (classroom and on-the-job) will be required in several areas e.g. value for money/performnace auditing as required by Section 163 (3) (b) of the Constitution, IT, computer assisted auditing techniques (CAATs), forensic auditing and regularity auditing. In time, the possibility of establishing a Technical Services Dept should be explored and a database of Best Practices should also be developed.

Format, Structure and Minimum Requirements of Annual Reporting: The appropriateness for Uganda of the proposals outlined in the recent Exposure Draft (Financial Reporting under the Cash Basis of Reporting, May 2000) from the International Federation of Accountants (IFAC) should be examined by the relevant authorities. Issues relating to materiality (e.g. one of the impression’s given by the OAG Report is that of unremitting detail concerning relatively small amounts), coverage (including donor funded expenditures) and management letters should also be reviewed. For example, in addition to documenting irregularities in spending, the AG should evaluate the state of financial management systems, including internal controls, within ministries and departments and make recommendations for their improvement in a management letter. Thereafter, Accounting Officers, under the auspices of the Financial Management Committee (as discussed in Section 3 of this Report), should be held accountable for the implementation of the recommendations.

Staff: Following a major recruitment drive over the past 6 months (about 80/90 new staff), the OAG has a full establishment of 296 professional staff comprising: 7 ACCAs, 1 CPA, 3 masters degrees, 78 primary degrees, 149 diplomas and 58 school-leavers. The challenge for the OAG will be to retain and motivate good staff as, evidently, public sector salaries for new graduates are about 25/33% of private sector rates. Staff retention is, therefore, a major problem. A Pay Reform Strategy is currently being prepared under the aegis of the MPS. Adequately remunerating staff is a key element in securing a permanent improvement in the quality and usefulness of audited Public Accounts.

Arrears of Project Audit Reports: Substantial arrears in the receipt of project audit reports have been observed e.g. the number of audit reports received on time by the World Bank has declined from 76% in 1998 to 68% in 1999 and 57% in 2000. This is a cause for concern and should be addressed by the relevant authorities.

Divestiture Accounts: The OAG Report 1999 stated that 76 enterprises have been divested by Government to June 1999. Various control weaknesses were noted in the Report e.g. 12 enterprises defaulted on their payments in the amount of Shs 16 billion and are in arrears for periods ranging from 1 year to over 4 years; disposal of shares for substantially less than their valued amount (e.g. Bank of Baroda and Papco Industries); no interest was collected, no securities were held and amounts outstanding were not recovered in respect of some loans to private sector companies (e.g. B M Technical Works Ltd and Sembule Rolling Mills); examples of enterprises where pre-divestiture audits were not carried out were cited. Appropriate and timely follow up by the relevant authorities is advisable. Moreover, the AG advised that the “Committee of the Privatization Unit should adopt better negotiating strategies that aim at ensuring that Government assets are sold at prices close to their valuation amounts”.

24
4.1.3 Conclusions and Recommendations

(a) The OAG should be independent by having its own budget approved by Parliament in accordance with the recommendations of an Audit Board or its equivalent.

(b) Appropriate procedures, legal (e.g. the Public Finance Act is currently being revised) or otherwise, should be instituted to effectively empower the OAG with rights of access to all public bodies for audit purposes. Classified expenditure (defense and security institutions) should be subject to external audit by a group of the OAG staff with security clearance; their report could then be submitted to a closed PAC session.

(c) Consistent with INTOSAI standards, and as required by law, an Audit Certificate should be provided by the AG on the annual audited Public Accounts.

(d) A time bound action plan should be prepared by MFPED to regularize the material anomalies referred to in the OAG Report 1999.

(e) Quality assurance arrangements should be strengthened in each of the OAG’s 4 Directorates by recruiting relevantly qualified and experienced Audit Managers. The establishment of a Technical Services Department and twinning possibilities should also be explored.

(f) Capacity development should be further supported through extensive and continuous training (classroom and on-the-job) in the areas enumerated in paragraph 4.1.2 above.

(g) Issues relating to materiality, coverage and management letters should be reviewed. For example, following the AG’s evaluation of the financial management systems, including internal controls, management letters should be issued by him/her to line ministries. Thereafter, Accounting Officers, under the auspices of the Financial Management Committee, should be held accountable for the implementation of the recommendations.

(h) Issues pertaining to salary levels require timely resolution as staffing impacts significantly on the quality of financial management and external audit.

(i) The relevant authorities (Accounting Officers and OAG) should ensure that audit reports for donor funded projects are produced on time as required by funding agreements.

(j) Divestiture arrangements require strengthening in terms of ensuring economy, efficiency and effectiveness.

4.2 Public Accounts Committee (PAC)

4.2.1 Present Position

The PAC is appointed by the legislature and is one of its Standing Committees. Its remit is: “to examine the audited accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure of Government; to monitor all expenditure of public funds and to report to the House at least twice in a year” - Section 123, Parliamentary Rules of Procedure. Although the PAC holds hearings on the AG’s report, it is manifestly under-resourced as it is supported by just a Secretary/Clerk Assistant and an Intern.

Procedurally, following the submission of the PAC findings, a Treasury Memorandum (TM) is issued by the MFPED. However, the Chairman of the PAC advised that worrying arrears are
experienced as the last TM issued by MFPED was in respect of the 1995 financial year. Furthermore, due to Constitutional convention that the legislature has no executive powers, the PAC may only make recommendations which, theoretically, are not binding. Given the primacy of the legislature in financial matters, one wonders whether they should be treated as binding by MFPED and implemented by a properly empowered and resourced office in that Ministry? A significant weakness in accountability at present has been the lack of consistency in the follow-up action in response to the AG/PAC/Treasury Reports.

4.2.2 Conclusions and Recommendations

(a) The PAC should be provided with technical and financial resources to enable it to discharge its mandate. Study tours and twinning arrangements should also be considered.

(b) Recommendations of the AG/PAC/Treasury Reports should be rigorously followed up in a timely manner. In particular, sanctions and penalties should be enforced.

4.3 Committee On Commissions, Statutory Authorities And State Enterprises (COSASE)

4.3.1 Present Position

The AG (Directorate of Statutory Corporations) is responsible for auditing the accounts of public enterprises in Classes I and II of the First Schedule of the Public Enterprise Reform and Divestiture Statute 1993. The Directorate is currently responsible for auditing 23 Parastatal Corporations, 3 Commissions and 22 Authorities.

