11th December, 2017

The Rt. Hon. Speaker of Parliament
Parliament of Uganda
Kampala

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA
SKILLS DEVELOPMENT PROJECT COMPONENT 3 FOR THE YEAR ENDED 30TH JUNE, 2017

In accordance with Article 163, (4) of the Constitution of Uganda 1995 (as amended), I forward herewith audited Financial Statements of the above project together with my report and opinion thereon.

John F.S. Muwanga
AUDITOR GENERAL

Copy to:
The Inspector General of Government, Kampala

The Hon. Minister of Ethics & Integrity

The Permanent Secretary/Secretary to the Treasury
Ministry of Finance, Planning and Economic Development

The Permanent Secretary, Ministry of Education, Science, Technology & Sports

International Development Association - IDA

Financial Management Specialist - USDP

The Project Coordinator, USDP
OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF UGANDA SKILLS DEVELOPMENT PROJECT

FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF UGANDA SKILLS DEVELOPMENT PROJECT FOR THE
YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Uganda Skills Development Project, which comprise of the Statement of Source and Uses of Funds, Statement of financial position, Statement of Fund Balance, Special Account Statement for the year then ended as at 30th June 2017, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 14.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Skills Development project for the year ended 30th June 2017 and its financial performance and cash flows for the period then ended in accordance with the International Public Sector Accounting Standards.

Basis of Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Council in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current period. I have determined that there are no key audit matters to communicate in my report.

Other Matter

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

• Delayed Project Implementation
  The Uganda Skills Development project is aimed at enhancing the capacity of institutions to deliver high quality, demand-driven training programs in target sectors.

  Review of the project Appraisal Document (PAD), revealed that whereas the project disbursements were expected to be USD 35 million (35%) by the end of the fiscal year 2017, only USD 3,128,427 (3.1%) had been disbursed by the scheduled date.

  It was further noted that only USD 12,059.90 (3.9%) out of the USD 3,128,427 received had been spent leaving the balance of USD 3,116,369. Failure to absorb project funds exposes the project to payment of commitment charges prescribed in the financing agreement.

  Management attributed the low absorption of project funds to initial difficulties faced in fulfilling effectiveness conditions such as; preparation and adoption of an operational manual.

  Management was advised to always ensure adequate planning before contracting loans. In the meantime, workable measures should be put in place to fast track the activities to enable the country access the intended benefits of the project.

• Ineligible expenditure
  Review of the expenditure records for counterpart funding revealed that a total of UGX 8,250,000 was spent on activities not related to the project. Inappropriate use for project funds curtails effective implementation of the planned activities.
Project management indicated that some of counterpart funds released was used to cater for emergencies at a time when the contract with the project Management Agency had not been signed.

The Accounting Officer is advised to always ensure funds received are used for intended activities. In the meantime, the funds should be refunded without delay.

- **Outstanding advances**
  A sum of UGX.43,190,806 advanced to staff for official activities lacked necessary accountability. Delayed accountability may result into falsification of documents.

  Management acknowledged the auditors observation however, no documents were availed for verification during the course of audit.

  I advised management to ensure that the funds advanced are accounted for or institute recovery measures.

**Responsibilities of the Accounting Officer for the Financial Statements**

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the project.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the Public Finance Management Act, 2015 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the project’s ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the project’s operations, or has no realistic alternative but to do so.
Auditors' Responsibilities for the audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the project ability to deliver its mandate. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the project to fail to deliver its mandate.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

John F.S. Muwanga

AUDITOR GENERAL

11th December 2017
MINISTRY OF EDUCATION AND SPORTS

UGANDA SKILLS DEVELOPMENT PROJECT (USDP)

Funded by

INTERNATIONAL DEVELOPMENT ASSOCIATION (Credit no: 5612-UG)

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FA</td>
<td>Financing Agreement</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>MoES</td>
<td>Ministry of Education and Sports</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Ministry of Finance Planning and Economic Development</td>
</tr>
<tr>
<td>OAG</td>
<td>Office of Auditor General</td>
</tr>
<tr>
<td>PPDA</td>
<td>Public Procurement Disposal of Public Assets Authority</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>TVET</td>
<td>Technical Vocational Education and Training</td>
</tr>
<tr>
<td>USDP</td>
<td>Uganda Skills Development Project</td>
</tr>
</tbody>
</table>
2.0 Report of the Project Managers of USDPM

The Management of USDPM present their report together with the audited financial statements for the Uganda Skills Development Project for the year ended June 30, 2017.

