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OFFICE OF THE INTERNAL AUDITOR

The Chairperson
Audit Committee of Governing Council
Uganda Martyrs University

15th June, 2021

ACALISE INTERNAL AUDIT REPORT

I hereby submit the above report as per Sec.10 of the Internal Audit Charter of Uganda Martyrs University.

NALUMU Jane
Internal Auditor

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SIX MONTHS INTERNAL AUDIT REPORT (July to December 2020) 2020/2021

1.0 Background

The African Centre for Agro-Ecology and Livelihood Systems (ACALISE) is one of the African Centres of Excellence in the East and Southern Africa (ACEs) under the World Bank-funded ACE II Project. ACALISE is hosted by Uganda Martyrs University (UMU), Faculty of Agriculture. ACALISE project is a five year project which commenced in August 2016. It is funded by the Ugandan Government through a World Bank loan to a tune of USD 6 Million.

Overall ACE II Project Development Objective (PDO) is to strengthen selected ACEs to deliver quality post-graduate education and build collaborative research capacity in the region's priority areas of Industry, Agriculture, Health Education and Applied Statistics.

At ACALISE the specific development area is Agriculture, i.e climate-smart agriculture and livelihood systems

The main focus objective of ACALISE is to better streamline the production of high level, well motivated and ethically conscious critical mass of Agro-ecology and Livelihood systems experts through teaching, learning and research excellence.

2.0 Engagement Objective

The overall objective of the audit was to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives.

Specifically, the exercise aimed at;

- Assessing the extent of attainment of key planned outputs
- Assessing project compliance with applicable laws, rules and regulations as per the performance and financing agreement.
- Ascertaining whether project funds are used as intended and specified in the performance and financing agreement.
- Confirming whether project funds are properly accounted for as per the signed financing agreement.

- Verifying whether project procurements (goods, works and services) have been procured in accordance with the World Bank Procuring policies and procedures and University procurement regulations/guidelines.
- To confirm that purchases of fixed assets are recorded in the asset register.
- Assessing project sustainability.

3.0 Scope

The report covers receipts, payments, procurements, budget performance and other financial and accounting records for the period of July 2020 to 31st December 2020.

The work done included examining the following records:

- i) Cash book
- ii) Bank statements
- iii) Bank reconciliation statements
- iv) Payment vouchers
- v) Interim Financial Statements of Expenditure for the period under review
- vi) Annual work plan 2020/2021
- vii) Procurement Plan 2020/2021
- viii) External auditor's report (period ended 30th June 2020)

Apart from the records examined, discussions were held with the Project Accountant and the Procurement Officer.

3.0 Methodology

A risk based approach was used to enable us to address general and specific identified risky areas. The following methods were used:

- Voucher examination
- Verification of supporting documentation
- Computations and run through.
- Payment vouchers and related books of Accounts were examined to ensure compliance with relevant laws and regulations of World Bank and University policies and procedures.
- Explanations were obtained from the relevant officers and below are the major findings of this report.

DETAILED REPORT

INTERNAL AUDIT REPORT ON THE ACTIVITIES OF UMU'S AFRICAN CENTRE FOR AGROECOLOGY AND LIVELIHOOD SYSTEMS

4.0 Findings and Recommendations

The following observations and recommendations were made during the audit exercise.

4.1 Centre performance or execution

4.1.1 Progress made on Planned activities

The progress made on planned activities in the period under review, includes the following:

- Research facilities were up graded through introduction of new breed of cattle and revamping of the poultry house
- Strengthening research output was undertaken through research collaborations with ACSA and ITCOA
- Publications in Peer Reviewed Journals improved with eleven (11) publications
- PhD students were continuously supported with research funds
- Teaching and learning facilities are continuously upgraded
- Regular project management meetings were held.

4.1.2 Budget and Work Plan Performance 2020/2021

At every beginning of the Financial Year a Work Plan together with the Budget is approved by the National Steering Committee.

Budget estimates are based on outputs/activities to be achieved within the availed resources.

It was however noted that there were two planned activities that were not yet implemented as shown in the table below:

Activity description	Planned activities/output	Amount budgeted (USD)	Actual Amount Spent (USD)	Remark
Enhancing Agroecology Society Activities	Online Agroecology Journal, 2 Issues each of 15 publications in Agroecology Journal, Webiner	22,500	3,270	No publications made in the Agroecology Journal
Innovation at ACALISE	Achieving research excellence at ACALISE	22,000	0	Research innovations were not achieved

In his explanation, the Project Leader stated that the monies were not available because the funds disbursed were insufficient and that the activities were carried out using other means. He further stated that regarding publications in Agroecology Journal, the Journal had not yet fully taken off as Prof Mwine, the Editor, was sick.

It should be noted that lack of funds affect the timely implementation of Centre activities which impacts on the achievement of Centre objectives.