The financial statements of most Commissions, Authorities and Parastatals are in arrears i.e. in contravention of Section 15 (5) of the 1993 Act that requires each public enterprise to publish annually its audited financial statements in a national newspaper within 90 days after the end of its financial year. Moreover, having perused the latest available audited financial statements for several large public entities, significant internal control weaknesses were noted and most accounts contained qualified audit opinions. The recently appointed Chairman of the COSASE – a Standing Committee of Parliament whose functions are described in Section 141 of the Parliamentary Rules of Procedure – attributed the problems to: poor management; failure by line ministries to adequately monitor the situation; and an under-resourced COSASE (it has 1 Secretary and 1 Clerk).

4.3.2 Conclusions and Recommendations

(a) A time bound action plan should be prepared by the responsible line ministry in consultation with the defaulting parastatal and COSASE: to prepare/update the accounts; to clear the backlog of audits; to address identified control weaknesses; and to regularize anomalies.

(b) Sanctions and penalties should be rigorously enforced to deter the underlying causes of “informality” in financial management.

(c) COSASE should be provided with technical and financial resources to enable it to discharge its mandate. Study tours and twinning arrangements should also be considered.

(d) As most parastatal audits are conducted by audit firms on behalf of the AG, it would be useful to develop a set of “Guidelines for audits conducted on behalf of the AG”.

26
SECTION 5: ACCOUNTABILITY IN LOCAL GOVERNMENTS (LGs)

5.1 Legal and Institutional Framework

The system of local government in Uganda is established under the 1995 Constitution and the Local Governments Act, 1997 (LG Act) which reflect the Government's decentralization policy that has evolved since 1986. Under that policy, LGs were made responsible for the provision of a wide range of services as defined in the Act and were given the powers to plan and budget for funds used to this end. The Act defines the overall financial management framework for LGs in which the use of those funds is accounted for.

The LG Act:

- charges local government councils and administrative units with the duty to keep proper books of accounts and other records, to balance their accounts for each year and to prepare statements of final accounts within four months from the end of each financial year;
- requires the accounts to be audited by the AG or an auditor appointed by him, and that the reports be submitted to the Parliament, the Minister (MFPED), the Minister of Local Government (MOLG), the local government to which the audit relates, the Local Government Public Accounts Committee (LGPAC), the Local Government Finance Commission (LGFC), the Inspector General of Government and the Resident District Commissioner;
- directs the MOLG to lay the audit report of each local government before Parliament;
- provides for each district and each municipal or town council to maintain an Internal Audit Department and establishes LGPACs which are then required to examine the reports of the AG and the Chief Internal Auditor, and to recommend appropriate actions to the Chairperson of the Council and the Chief Administrative Officer (the head of the Civil Service in LGs). In practice, the follow-up of audit reports by the LGPACs, councils and their administrations is not done effectively. This is partly due to capacity constraints and partly to the fact that, on many occasions, the AGs Report and matters dealt with therein are not timely;
- gives responsibility and authority to line ministries to inspect and monitor LGs on matters for which they are nationally responsible.

The Local Governments Financial and Accounting Regulations (LGFAR) were issued as part of the requirements of the LG Act in 1998 and prescribe financial and accountability measures for compliance by all LGs. Additional guidelines on internal audit and LGPACs have been issued by the MOLG. The MFPED has also issued guidelines on accounting for conditional grants transferred from the Poverty Action Fund (PAF) managed by the Treasury. However, the Act does not define the fiduciary relationship between the LGs and the MFPED.

The MOLG is responsible for the coordination of and advocacy for LGs. For the past five years, a Decentralization Secretariat that largely operated independent of the MOLG was responsible for development of the LGs. There is a current initiative to mainstream the Secretariat into the MOLG.

5.2 Financial Management in the LGs

Considerable effort has been expended on the development of local government planning, budgeting and accounting since the decentralization program was launched. The system, procedures, controls and formats are documented in the LGFAR. Although the system is comprehensive and relevant to the needs of the LGs, it has not yet been feasible to effectively train staff on how to fully implement the system due to resource constraints.

The planning, budgeting, expenditure control and accounting procedures and practices used by the LGs have been significantly strengthened as a result of the new legal framework and various
reforms initiated usually as extension of Central Government practices to LGs. Improvements planning and budgeting at this level include the introduction of budget frameworks with financial ceilings as indicative planning figures and various participatory approaches such as budget conferences. Increased dependability of the indicative planning figures provided by Central Government has enhanced accuracy in budgeting and planning for inter-government transfers. These reforms have encouraged wider participation in the budgeting process and have led to increased budget transparency.

The Government, with the support of development partners, has contracted private accounting firms to support the LGs in clearing the backlog in the preparation and audit of annual accounts. As a result, the annual financial reports of FY 1998/99 are ready for most councils. However, it appears that the councils are again falling in arrears due to shortages of skilled personnel. Thus, the risk remains that arrears will build up again due to skills shortages.

5.3 **Fiduciary Risks**

LGs have been allocated an increasing share of the GOU's budget to enable them to progressively assume additional responsibility for the delivery of basic social services and poverty reduction programs e.g. about UShs 300 billion (about 20%) of the Government's total budget of UShs 1,516 billion for FY 2000/01 will be channeled to districts as conditional grants under the PAF (also, please refer to Note 7 on Page 10 of this Report). The weak local government financial management and accounting environment therefore poses significant fiduciary risks.

The MOLG is unable to fulfill its functions due to insufficient staff resources and facilitation. Financial resources at the local level do not permit local councils to pay salaries that are sufficient to attract, retain and train appropriately qualified personnel. This has resulted in the shortage of financial management staff resources and skills, hindering the implementation of the financial management regulations and guidelines and culminating in the untimely preparation and submission of accounts and financial statements. Staff shortages in the internal audit units for instance have prevented them from properly fulfilling their monitoring obligations and from preparing reports in a timely manner. Accounting departments are also not well facilitated with the necessary equipment such as computers and filing cabinets.

