



# ACALISE INTERNAL AUDIT REPORT

**BY:**



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

## **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

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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.

The project funds are disbursed twice a year through a disbursement system depending upon fulfilling the project set obligations, the Disbursement Linked Indicators and results (DLI/DLR).

## **2.0 Engagement Objective**

The purpose of the audit is to evaluate control, risk management and governance processes of the project. Specifically, the exercise aimed at;

- Assessing whether the project operate as per the approved work plan



- 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 and in the correct ledger account.
- Confirming whether monitoring and evaluation of the project was done and project reports prepared.
- Assessing project sustainability.

#### **4.0 Scope**

The report covers receipts, payments, procurements, reconciliation of cash book and bank statements, budget performance and other financial and accounting records for the period ended June 30, 2019.

The work done included examining the following records:

- i) Cash book
- ii) Bank statements
- iii) Bank reconciliation statements
- iv) Payment vouchers
- v) Statement of Expenditure – 1<sup>st</sup> January, to 30<sup>th</sup> June, 2019
- vi) Annual work plan 2018/19
- vii) Procurement Plan 2018/19
- viii) External auditor's report (period ended 30<sup>th</sup> June 2018)

Apart from the records examined, discussions were held with the Centre Leader, Principal Investigator, Project Accountant, Procurement Officer and Monitoring and Evaluation Officer.

## **5.0 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.

## **6.0 Findings and Recommendations**

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

### **6.1 Project performance or execution**

Section I (b) of the financing agreement requires the project to prepare annual work programs or program of activities during project implementation.

The annual work plan for 2018/19 was prepared and approved and the progress made on planned activities in the period under review, includes the following.

- The Center published three papers in peer reviewed journals
- Regular project management meetings were held.
- Marketing ACALISE in the region was done.
- Students and staff sponsored were supported



However, a review of related documentation revealed that some planned activities for the year were not carried out at the time of audit. Five (5) planned activities with a budget of USD 542,696 remained outstanding at the end of the financial year:

No	Details of the output	Budgeted Amount (USD)
1	Retooling 20 faculty in student-centered learning and teaching (SCLT)	19,400
2	Upgrade research facilities for research excellence	185,105
3	Facilitate publications for conferences	30,500
4	Furnishing ACALISE offices	34,000
5	Purchase and completion of the hostel for postgraduate students and guest scholars	273,691
	<b>TOTAL</b>	<b>542,696</b>

Non performance of the above activities was attributed to the delay of World Bank to release disbursements.

In circumstances when planned activities are not performed, the achievement of the project's objectives is held back.

### Management response

Of the 1.9m budget of Year 2018/19, only USD 340,000 has so far been released. So the Project had to depend on the balance brought forward from the previous budget and the above figure of USD 340,000 so far released. This had badly affected our activities.

Several engagements with the both the funder and Government of Uganda have been made and the last National Steering Committee it was resolved that a tripartite meeting between the ACEs, World Bank/IUCEA, and Government of Uganda of Uganda be held to resolve the issue.

### Recommendation

- Management should always engage relevant authorities to expedite release of funds so as to implement the pending activities.

## 6.2 Project compliance with laws, rules and regulations

The project 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 project in the implementation of project activities.

Most of the Disbursement Link Indicators (DLIs) were fulfilled as set forth in schedule 4 of the Financing agreement.

### 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.

## 6.3 Financial Records

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

Below were the observations.

- a) Books of accounts were maintained and most relevant source documents have been kept.
- b) All payment vouchers went through the required authorisation and approval procedures.

However, the following observations were made:

### 6.3.1 Funds flow/Disbursement

Review of the documents revealed that a second disbursement (for verified results) was made into the Centre's account from World Bank in the sum of Three hundred forty thousand dollars (\$ 340,000). The total disbursement to date is One million four hundred forty thousand dollars (\$ 1,440,000).

### **6.3.2 Status of Project Funds Absorption**

The approved Project budget estimates for the financial year 2018/19 amounted to USD 1,907,208 and a sum of USD 340,000 was disbursed during the year in April 2019.

I noted that the project had a sum of USD 528,321 brought forward from the previous year. The total funds therefore available amounted to USD 868,321.

It was further noted that USD 603,965 was spent during the year, representing an absorption capacity of 70%.

Amount totalling to USD 264,356 was still on the project account as at the close of the financial year 2018/19.

This is an indicator that not all activities were implemented as planned.

The Project Leader explained that the absorption status was due to the fact that the project received funds three months to the end of the financial year.

#### **Recommendation**

- Project Management should prioritise implementation of key activities with the availed funds.