2.1 Uganda Skills Development Project.

2.1.1 Introduction

The Government of Uganda (GoU) signed an agreement, dated June 24, 2016 with the World Bank through the International Development Association (IDA) for the funding of the Uganda Skills Development Project (USDPM). Ministry of Education and Sports is implementing components 1, 2 and 4 with total funding of US$ 78.2 million

2.1.2 Project Development Objectives

The project development objective is to enhance the capacity of institutions to deliver high quality, demand-driven training programs in target sectors.

2.1.3 Project Beneficiaries

The beneficiaries of Project will be both new entrants into the labor market and those who are already employed/self-employed. Training will be focused at the artisan, craftsmen and technician levels and will be delivered through competency-based training programs with recognition of prior learning. The beneficiaries will be those who are working or will work in the target sectors of construction, manufacturing and agriculture.

Individual beneficiaries will equal approximately 45,000 trainees across the targeted institutions during the life of the project who will gain from a more market relevant menu of programs. This includes approximately 20,000 students at the CoEs and vocational institutions and 25,000 within enterprises.

2.1.4 PDO Level Results Indicators

The key performance indicators related to this Project development objective are: (i) development of National Occupational Standards for relevant trades/occupations in the target sectors; (ii) increased number of new intakes in the targeted training programs; (iii) proportion of female intakes in targeted training programs; (iv) proportion of entrants who completed targeted training courses (short courses, certificate, diploma); (v) improved participation of employers in skills training programs; and (vi) satisfaction with skills by trainees in supported firms disaggregated by economic sectors and size.
and other service providers for participating in the project activities; and (iv) disseminate information on the strategy, results and lesson learned.

**Component 2: Improving quality and relevance of skills development**

This component seeks to develop 4 colleges to eventually become Centers of Excellence (CoE) offering high quality competency-based training for artisans (low-level), craftsmen (medium level) and technicians (higher-level) to equip them with skills demanded by selected trades in occupations in the manufacturing, construction, and agriculture sectors of the Ugandan economy. In addition, at least 12 public vocational training institutes will be targeted to provide relevant and high quality training for artisans, and crafts persons in order to increase access to training by the general public.

**Sub-component 2.1: Establishment of Centers of Excellence (CoEs)**

Under this sub-component, three Uganda Technical Colleges (UTC) – Lira UTC, Elgon UTC, Bushenyi UTC as well as the Bukalasa Agricultural College are targeted to eventually become Centers of Excellence (COE). The targets set for the CoEs during the life of the project will be achieved through a partnership with an international recognized Twinning partner institute to support the implementation of the following key activities: (i) Improve institutional governance; (ii) Enhanced equity; (iii) Design and adaptation of demand driven competency-based curriculum and assessment system to international standards; (iv) Training for faculty and staff, and development of training and learning materials; (v) Establish and upgrade physical infrastructure, including civil works and establishment of modern workshops and classrooms with latest equipment and machinery and multi-media facilities; and (vi) Support to improve management and monitoring mechanisms within the CoEs.

**Sub-component 2.2: Support to public vocational training institutes**

This sub-component will support selected public vocational institutes (VIs) to strengthen their capacity to respond to the needs and opportunities of the labor market, including delivery of short-term training courses, and improve the quality of the training being offered. The training will primarily be in artisan and craftsman trades that are lower down the value chain whereas component 2.1 focuses on training for craftsman trades and technicians.