The full implementation of the reforms to the budgeting process is constrained by a lack of funds in some councils. This limitation means that some local governments are unable to organize budget conferences and to sensitize their populations on the setting of local priorities. The nation-wide nature of conditions attached to conditional grants also tends to limit the influence of local factors in the allocation of these resources. There is a resultant risk that resources may not be allocated to those areas within the jurisdiction of LGs where they are most needed. Indeed, there are cases where LGs have received funding for activities whose accorded priorities are not necessitated by local conditions or factors.

The absence or inadequacy of computerized systems to support the capture, recording, retrieval, reporting and tracking of financial data is a serious deficiency. This has certainly slowed the accounting process, making it difficult to track and monitor public expenditure transactions and has provided opportunities for misappropriation of financial resources. Manual systems limit the scope for reducing repetitions that are rendered unnecessary in an automated system of bookkeeping. Thus councils are unable to reap the advantages that come with computerization such as the potential reductions in staff and the efficiency and effectiveness of the resulting accounting operations.
The regulations that exist are quite stringent in recognition of the weak financial management environment in LGS. Ironically, this stringency tends to impose a burden on the LGS in terms of staffing and costs of management. This is best exemplified in the management of bank accounts, with some councils being required to manage and maintain more than 40 accounts.

Various studies have shown poor compliance with financial management requirements. Monitoring and inspection is minimal partly due to lack of facilitation. In relation to conditional grants, where local management committees have been established, studies have shown that their effectiveness is reduced as members do not have sufficient knowledge of accounting practices, resulting in the diversion of funds from their intended purposes.

5.4 Mitigating Risks

Government recognizes the potential pitfalls under a decentralized system that local government leaders and administrators may control and manage development resources without transparency and accountability to the local population. For this reason, Government has initiated a Participatory Poverty Assessment Program (UPPAP). The primary objective of the program is to bring the voice of the poor into national policy formulation and the district planning process in order to bridge the gap between public policy and practical action to help the poor. The UPPAP is designed to supplement the quantitative macroeconomic monitoring of poverty indicators with community participatory appraisal techniques which allow the poor people themselves to discuss and analyze the causes, dimensions and consequences of poverty, and to evolve local action plans to fight poverty. This approach is also intended to empower stakeholders to demand better performance and accountability.

The other major policy and operational measure to enhance accountability in the LGS has been the use of conditional grants in disbursing most of the development funds. These conditional grants in turn carry specific accountability conditions e.g. the release of funds under the PAF is conditional on the receipt by the Treasury of satisfactory accountability statements within a given deadline. Thus, there is an incentive for LGS to observe the guideline as releases and implementation would otherwise be delayed. The LGDP has similar requirements. Furthermore, 5% of conditional grants transferred under the PAF are set aside for monitoring. LGPACs and Internal Audit Departments qualify to receive a portion of those funds to facilitate sitting sessions, monitoring visits and the production of reports.

In recognition of the various capacity limitations in the local government system, Government and its development partners have devised a strategic approach to addressing this capacity problem. This approach was piloted for the past five years under a multi-donor supported District Development Fund (DDF) Program. Under the Program, the MOLG has undertaken various measures to assist LGS to clear the backlog of non-submitted accounts. These efforts include the hiring of private firms of accountants and auditors to prepare the accounts, and the provision of training and guidelines to council staff.

The lessons from that Program have been captured in a more comprehensive IDA funded LGDP Program, which was launched on June 30, 2000, and a planned Decentralization Support Program to be funded by DFID. These projects will support the MOLG to build its capacity in terms of staffing and the provision of hands-on training and support to LGS on financial management matters. The lessons learnt under these programs will be pivotal in enhancing accountability in LGS. Government has also recognized that the lack of resources at the local government level is a factor in their inability to maintain strong financial accounting systems. The LGDP will provide assistance to the LGFC, a constitutional body whose functions include that of advising local government on ways in which to improve local revenue generation.
Government further plans to address some of the capacity constraints through the EFMP II by: (i) developing a professional cadre in the local government accounts and internal audit functions by supporting staff in achieving professional qualifications and supporting lower cadre accountants to undertake diploma/certificate programs; (ii) exploring mechanisms, including twinning arrangements, through which it can hire expatriate qualified accountants, with a strategy formulated to allow LGs to benefit from this interim arrangement; and (iii) assisting internal audit units by providing them with vehicles to facilitate their operations.

5.5 Conclusions and Recommendations

(a) The recent measures introduced under the PAF initiative to improve planning, budgeting, accounting and reporting by LGs should be reinforced as the basis for mitigating the fiduciary risks in the management and control of decentralized public expenditures. At the same time, the technical support and incentives for financial transparency and accountability by LGs, which are planned under the LGDP, should be implemented.

(b) When amending the Public Finance Act, 1964, the Government should incorporate provisions in the Public Finance Bill defining the mandate and role of MFPED in ensuring the efficient and effective use and accountability by LGs of centrally funded programs.

(c) Local government regulations should be amended to require a formal response by the local council to the LGPAC report. The response should be modeled on the Treasury Memorandum produced by the MFPED. Furthermore, Government should review LGPAC arrangements to determine their effectiveness on an affordable basis.

(d) The development of new pay policies to attract and retain appropriately qualified accounting staff should be prioritized. Staffing levels in the accounting departments should also be rationalized so that the large numbers of unskilled staff are replaced by qualified people.

(e) Whilst ensuring that controls are not undermined, the Government should carry out a review to rationalize funds flow processes and banking arrangements in order to minimize the costs and administrative burden of the conditional grant regulations.\(^{18}\)

(f) Whilst internal capacities are developed, short-term technical assistance should be provided to LGs to facilitate the timely preparation of their accounts within the statutory deadlines.

(g) In the medium term, an appropriate computer-based accounting package for use by local authorities, compatible with the IFMS, should be developed.

(h) To reduce the administration burden, it is necessary that Central Government gradually reduces the incidence of conditional grants as the channel for disbursing funds to the LGs. A current study commissioned by GOU and the Donor Decentralization Group seeks: to compare the governance and service delivery merits of the PAF and LGDP; to facilitate agreement on the application of LGDP modalities to PAF funds; and to provide guidelines that can be used by line ministries to assess the structures. The implementation of the agreed results of this study will be a key ingredient in addressing the administrative burden.

