



**AUDITORS' REPORT
ON THE RECIPIENT CONTRACTED AUDIT
OF THE WORLD BANK MULTI DONOR TRUST
FUND GRANT (MDTF) FOR SUPPORT TO THE
ASSOCIATION FOR STRENGTHENING
AGRICULTURAL RESEARCH
IN EASTERN AND CENTRAL AFRICA
(GRANT NUMBER TF093070)
FOR THE YEAR ENDED
DECEMBER 31 2017**

August 2018
This report contains 23 pages

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List of abbreviations /acronyms

AGROBIO	-	Agro-biodiversity and Biotechnology Programme
ARIs	-	Agricultural Research Institutes
ASARECA	-	Association for Strengthening Agricultural Research in Eastern and Central Africa
BoD	-	Board of Directors
CAADP	-	Comprehensive African Agricultural Development Programme
CAD	-	Canadian Dollars
CGIAR	-	Consultative Group for International Agricultural Research
CIDA	-	Canadian International Development Agency
COMESA	-	Common Market for Eastern and Southern Africa
DPs	-	Development Partners
EC	-	European Commission
EUR	-	European Currency
FAAP	-	Framework for African Agricultural Productivity
FARA	-	Forum for Agricultural Research in Africa
FS	-	Financial Statements
GBP	-	Great Britain Pound
IARCs	-	International Agricultural Research Centres
IFRs	-	Interim Financial Reports
KI-HUB	-	Knowledge & Information Hub
MDTF	-	Multi-Donor Trust Fund
M&E	-	Monitoring and Evaluation
NARIs	-	National Agricultural Research Institutes
NARS	-	National Agricultural Research Systems
USAID	-	United States Agency for International Development



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The Board of Directors
ASARECA
P O Box 765
Entebbe, Uganda

28 August 2018

Dear Sirs,

Audit of the World Bank Multi Donor Trust Fund (MDTF) under grant agreement no. TF093070 for the year ended 31 December 2017

Transmittal letter

We have now completed our financial audit of the World Bank/ MDTF funded ASARECA activities under grant Agreement Number TF093070 for the year ended 31 December 2017. We set out in the following report the ASARECA Fund Accountability Statement for the year then ended and our opinion thereon.

This report is strictly confidential and is addressed solely to named recipients. KPMG cannot be held responsible for its unauthorised copying and distribution. Recipients are respectfully reminded that this report contains potentially sensitive information and should be kept secure.

The conclusions, findings, and opinions expressed in this report are those of KPMG unless identified as those of other parties. We have produced the report specifically for the purposes stated and its interpretation, use, or application for other purposes imposes no obligations on KPMG. KPMG confirms that this report is neither a Memorandum of Information, nor a Prospectus nor any other kind of (private or public) Offering Document.

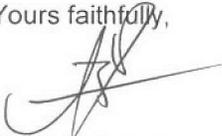
A report of this kind is dependent on the completeness, accuracy, and reliability of data received from a variety of sources. KPMG makes no warranty or claim as to the accuracy of the information on which this report is based and cannot be held responsible for any inaccuracies so arising. Where possible, KPMG has taken steps to ensure that the use of information is consistent and complete within the terms of this project.

The primary objective of this report is to express an opinion on the Fund Accountability Statement of the funds received from the World Bank under grant Agreement Number TF093070 for the year ended 31 December 2017.

Should there be any matters referred to in this report on which you would like us to provide further explanation or assistance in implementing our recommendations, please do not hesitate to contact us.

We would like to take this opportunity to express our appreciation to you and all members of staff for the assistance accorded to us during the course of our work.

Yours faithfully,



Asad Lukwago
Partner

2 Introduction

2.1 Background

The Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) is a not-for-profit Sub-regional Organization (SRO), which was formally established in September 1994 by the Directors of the National Agricultural Research Institutions (NARIs) representing the eleven member countries of the Eastern and Central Africa. Members include ISABU of Burundi, INERA of D.R. Congo, NARI of Eritrea, EIAR of Ethiopia, KALRO of Kenya, FOFIFA of Madagascar, RAB of Rwanda, MoAFS of South Sudan, ARC of Sudan, DRD of Tanzania and NARO of Uganda. The organisation aims to increase the efficiency of agricultural research in the sub-region to facilitate economic growth, food security and export competitiveness through productive sustainable agriculture.

ASARECA is governed by a board of directors comprising the director generals of the 11 NARIs and 1 representative each from universities, farmers' organisations, extension & advisory service organizations, private sector, non- governmental organisations, COMESA, and CGIAR, and FARA and development partners as observers.

ASARECA Secretariat headed by the Executive Secretary and located in Entebbe (Uganda), coordinates and facilitates the implementation of regional agricultural research projects through collaborative linkage and networking with national agricultural research systems (NARSs), International Agricultural Research Centres (IARCs) and Advanced Research Institutes (ARIs).

Various development partners (DPs) provide financial support to ASARECA through a Multi-Donor Trust Fund (MDTF) established for ASARECA and administered by the World Bank to enable ASARECA achieve its strategic objective to "enhancing sustainable productivity, competitiveness and value addition to the agricultural research system in the Eastern and Central sub-region of Africa. NARS contribute to the organisation's infrastructure, personnel and some funding towards the sustainable implementation of ASARECA projects. ASARECA sees collaborative partnership in research for development, agricultural training and education.