**Sub-component 2.3: Twinning Arrangement for establishment of Centers of Excellence and vocational training institutes**

Technically qualified institutions will be selected to act as twinning partners responsible for providing all necessary support to help selected Colleges grow into "Centers of Excellence". The partner institutions will also be responsible for providing support to the
3.0 STATEMENT OF THE MANAGEMENT’S RESPONSIBILITIES

This section presents USD Projekt management’s confirmation of its responsibility for information in the financial statements and information provided during the course of the audit.

The management of USD Projekt is required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Project funds as at the end of the financial year and of its operational results that comply with the requirements of the World Bank and the Government of Uganda. Management is responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position of Project funded activities. Management is also responsible for safeguarding the assets of the Project.

Management further accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with the International Financial Reporting Standards. Management is of the opinion that the financial statements for the year ended 30 June 2017 give a true and fair view of the state of affairs of the Project funded activities and operational results of the activities. Management further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal controls.

Management confirms that all credits and grants received during the year ended 30 June 2017 were used for the intended purposes in accordance with the Project Agreements between the Government of Uganda and IDA. Management certifies that there were no irregularities involving the management and staff of the project, and that the financial statements of the USD Projekt for the year ended 30 June 2017 are free of material misstatements. Nothing has come to the attention of management to indicate that the Project is not complying with the terms and conditions stipulated in the above agreements.

This assertion is certified by the management of the Uganda Skills Development Project on ................. 2017, and signed on its behalf by:

________________________
PERMENET SECRETARY - MOES

Date: 21/06/17
5.0 STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>Amount US$</th>
<th>UGX Equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>UGX</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Balances</td>
<td>$3,116,369.40</td>
<td>11,174,989,031</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$3,116,369.40</td>
<td>11,174,989,031</td>
</tr>
<tr>
<td>Net Worth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Represented by Surplus for the year</td>
<td>$3,116,369.40</td>
<td>11,174,989,031</td>
</tr>
</tbody>
</table>

The Project Financial Statements on pages 8 to 13 were approved by the Project Management on ___________ 2017 and were signed on its behalf by:

Permanent Secretary - MoES
Date: 21/6/17

Financial Management Specialist
Date: 31/6/17
### 7.0 SPECIAL ACCOUNT STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

**IDA Credit Agreement No.5612-UG**

Designated Account Activity Statement as at June 30, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>2017</th>
<th>US$</th>
<th>UGX Equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>Opening Balance as at July 01</strong></td>
<td><strong>$0.00</strong></td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td><strong>Total IDA Replenishments</strong></td>
<td><strong>3</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Less</strong></td>
<td><strong>6, 7</strong> ($12,057.60)</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Closing Bank Balance as at 30th June</strong></td>
<td><strong>$3,116,369.40</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Reconciled Bank Balance as at 30th June</strong></td>
<td><strong>8</strong></td>
</tr>
</tbody>
</table>
e) Fixed Assets

Fixed Assets are expensed in full in the year of purchase, consistent with the cash basis of accounting. However, there were no physical assets bought by the project during the financial year.

f) Comparatives

No comparatives have been provided in the project’s financial statements because this is the first year of implementation and first year of presentation of financial statements.

3. Funds Received from IDA / World Bank

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>15th March 2017</td>
<td>USD 3,128,427.00</td>
</tr>
<tr>
<td>Total</td>
<td>USD 3,128,427.00</td>
</tr>
</tbody>
</table>

As noted in 2. above, this amount is captured in the financial statements at an equivalent amount in Uganda Shillings using the buying exchange rate in Bank of Uganda on that date. The rate was USD: 3591.60 giving rise to an equivalent of UGX 11,236,068,412/=.

4. Contingent Liabilities/ assets

There were no known contingent liabilities/assets that qualify for accrual or disclosure as at June 30, 2017.

5. Reporting currency

The financial statements are prepared in Uganda Shillings. However equivalents in United States Dollars (USD) are provided for better understanding and appreciation.