\(^{18}\) It is understood that the review of fiscal transfer mechanisms to LGs is now complete and recommendations for streamlining transfer mechanisms (i.e. to collapse the current transfer mechanisms into three: a recurrent conditional grant, a development conditional grant; and a pilot program conditional grant) will be presented at a workshop on January 18, 2001.
SECTION 6: ETHICS AND INTEGRITY

6.1 An Overview

The December 1998 Report of the World Bank, “Recommendations for Strengthening the Anti-Corruption Program: Uganda”, noted that the National Resistance Movement (NRM) has carried out an impressive program of political, economic and social reform and rehabilitation since assuming power in 1986. The program has focused on rebuilding ethics and integrity in government and society; and corruption is among the priority issues in the NRM’s action program.

In October 1999, Uganda was categorized as one of the more corrupt countries according to the Transparency International’s Corruption Perception Index (CPI). The 1999 CPI drew on 17 different polls and surveys from 10 independent institutions carried out among business people, the general public and country analysts. While the index is presented as a numerical score, with surveyed countries ranked from 1 (least corrupt) to 99 (most corrupt), the rankings are based on subjective judgements. Nevertheless, the rankings represent the average of perceptions of a country in the minds of the international business community. And perceptions do matter when a country, such as Uganda, wishes to attract direct foreign investment. Therefore, it should be of concern to the Government that Uganda, with a CPI score of 2.2, was ranked 89th in the list of 99 countries i.e. in the bottom 9%.

Encouragingly, on July 26, 2000, His Excellency the President of Uganda launched the “Government Strategy and Plan of Action to Fight Corruption and Build Ethics and Integrity in Public Office”. In the Foreword to the Strategy Plan, the Minister of Ethics and Integrity intimated that: “Government is committed to the fostering of an ethical government in an ethical society, and remains committed to a policy of zero tolerance for corruption”.

One of the key challenges ahead, as stated in the Executive Summary of the Strategy Paper, will be ensuring the availability of adequate resources (including coordinated donor support) to facilitate the delivery of the very comprehensive objectives, activities and monitorable indicators presented in Annex 1 of the Strategy Plan for: the Criminal Investigations Department (CID); Directorate of Ethics and Integrity (DEI); Directorate of Public Prosecutions (DPP); Inspector General of Government (IGG); Judiciary; Ministry of Finance; Ministry of Information; Ministry of Internal Affairs; Ministry of Justice; Ministry of Local Government; Ministry of Public Service; Office of the Auditor General; and Uganda Revenue Authority. The respective positions of the DEI and the IGG are elaborated on below from a financial management perspective; also, please refer to Appendix 3 which summarizes the objectives, actions and monitorable indicators for both bodies.

6.2 Directorate Of Ethics And Integrity (DEI)

The DEI was established in June 1998 following the appointment of a Cabinet Minister under the Office of the President, as a successor to the Anti-Corruption Unit in the Vice-President’s Office. Its purpose, per its Mission Statement, is: “to spearhead and coordinate Government efforts to eliminate corruption and to build integrity systems that promote ethical standards and good governance”.

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19 As noted in the Draft CPAR for Uganda, public procurement is as an area of activity in which the risks of corruption are high and there is an urgent need to strengthen the present system.
In practice, the DEI works collaboratively with the OAG, the DPP, the IGG and the CID in its anti-corruption work. The DEI appears to be inadequately resourced at present to fully discharge its responsibilities e.g. staffing comprises 1 Permanent Secretary, 2 Directors (Ethics/Integrity and Legal Affairs), 4 Deputies, 1 Public Relations Officer, 3 Copy Typists, 4 Office Assistants, 1 Records Management Assistant and 2 Drivers; limited equipment is available.

6.3 Inspectorate of Government (IG)/ Inspector General of Government (IGG)

The functions of the IG are outlined in Section 225 of the Constitution and include: (i) to promote and foster strict adherence to the rule of law and principles of natural justice in administration; (ii) to eliminate and foster the elimination of corruption, abuse of authority and of public office; (iii) to promote fair, efficient and good governance in public offices; (iv) to supervise the enforcement of the leadership Code of Conduct; (v) to conduct investigations etc. In practice, the Inspectorate works collaboratively with the OAG, the DPP, the DEI and the CID in its anti-corruption work.

The IG employs 225 staff in 4 Directorates: Finance and Administration; Legal Affairs; Education and Prevention; and Operations. Section 231 of the Constitution requires it to submit bi-annual reports to Parliament on the performance of its functions. Both the IGG and Deputy IGG are appointed by the President with the approval of Parliament.

Significantly, with effect from the financial year 2000/2001 and as required by Section 229 of the Constitution, the Inspectorate will operate an independent budget appropriated by Parliament thereby enabling it to draw its funds directly from the Consolidated Fund. In the past, as stated in its December 1999 Report to Parliament, the Inspectorate experienced funding constraints in delivering on its Corporate Plan 1998/99-2000/1.

6.4 Conclusions and Recommendations

(a) Mobilize resources for the identified agencies to effectively implement the GOU Strategy Plan to fight corruption and build ethics and integrity in public office.

(b) In view of the large numbers of agencies involved, opportunities for rationalization of activities should be explored.

(c) Sanctions and penalties should be rigorously enforced to deter the underlying causes of "informality" in financial management.

(d) As many stakeholders are involved in the accountability process, consideration should be given as to how best to: improve coordination; optimize the deployment of limited resources by reducing overlaps, omissions and duplications; enhance reporting and sharing of information; enforce financial discipline etc. Although an Audit Forum was established to address some of those issues and held its inaugural meeting in Kampala on 25 November 1998, it appears to have lost its impetus (at the time of writing this Report) and needs to be revitalized.
SECTION 7: ACCOUNTANCY PROFESSION

7.1 Present Position

The Institute of Certified Public Accountants of Uganda (ICPAU) was established by the Accountants Statute 1992. The Institute is governed by a Council that comprises 8 elected members, 3 ex-officio members (viz. the Auditor General, the Commissioner Treasury Officer of Accounts and the Commissioner of Education) and 1 member appointed by the Minister for Finance. The functions of the Institute, as outlined in Section 5 of the Statute, are: (i) to regulate and maintain the standards of accountancy in the country; and (ii) to prescribe and regulate the conduct of accountants in Uganda.