Recommendations

- Centre Management should continue to liaise with the Relevant Authorities with a view of having timely disbursements to enable implementation of planned activities in scheduled time.
- Centre Management should also consider identifying another person to undertake Prof. Mwine's role in regard to Agroecology Journal.

5.2 Centre compliance with laws, rules and regulations

The Centre is required to comply with the performance and financing agreements in execution of its activities.

It was noted that relevant laws and regulations as per the financing and performance agreement were adhered to by the Centre in the implementation of its activities.

Recommendation

- To enhance the University as a Centre of Excellence in Agro ecology and Livelihood Systems, management should continue to adhere to all the laws and regulations.

5.3 Financial Records

According to the Financing agreement, it is a requirement to properly record and maintain project books and accounts.

The audit found areas where controls were operating effectively.

- a) Books of accounts were maintained and most relevant source documents were kept.
- b) All payment vouchers went through the required authorisation and approval procedures.
- c) The asset register was maintained

Nevertheless, the following was noted and needed to be brought to the attention of Management:

5.3.1 Funds flow/Disbursement

Review of the documents revealed that in the period under review, the Centre received one disbursement (for verified results) from World Bank in the sum of two hundred five thousand nine hundred dollars (\$205,900). As at 31st December 2020, the total disbursement was Two million seven hundred sixty-two thousand seven hundred sixty-three dollars (\$ 2,762,763) representing 46% of the signed amount totalling to USD 6,000,000.

This disbursement rate is still low despite nearing the closing date of the Project which is likely to be next Year 2022.

In his response, the Project Leader explained that Project restructuring had been concluded and that hopefully with the changes, the Centre will perform better. He further mentioned that the closing date had also been extended by one year given the bottlenecks that have been experienced by the Centres.

Recommendation

- Centre Management should design strategies in a view of improving the disbursement performance.

5.3.2 Status of Centre Funds Absorption

The approved Project budget estimates for the financial year 2020/2021 amounted to USD 1,658,046 and a sum of USD 205,900 was disbursed in the period under review in November 2020.

It was noted that the Centre had a sum of USD 409,704 brought forward from the previous year. The total funds therefore available in the FY 2020/2021 amounted to USD 615,604 as at 31st December 2020.

Further reviews showed that USD 378,334.41 was spent during the period under review, representing an absorption capacity of 61.5%.

Amount totalling to USD 240,136 was still on the project account as at the 31st December 2020.

However, it was further noted that USD 108,507 had been committed in respect of tuition for sponsored students, purchase of a tractor and the laboratory equipment of which the Centre had to pay the balances upon final delivery, leaving a balance of USD. 131,629 un committed.

The un committed balance could be an indicator that some planned activities were not undertaken in specified period.

The Centre Leader explained that the implementation of some activities was delayed by the COVID 19 lock down (e.g classes were closed, empirical research by students, delivery of some lab equipment, etc...).

Recommendation

- Centre Management should endeavour to execute all planned activities.

5.3.3 Reconciliation of Centre Accounts

Bank reconciliation of Centre Accounts covering the audit period was done and up to date. There was an improvement in conducting reconciliations in a timely manner when compared to previous audit observations.

Recommendation

- The Accountant should continue to adhere to the financial rules and regulations.

5.3.4 Centre revenue or income

The Project Appraisal Document (PAD), stipulates that the project will work on fundraising and developing external sources of revenue to ensure its sustainability after the project. Revenue externally generated is deposited on the project's account from tuition fees, other students' fees, sale of consultancies, joint research, fund raising and donations, or other external resources.

In the period under review, it was noted that the Centre generated external revenue in the amount of UGX. 578,489,450 from students' tuition fees.

Recommendation

- Centre Management should continue to execute financial sustainability activities.

5.3.5 Expenditure transactions

The Financing agreement defines eligible expenditure programs (EEP) to be made by the project. These include; goods, works, consulting and non-consulting services, training and operating costs including salaries and scholarships).

The review showed that all expenditures incurred were eligible.

However, areas of improvement were identified as detailed below:

i) Not fully supported payments

Section 8.1.11 of the Finance Manual requires the recipient of money to provide supporting documentation when claiming.

Contrary to the above requirement, payments amounting to UGX 23,540,478 were effected but lacked full supporting documents as shown in **Appendix 1**.

In the absence of relevant documentation, the transactions are rendered doubtful.

Recommendation

- The Accountant should ensure that the supporting documentation is attached to confirm that all the payments were authentic.

ii) Over payment to Kyengera Veterinary Centre (KVC)

During a review of the payment vouchers one incidence of overpayment worth USD 221.30 to KVC a partner to ACALISE was identified. The total invoice was USD 40,000 but amount paid was USD 40,221.30 as evidenced in the bank statement.

According to the Accountant, over payment arose out of exchange rate challenge resulting from paying in UGX from a dollar account.

He further stated that it was not possible to pay from the Shilling Account due to insufficient balance on the Account.

This exposes the Centre to loss of funds in the event of non-recovery of over payment.