### **6.3.3 Project 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 project generated external revenue in the amount of UGX.997,985,585. This was generated from students' tuition fees and external sources as detailed in the table below:





<b>Source of revenue</b>	<b>Amount (UGX)</b>
Private Sector Foundation PSF/World Bank (Black Soldier Fly Larva Project)	303,335,000
Students' Fees	350,186,570
French Embassy (Organic Demo-Home Project)	476,694,214
<b>TOTAL</b>	<b>997,985,585</b>

It should be noted that so far the Centre had received 60% of the total amount from Private Sector Foundation.

However, apart from French Embassy grant, the rest of the money was not deposited on Project's Bank Account.

Management explained that the Funder (Private Sector Foundation) asked for a separate account for the project in order to monitor the use of funds. Concerning students' fees, the students deposited the fees on University account which had been given to them in their admission letters for that academic year.

### **Recommendation**

- Management should continue to execute financial sustainability activities.

### **6.3.4 Project expenditure**

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.

It was also noted that proper internal controls were in place regarding project expenditure. Payment vouchers for all categories of payments were audited before payments were made. There was adequate approval and authorisation of all payments by designated officers of the project.

## 6.3.5 Project procurement activities

### 6.3.5.1 Failure to implement planned procurements

Section 4.1 of the University Procurement and Disposal of Assets Manual requires each department to prepare a procurement plan for each financial year as part of the annual budget preparation process.

In the year under review, the project prepared a procurement plan which was approved.

However, review of the approved Procurement Plan revealed that ten (10) approved procurements valued at USD423,391 were not implemented at the time of audit.

Details are as per the table below:

No	Procurement item	Estimated cost (USD)
1	Renovations and stocking of chicken house	40,000
2	Postgraduate hostel	273,691
3	ICT items	7,800
4	Soil analysis software	3,000
5	Soil lab equipment	50,000
6	Upgrading disseminating centre: Public Address System	15,000
7	Accounting software	2,500
8	Bio-tech lab software	25,000
9	Digital camera	1,400
10	Multi purpose printer	5,000
	<b>TOTAL</b>	<b>423,391</b>

Failure to implement the planned procurements within the set project timelines exposes the project to a risk of failure to achieve project objectives.

### Management response

Procurements require a lot of money yet disbursements have delayed. The Centre can only process procurements when there is enough money otherwise suppliers can sue the University for failure/delays to pay. However, for some small items, the procurement processes have started.

## **Recommendation**

- Project Management should prioritise the critical activities in the procurement plan and ensure that key deliverables are achieved within the availed resources.



## 7.0 Audit Follow up

### 7.1.1 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 project for the year ended 30<sup>th</sup> June, 2018. The audited accounts were submitted to the World Bank within the stipulated period.

External auditors made observations in the Management Letter and below is the implementation status of the recommendations:

No	Observation	Recommendation	Implementation status
1	Failure to bank externally generated funds on a project designated bank account	Management should ensure that all externally generated project income is banked on a project designated bank account rather than UMU account	Partly implemented <ul style="list-style-type: none"><li>➤ Externally generated revenue from the French Embassy was deposited on Project Account</li><li>➤ Students' tuition fees and revenue from Private Sector Foundation was banked on University account.</li></ul>
2	Failure to disclose externally generated funds	Management should ensure that all externally generated	Partly implemented Revenues from

		project funds are disclosed the funds are disclosed on the fund accountability statement	Private Sector Foundation and French Embassy have been disclosed on the Fund Accountability Statement
3	Lack of appropriate accounting software	Management should procure an accounting software to help in quick processing of reports and therefore faster decision making by the project management team	Process of acquisition of the software (Quickbooks) is in advance stages

### 7.1.2 Internal audit

#### Status of the implementation of Internal Audit previous review

No	Observation	Recommendation(s)	Implementation status
1	Payment of VAT on Non-Tax invoices  VAT totalling to UGX.3,439,800 and USD. 294.3 was paid to suppliers whose contract sums were VAT inclusive without submitting respective tax invoices. These were; Revero Investment Ltd, VSOCOI Ltd and IP Link Consults.	The suppliers should provide certificate of registration as proof or else they refund the money collected	Partly implemented  Payment to IP Link Consults had been refunded (USD 294.3)
2	Procurement delays	The Procurement Officer should endeavour to expedite the procurements for timely implementation of planned activities	Not implemented  Management attributed this to lack of funds
3	Over payment worth USD 107.14 to KVC a partner to the project	The Accountant should ensure that overpayments are	Partly implemented  Project

	<b>AND</b> Double payment of tuition to two students who were invoiced twice	recovered	Management has engaged the partner to refund the money
4	Unaccounted funds totalling to UGX 15,555,000		Implemented  All the funds have been accounted for
5	Absence of a fixed asset register	The Accountant should ensure that an Asset Register is maintained.	Implemented

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