Section 14 of the Statute empowers the Council to:

- admit members to the Institute;
- approve courses of study;
- provide for the registration of students of the Institute and qualifications for registration;
- supervise and regulate the practical training and education carried out under the Institute;
- issue certificates and licenses as required under the Statute;
- maintain and publish the roll of members;
- supervise the registration and maintain a register of Certified Public Accountants and Associated Accountants and publish their names in the Gazette;
- ensure the maintenance of professional standards among members and take steps to acquaint the members with methods and practices necessary to maintain those standards;
- promote the usage of internationally accepted accounting and related standards in Uganda and make suitable adaptation where necessary;
- secure international recognition of the Institute;
- maintain a library or libraries of books and periodicals relating to accountancy and allied subjects and encourage the publication of similar books and periodicals in Uganda;
- promote the publication of a journal of the Institute;
- encourage research in accountancy and allied subjects for the advancement of professional accountancy in the country;
- regulate the conduct and promote good ethical standards and discipline of members of the Institute;
- prescribe fees and subscriptions payable by members and students of the Institute;
- make bye-laws of the Institute;
- do anything that is incidental to the functions of the Institute.

To-date, some progress has been made by ICPAU in establishing the accountancy profession:

- The Council meets regularly and is assisted by a number of Committees including: Education, Member Services, Accounting and Auditing Services, Disciplinary and Ethics, Finance and Marketing. There is also a Public Accountants Examinations Board. Staffing of the Institute comprises: a full-time Secretary as the Chief Executive Officer, an Examinations Officer, an Administrator and 3 support staff.

- 222 of the estimated 300 professionally qualified accountants in Uganda are registered as full members of the Institute. In addition, 20 associate members have been registered i.e. individuals without internationally recognized accountancy qualifications but who were in public practice when the Statute was enacted in 1992. The distribution of the membership throughout the economy is as follows:
<table>
<thead>
<tr>
<th>Professional Accountants</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Practice</td>
<td>60</td>
</tr>
<tr>
<td>Commerce and Industry</td>
<td>20</td>
</tr>
<tr>
<td>Parastatals</td>
<td>10</td>
</tr>
<tr>
<td>Government</td>
<td>5</td>
</tr>
<tr>
<td>Consultancy</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

- The Institute has established, with the assistance of the Institute of Chartered Accountants of Scotland (ICAS), an examination scheme/syllabus consisting of 5 levels with a total of 15 papers. A total of 292 students are registered for the Institute's examinations and the first graduates under the scheme are expected to qualify through the December 2000 examinations.

- The Institute was admitted as a member of the East, Central and Southern Africa Federation of Accountants (ECSAFA) in 1996 and joined the International Federation of Accountants (IFAC) in 1997.

- With effect from January 1, 1998, the Institute adopted International Accounting and Auditing Standards for use in Uganda. Additionally, it has developed one local accounting standard dealing with Value Added Tax.

- A Code of Ethics was developed in 1997 and a quarterly newsletter is produced.

- The Institute has occupied its own premises since April 1999.

### 7.2 Assessment of the Present Position

A number of issues impact on the performance and effectiveness of the Institute:

- It has been embroiled in a legal wrangle since its establishment regarding the list of international accountancy bodies whose members may be admitted as full members. This dispute has had a damaging effect on the Institute's capacity to discharge its mandate.

- The Institute has focussed primarily on membership at professional level. Little attention has been given to accounting at the technician level i.e. a qualification level that is not presently recognized by the Accountants Statute. It is estimated that Uganda’s requirement for accountants is 3,000, mainly at technician level. In view of the Government’s focus on decentralization, there is an increasing demand for relevantly qualified and experienced accounting technicians.

- The Institute’s association with the ICAS was due to end in December 2000. Significantly, at the time of preparing this Report, no arrangements had been made for future association with either the ICAS or any other international body of accountants.

- Little attention has been given to supervising and regulating the practical training and education of accountancy students e.g. some 3,000 students are studying for international accountancy qualifications, including about 2,000 students studying for the ACCA (the Association of Chartered and Certified Accountants, UK) examinations, who do not receive any support from the Institute in their training.
• Because of the legal wrangle referred to above, it is disconcerting to note that about 25% of the accountants in Uganda are not regulated by the Institute as they are not registered as members.

• Although the Institute’s audited financial statements for 1997, 1998 and 1999 show an excess of income over expenditure, they also demonstrate the Institute’s financial dependence on government grants that comprised 78%, 70% and 63% respectively of total income for those years.

7.3 Conclusions and Recommendations

(a) Prioritize the resolution of the legal wrangle on membership criteria that has had a stultifying affect on the development of the Institute since its inception.

(b) Strengthen the capacity of the Institute to discharge its statutory obligations, thereby reducing high fiduciary risk. As a starting point, technical assistance should be sought to develop and implement a Strategy Plan on the future direction of the accountancy profession covering:

• Admission (eligibility criteria) and regulation of membership;
• Examinations – professional and technician levels (this is particularly acute as the arrangements with the ICAS were due to finish in December 2000 and a technician scheme is urgently required);
• Examine the need for specialized public sector accounting qualifications at technician and professional levels, including possible twinning arrangements with, for example, the Institute for Public Finance and Audit (IPFA) in South Africa, the Zimbabwe Institute of Public Finance and Accountancy (ZIPFA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) in the UK;
• Examine the need for a specialized internal audit qualification;
• International associations, including possible twinning arrangements;
• Education and training of students, including public sector trainees;
• Accounting and auditing standards (developing, monitoring and enforcing compliance);
• Continuing professional education for members;
• Capacity and funding requirements.

(c) To strengthen the regulation of the profession and enhance the quality of professional accountancy services, the law should be amended to require all accountants living and working in Uganda, who are members of accountancy bodies that are members of IFAC, to register as members of the Institute.

(d) The Institute will require external financial support for the foreseeable future.
SECTION 8: PRIVATE SECTOR

8.1 Legal Framework

The Companies Act 1964 provides the principal legal framework for regulating companies. Other relevant laws governing accounting, auditing and reporting practices include: the Cooperative Societies Act, the Partnership Act and the Registration of Business Act. The Uganda Revenue Authority administers a number of revenue related laws, including the Income Tax Act, 1997 that requires the submission of annual returns and accounts.