Recommendation

- The Accountant should always desist from paying Shillings from the Dollar Account and also ensure that the overpayment is recovered.

5.3.6 Procurement activities

The University Procurement and Disposal of Assets Manual requires that all procurements are conducted in line with the provisions set.

Review of the Procurement Report revealed that in the audit period under review, the Centre made procurement of goods and services amounting to UGX. 32,401,628.

It was further noted that all sampled procurements, good procurement practices were adhered to. These include compliance with World Bank and University Procurement guidelines, policies and procedures.

Recommendation

- Centre Management should continue to adhere to the procurement policies and procedures to avoid unnecessary violations.

5.3.7 Fixed Asset Management

Sec. 3.5.1.2 of the Finance Manual states that; "Unique asset identification numbers shall be provided for all assets and properly coded before release from stores".

However, a review of the Centre Asset Register revealed that three Laptops did not have identification codes as a result of not being engraved.

Further reviews noted that Demo Home Project also purchased one Projector but it was not engraved.

In the absence of identification codes and failure to engrave the assets, the Centre risks its assets getting lost without being traced.

Recommendation

- The Accountant should ensure that all the assets in Centre possession are engraved and where possible this should always be done on acquisition before the assets are issued for use.

5.3.8 Status of implementation of BSFL Project planned activities

The Black Soldier Fly Larvae (BSFL) project aims at training the technical staff of The Faculty of Agriculture in captive breeding and rearing of the larvae of the Black soldier fly (BSFL) as an alternative affordable feed option for livestock feeds (poultry, pigs, fish) – using the BSFL waste bio-conversion technology.

A review of related documents and physical inspection was conducted to establish the status of project activities implementation and observed that not all the planned activities were achieved in time despite the fact that the Project was ending on 31st March 2021.

It was noted that Out of the UGX 496,000,000 second instalment released in April 2020 (inclusive of UGX. 99,200,000 local contribution); only UGX. 336,234,100 had been utilised leaving un utilised balance of UGX. 159,765,900. The un utilised amount relates to un implemented activities which included; Designing and setting up of Demo Centre and Equipping the Min Entomological Lab.

The Accountant explained that the pending activities involve some procurements and that the Project was unable to undertake them without the approval of the Procurement Committee.

Failure to absorb project funds in time impacts on the Project completion process and failure to receive the third instalment, which may hinder achievement of Project objectives.

Recommendation

- Project Management should continue to engage University Management and Procurement Committee to expedite the procurement process.

Appendix 1: Not fully supported Payments

Voucher No	Payee	Details	Amount	Missing document
31561	Millennium InforSys Ltd	Supply of a Laptop	3,275,000	Receipt
31566	SANLAM General Insurance	Renewal of Personal group accident	13,604,850	Receipt
31569	SANLAM General Insurance	Insurance for the Tractor	4,675,628	Receipt
31584	Mirembe Hard Ware	Supply of Fencing Materials	1,985,000	Receipt and Delivery Note
GRAND TOTAL			23,540,478	

6.0 Audit Follow up

6.1 External Audit

Section 51 of the Project Appraisal Document stipulates that external audit of the project's funds will be done by both the Supreme Audit Institutions (SAI)/Auditor General and Private Audit Firms acceptable to the IDA. The SAIs may contract acceptable private audit firms to IDA to audit the project.

It was noted that the Auditor General contracted a private firm (PKF, Uganda) to audit the Financial Statements of the Centre and made observations in the Management Letter. Below is the implementation status of the recommendations:

No	Observation	Recommendation	Implementation status
1	Non-compliance with some Income Tax Act Cap 3340 under the Demo Home Project	Management should comply with laws and regulations	Implemented All the arrears from July 2019 to April 2020 were paid
2	Late reconciliation of bank accounts	Management should comply with the requirements of the Finance Manual Monthly bank reconciliations are approved by authorities	Implemented
3	Scope of work and responsibilities of the internal audit	In future, management should ensure that the internal audit function covers all areas	Implemented The two subsidiary projects have been audited
4	Capacity gaps in the use of quick books accounting system	Management should enhance the staff's capacity to handle Quick Books software through training	Implemented The Accountant and Internal Auditor were trained
5	Authorisation of journals within quick books accounting system	Management in future should comply with the requirements of the Finance Manual	There was no any Journal passed in the period under review

6.2 Internal audit

Status of the implementation of Internal Audit previous review

No	Observation	Recommendation(s)	Implementation status
1	Un implemented activities	Project Management should look into the matter and ensure timely implementation of all planned activities	Partly implemented 3 out of 5 activities were implemented Retooling Faculty in Agroecology and Enhancing Agroecology Society activities were not implemented
2	Failure to conduct budgetary reviews	The Budget and Accounts Officer should ensure that the budget is reviewed periodically with a view of ensuring that activities are implemented effectively to enable prompt corrective action where need be	Not implemented

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