The Companies Act prescribes the form and content of the annual returns, including financial statements, to be submitted to the Registrar of Companies. It also prescribes the accounting records to be kept, and makes provisions for the qualification, appointment, removal and duties of auditors. The financial statements are required to give a "true and fair view" but this is not explained in the Act.

Section 161 of the Act identifies the persons or firms qualified to be appointed as auditors i.e. they must be members of one or more of the professional bodies specified in the Accountants (Designations) Act (repealed by the Registered Accountants Act, 1970 which was subsequently repealed by the Accountants Statute, 1992).

<table>
<thead>
<tr>
<th>Regulatory Bodies – Specialized Areas:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant progress has been made by the Government in recent years in establishing a number of regulatory bodies in several specialized areas of the economy. Of particular importance are.</td>
</tr>
<tr>
<td>o The Accountants Statute 1992 established the Institute of Certified Public Accountants of Uganda (ICPAU) to regulate the accountancy profession and this is discussed in Section 7;</td>
</tr>
<tr>
<td>o The Bank of Uganda Statute 1993 and the Financial Institutions Statute 1993 empower the Bank of Uganda to regulate and control financial institutions in Uganda;</td>
</tr>
<tr>
<td>o The Insurance Statute 1996 established the Uganda Insurance Commission to regulate the insurance sector; and</td>
</tr>
<tr>
<td>o The Capital Markets Authority Statute 1996 set up the Capital Market Authority to promote, facilitate and regulate the development of a capital markets industry in Uganda.</td>
</tr>
</tbody>
</table>

8.2 Assessment of the Legal Framework

The statutory law is largely based on United Kingdom legislation and has not been updated since 1967. Thus, legislation in most sectors affecting business, industry and the private sector has become outdated. However, under the auspices of the Law Reform Commission and with part-funding from the World Bank under the Institutional Capacity Building Project (ICBP), the commercial laws are currently being reviewed, modernized and consolidated. The Law Reform Commission in general and the Commercial Law Project in respect of commercial laws (including the Companies Act) are undertaking this initiative. A corporate governance model that encourages the greater recognition of shareholder interests and empowers shareholders to demand accountability from the directors and executives of a company should be developed.²⁰

Compliance with the law is not being adequately enforced as 80 to 90% of companies fail to submit annual returns to the Registrar of Companies. Also, the penalties for non-compliance are not being enforced. In any event, the fines are not sufficiently punitive to serve as a deterrent as the charge for non-submission of an annual return is Shs 100. Moreover, a number of regulatory bodies suffer from capacity constraints, human and other resources e.g. the Registrar General of Companies has three computers for data capture and lacks office supplies.

8.3 **Financial Sector**

In recent years, the financial sector has been strengthened with legislation to meet the challenges of a liberalized economy and the requirements for effective financial reporting. The two major laws governing the legal framework in the financial sector are: (i) the Bank of Uganda Statute, 1993 which entrusts the Bank of Uganda (BOU) with responsibility for the supervision, regulation, control and discipline of all financial institutions, insurance companies and pension fund institutions; and (ii) the Financial Institutions Statute, 1993 that specifies the conduct of financial institutions. Presently, the two laws are primarily in respect of commercial banks and laws are being developed in respect of non-banking financial institutions.

A financial institution is described by both Statutes as including a bank, a credit institution, a building society, and any other institution which by Statutory Instrument is classified as a financial institution by the Central Bank (BOU). Applying this terminology, the following is the composition of the financial sector:

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>17</td>
</tr>
<tr>
<td>Credit Institutions</td>
<td>6</td>
</tr>
<tr>
<td>Registered Micro-Credit Institutions</td>
<td>70</td>
</tr>
<tr>
<td>Development Banks</td>
<td>2</td>
</tr>
<tr>
<td>Post Office Savings Bank</td>
<td>1</td>
</tr>
<tr>
<td>Savings Society</td>
<td>450</td>
</tr>
</tbody>
</table>

Part VII of the Bank of Uganda Statute specifies the relationship between the BoU and financial institutions e.g. requiring high standards of conduct of management throughout the banking system and vetting the directors of financial institutions. Section 41 requires every financial institution to furnish the BOU with all information that may be required for the proper discharge of its functions.

Section 23 of the Financial Institutions Statute requires financial institutions to annually appoint auditors (approved by BOU) to report on the balance sheet and accounts of financial institutions. This report must be submitted to the BOU within four months following the financial institution’s year end. External auditors are expected to undertake their audit work in accordance with generally accepted standards and such other regulations, directives, policies, or guidelines as the BOU may issue.

Problems affecting the financial sector include: (i) lack of compliance with legislation especially regarding insider lending e.g. four commercial banks were closed about a year ago on the grounds of insolvency which arose mainly because of weak internal controls, excessive levels of insider lending, non-performing assets, fraud, and non-compliance with laws and regulations; (ii) disclosure of financial information and transparency in financial reporting is inadequate as there are no standardized reporting formats; and (iii) departures from international accounting standards due to inadequate professional training and the lack of competence of company officials and their external auditors.

In addressing the aforementioned problems, the BOU has prepared the Financial Institutions Bill, 1999 which covers the strengthening of capital requirements and disclosure, and proposes stiffer penalties for non-compliance. A section on corporate governance addresses: the roles and duties of directors; audit committees; assets and liabilities; management committees; the roles and responsibilities of internal and external auditors.
8.4 **Insurance**

The Insurance Statute, 1996 established the Uganda Insurance Commission to administer, supervise, regulate and control the business of insurance in Uganda. The Statute requires the accounts of every insurance company to be audited annually by an auditor approved by the Commission. There are 19 insurance companies in Uganda, and a number of agents, brokers and other service providers in the insurance business covered by this Statute. The main weakness affecting accounting in the insurance sector is in ensuring compliance with international norms and standards. This is due to a lack of knowledge of insurance practices on the part of some company officials and the lack of specialized insurance expertise on the part of some practicing auditors.

8.5 **Capital Markets**

The Capital Markets Authority Statute, 1996 established the Capital Market Authority (CMA) as the regulatory body with the responsibility of promoting and developing all aspects of capital markets. Under the Statute and attendant Regulations, rules of licensing, prospectus requirements, establishment of stock exchanges, conduct of business by licensees, advertising, accounting and financial requirements have been developed. Accounting records maintained under the Statute and Regulations are required to conform with statements of accounting practice issued by the Institute of Certified Public Accountants of Uganda. The Statute is one of the newly conceived laws aimed at eliminating restrictions to enhance financial inter-mediation in the market, and also to provide assurance and protection to external investors. The CMA is a member of the International Organization of Securities Commissions (IOSCO) and has adopted its standards. The major challenge facing the CMA is one of funding.

8.6 **Conclusions and Recommendations**

(a) Although progress has been made in strengthening the legal framework in some specialized areas, timely enactment of the new Companies and Financial Institutions Bills is desirable, as a large number of companies continue to be regulated by the outdated Companies Act.

(b) Present problems are accentuated by the lack of enforcement due to administrative problems within the Government as well as poorly functioning commercial courts and registries. Thus, legal reform should also include a review of administrative capacity to implement the laws as well as judicial capacity to interpret and enforce them.

(c) Resources are required by a number of regulatory bodies to strengthen their effectiveness in discharging their statutory mandates of monitoring and enforcing compliance with the laws and related regulations e.g. the Registrar of Companies which, it is understood, the Government has decided to convert into an Executive Agency.

(d) A corporate governance model that encourages the greater recognition of shareholder interests and empowers shareholders to demand accountability from the directors and executives of a company should be developed with appropriate lessons being taken from similar models in South Africa (King), the United Kingdom (Cadbury) and elsewhere.

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21 The Uganda Stock Exchange obtained a license to operate in 1997 and has so far one equity listed on the exchange.
22 Please refer to the OECD Principles of Corporate Governance that are intended to assist Member and non-Member Governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance.
APPENDIX 1:

TERMS OF REFERENCE FOR CONDUCTING THE COUNTRY FINANCIAL
ACCOUNTABILITY ASSESSMENT (CFAA)

INTRODUCTION

1 The CFAA will provide an assessment of the public and private sector financial management systems of Uganda and its regulatory environment. The review will consider factors such as: the effectiveness of the budget system in directing resources for intended purposes; the reliability of the government accounting system; the degree of fiscal transparency; and the independence and mandate of the Office of the Auditor-General. It will also provide a framework in which the requirements of public financial management can be better understood.

2 The CFAA will identify major issues affecting financial management reporting in Uganda and any departures from national and international accounting and auditing standards as promulgated by: the International Accounting Standards Committee (IASC), the International Federation of Accountants (IFAC), the International Organization of Supreme Audit Institutions (INTOSAI) and the Uganda Institute of Certified Public Accountants (ICPAU).

3 Specifically, the CFAA will provide comprehensive coverage of topics such as:

- the enhancement of public sector financial management at the central and decentralized levels of Government including:
  - frequency, quality and timeliness of financial reporting;
  - assessing the legislative and regulatory environment - appropriateness, compliance and capacity considerations;
  - improvements in budget preparation and monitoring;
  - strengthening internal control mechanisms (including internal audit), thereby reducing the opportunities for corruption/fraud;
  - records management;
  - systems reviews: an evaluation of information technology (IT) requirements and Government’s IT strategy; the need for modified and/or new accounting and financial reporting systems;
- harmonizing sectoral and bilateral donor approaches to financial reporting and auditing;
- the independence, funding and capacity of the Office of the Auditor General;
- Parliamentary oversight capacity and arrangements for monitoring and reviews, together with an assessment of its impact; also, other oversight mechanisms at central and local level either through formal structures (IGG and PAC) or citizen groups;
- the development/enhancement of accounting/auditing standards as well as establishing and strengthening monitoring/compliance mechanisms;
- the strengthening of the local accountancy profession, including training requirements at professional and technician levels;
corporate reporting practices in the private sector with particular reference to the financial sector (e.g. banks, insurance etc); and

the identification of technical assistance/capacity building requirements, including the training of trainers.

METHODOLOGY

4 The CFAA assignment will be undertaken over an elapsed period of 6 weeks (including a mission of about 3 weeks) by a Team comprising:

- Government of Uganda: A representative Counterpart Team will be established by the Government.
- World Bank: Tony Hegarty, Joseph Kizito, Brighton Musungwa and Daryoush Kianpour.
- DFID: Kithinji Kiragu.

5 Information will be gathered primarily through the following methods:

- Desk research - taking inventory of existing studies, reports, and other relevant documents;
- Specific Discussion Papers that major stakeholders will be requested to prepare outlining their vision of the key issues requiring attention over the next 3-5 years;
- Distribution and collection of the CFAA Checklist to relevant stakeholders in the public and private sectors; and
- Interviews.

6 The analysis of information and data will be validated through discussion with the Counterpart Team and relevant stakeholders.

7 The Quality Assurance Team comprised: William B. Marke (LOAAS), Wijaya Wickrema (EAPCO) and M. Zubaidur Rahman (ACTDR). The work was completed under the guidance of Brian Falconer (Regional Financial Management Advisor, AFTQK).

CFAA REPORT - EXPECTED OUTPUT

8 The Draft CFAA Report will be available by early September and will include "inter alia"

- A description of Uganda's financial accountability profile (public and private sectors) and a comparison of that profile with internationally recognized benchmarks;
- An identification and description of the key issues facing Uganda in pursuing an upgrade of its overall financial accountability environment; and
- A time-bound Action Plan for addressing the main issues identified for improvement, with particular emphasis on the public sector, including key issues that may need to be included in the negotiations on the PRSC\textsuperscript{23} conditionalities, in the aim of establishing practices and standards on a par with internationally recognized benchmarks.

\textsuperscript{23} Poverty Reduction Support Credit (PRSC) was formerly called the Public Expenditure Reform Credit (PERC).
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**APPENDIX 3: Government Strategy and Plan of Action to Fight Corruption and Build Ethics and Integrity in Public Office**

**Part A: Directorate of Ethics and Integrity – Objectives, Actions and Indicators**

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Actions</th>
<th>Monitorable Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordinate the monitoring and planning of anti-corruption activities</td>
<td>Convene monthly inter-agency meetings of law enforcement agencies for coordinating action on high profile cases</td>
<td>Meetings held, agencies represented</td>
</tr>
<tr>
<td></td>
<td>Convene inter-agency meetings for coordinating efforts, monitoring progress under the Plan of Action and proposing new anti-corruption activities (Government Planning and Monitoring Group)</td>
<td>Meetings held, agencies represented</td>
</tr>
<tr>
<td></td>
<td>Convene meetings with the Government Planning and Monitoring Group and representatives of civil society for coordinating efforts, monitoring progress and proposing new anti-corruption activities</td>
<td></td>
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<tr>
<td></td>
<td>Participate in the technical and steering committees for the sector wide project to strengthen the justice system</td>
<td></td>
</tr>
<tr>
<td>Monitor anti-corruption efforts and disseminate information</td>
<td>Publish quarterly progress reports on implementation and disseminate to donors, key government actors and the press</td>
<td>Publication of report</td>
</tr>
<tr>
<td></td>
<td>Publish an annual assessment of progress against the Plan of Action</td>
<td>Publication of report</td>
</tr>
<tr>
<td></td>
<td>Convene meetings with donors and present progress report, hold press conference, disseminate report to key government actors</td>
<td>Meetings held, donors represented; press conference, reports disseminated</td>
</tr>
<tr>
<td></td>
<td>Continue publicity program of posters and brochures</td>
<td>No posters posted and brochures distributed</td>
</tr>
<tr>
<td></td>
<td>Develop a management information system to track progress and establish a resource center for DEI to serve as information clearing house</td>
<td>Database and record keeping system created</td>
</tr>
<tr>
<td></td>
<td>Develop and implement an information, education and communication strategy to publicize Government efforts on anticorruption</td>
<td>Development of strategy; increased public awareness of Government's efforts</td>
</tr>
<tr>
<td>Reform laws re reducing corruption and assuring sanctions</td>
<td>Organize a legal forum to consider legal issues, make recommendations and draft legislation re the following:</td>
<td>Meetings held; stakeholders represented; work plan carried out</td>
</tr>
<tr>
<td></td>
<td>- Develop recommendations on the use of civil litigation against corrupt actors, develop an implementation plan in consultation with Ministry of Justice</td>
<td>Completed recommendations, plan for implementation</td>
</tr>
<tr>
<td></td>
<td>- Initiate legislation for qui tam actions (reward system for whistleblowers)</td>
<td>Principles adopted by Cabinet, law tabled before Parliament</td>
</tr>
<tr>
<td></td>
<td>- Initiate legislation and devise a means for the protection of whistleblowers</td>
<td>Principles adopted by Cabinet; law tabled before Parliament</td>
</tr>
<tr>
<td></td>
<td>- Comment on the procurement legislation to be drafted by MFPED to ensure it contains safeguards against corrupt acts</td>
<td>Recommendations communicated to MFPED</td>
</tr>
<tr>
<td>Table key legislation before Parliament</td>
<td>Table before Parliament the amended Leadership Code</td>
<td>Bill tabled</td>
</tr>
<tr>
<td></td>
<td>Table before Parliament the Bill for the autonomy of the Auditor General</td>
<td>Bill tabled</td>
</tr>
<tr>
<td></td>
<td>Table before Parliament the IGG Statute</td>
<td>Bill tabled</td>
</tr>
<tr>
<td>Mainstream corruption and ethics concerns in other organizations</td>
<td>Arrange meetings with stakeholders to discuss cooperative efforts in anti-corruption</td>
<td>Meetings held, agreement on activities reached</td>
</tr>
<tr>
<td>Explore &amp; concretize anti-corruption activities and lobby for their adoption</td>
<td>Explore and concretize the anti-corruption activities that come from consultations and workshops, develop recommendations and discuss with implementing actors, lobby for their adoption where appropriate</td>
<td>Recommendations on each activity, agreement with implementing actors</td>
</tr>
<tr>
<td>Seek resources for the reinforcement of capacity and the undertaking of anti-corruption initiatives</td>
<td>Assist agencies in developing funding proposals for the undertaking of initiatives not currently financed and for capacity building</td>
<td>Proposals developed; funding obtained; capacity built</td>
</tr>
</tbody>
</table>
## Part B: Inspectorate of Government – Objectives, Actions and Indicators

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Actions</th>
<th>Monitorable Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensitize and educate the public about corruption recourse</td>
<td>Raising of public awareness through workshops</td>
<td>Number of workshops held and number of people trained</td>
</tr>
<tr>
<td>Train trainers to raise public awareness at grassroots level</td>
<td></td>
<td>Number of trainers trained</td>
</tr>
<tr>
<td>Publication of magazine</td>
<td></td>
<td>Number of issues published</td>
</tr>
<tr>
<td>Conduct publicity campaigns through radio spots, hotline and web page</td>
<td></td>
<td>Number of radio spots, number of calls to hotline, publication of web page</td>
</tr>
<tr>
<td><strong>Apply sanctions, recover funds</strong></td>
<td>Investigate and conclude high profile cases involving top management of the civil service and political leaders, with prosecution where warranted by the evidence</td>
<td>Number of cases concluded; number of cases prosecuted; conviction rate</td>
</tr>
<tr>
<td>Investigate and conclude an additional 1,500 cases to eliminate case backlog</td>
<td></td>
<td>Number of cases concluded, number of cases prosecuted, conviction rate</td>
</tr>
<tr>
<td>Computerize case management, including data on verification of Leadership Code</td>
<td>Case data available on computers, trend analysis possible</td>
<td></td>
</tr>
<tr>
<td><strong>Minimize opportunity through monitoring</strong></td>
<td>Enforce the Leadership Code</td>
<td>% of leaders declared, % of verifications</td>
</tr>
<tr>
<td>Carry out a National Integrity Survey to measure perceptions of corruption every 2 yrs</td>
<td></td>
<td>Number of surveys held</td>
</tr>
<tr>
<td><strong>Build capacity for investigation and prosecution</strong></td>
<td>Train staff in IT, basic investigation, cross profession</td>
<td>Number of staff trained</td>
</tr>
</tbody>
</table>