2.2 Multi-Donor Trust Fund and activities

ASARECA on 4 November 2008 entered into a Trust Fund Grant agreement with the World Bank in support of the first 5-years (2009 - 2013) ASARECA Operational Plan (OP - I) for financing the costs of the programmes, management and administration. The grant contribution to the tune of US\$ 59,193,440 as at 31 December 2013 was a made to ASARECA by CIDA-Canada, DFID-UK, EC and USAID.

The World Bank through its letter of agreement dated 24 December 2013 further extended the trust fund support to 31 December 2018 and together with the notification letter dated 2 April 2014 committed an additional funding of US\$ 10,907,454 in support of the second 5-years (2014 - 2018) operational plan (OP - II) of ASARECA from the continued grant support of EC and USAID.

The funds received from the World Bank and expenditure accounted for up to 31 December 2016 financial year have been audited and reported to the World Bank. The carried forward balance of US\$ 774,616 covering period 1 January 2017 to 31 December 2017 has been the subject of this audit.

The resources provided from MDTF by the World Bank is to support ASARECA for the implementation of regional projects focusing on integrated agricultural research for development as described in the second 5 years (2014- 2018) operational plan. The following are the major areas where ASARECA uses the financial resources of the MDTF:

- a. Agricultural research and dissemination.
- b. Agricultural policy analysis and dissemination.

- c. Strengthening national agricultural research systems.
- d. Strengthening agricultural research systems.
- e. Strengthening agricultural education systems.
- f. Institutional strengthening.
- g. Investments in secretariat facilities.

ASARECA agreed with the World Bank to provide IFRs on a quarterly basis following the calendar year quarterly periods and arrange for annual external audit reviews to validate the accuracy and eligibility of the expenditures reported in the previous IFRs by the Secretariat.

ASARECA also agreed to exercise its fiduciary and oversight role when dealing with the project executing entities (implementing partners/ sub-grantees) through desk reviews by internal audit arrangement and annually by external auditors on sample basis to mitigate any fiduciary risks.

2.3 Audit objectives

The audit objectives include:

- To express an opinion on whether the fund accountability statement for the funds received through the MDTF grant agreement presents, in all material respects, revenues received, costs incurred, and commodities directly procured by ASARECA for the period 1 January 2017 to 31 December 2017 audited in conformity with the terms of the agreements and the modified cash basis of accounting as adopted by the Secretariat.
- Evaluating ASARECA's internal control related to the MDTF grant agreement, assess the control risk, and identification of significant deficiencies including material weaknesses and expressing an opinion thereon.
- Performing tests to determine whether the recipient complied, in all material respects, with terms of agreements and applicable laws and regulations related to the funded program and identification of all material instances of non-compliance and all illegal acts that have occurred or are likely to have occurred as well as expressing an opinion on the Secretariat's compliance.
- Evaluating whether the fund balance, receipts and expenditure statements are in agreement with the accounting records and supporting documentation.

The audit was conducted in accordance with the International Auditing Standards and accordingly included such tests of the accounting records as deemed necessary under the circumstances.

2.4 Audit scope

The audit scope required the auditors to plan and perform audit procedures as deemed necessary to ensure that the established objectives are achieved. A brief of the procedures carried out is given below.

2.4.1 Understanding the entity

We reviewed documentation on incorporation and registration of ASARECA in order to understand the mission, vision and core objectives of the company. Meetings were held with directors, various heads of divisions to understand their operations and how they contribute to the achievement of the strategic objectives of the Secretariat.

2.4.2 Entity wide and process level controls

We performed inquiries and review of risk assessment documents to understand ASARECA's entity wide and process level controls relevant to the program activities funded through the MDTF grant agreement, evaluate control risk, and identify significant deficiencies that may aid misuse of resources and failure to achieve objectives of the studies.

2.4.3 Compliance with Terms and Conditions of Funding

We performed tests to determine whether the Secretariat complied, in all material respects, with all applicable terms and conditions of the donor.

We ensured that all material instances of non-compliance that have occurred or are likely to have occurred were identified and reported.

2.4.4 Regulatory Compliance

We identified national laws relevant to the grant agreement, evaluated the system in place to ensure compliance, evaluated and reported material variations from the established laws.

2.4.5 Revenue and expenditure statement

We performed an audit of revenue and expenditure of the grant for the year ended 31 December 2017. We performed tests of detail procedures to gain reasonable assurance over the completeness, existence and accuracy of the income and expenditure.

2.5 Procedures performed

2.5.1 Risk assessment and planning

At this stage, the audit team identified, documented and discussed the significant risks. Audit procedures were determined to address the identified risks in order to reduce the audit risk to an acceptable level. The overall audit strategy and direction of the audit was determined at this stage.

2.5.2 Audit of the income and expenditure statement

The overall audit objective was to perform a financial audit in accordance with International Standards on Auditing (ISAs) promulgated by the International Federation of Accountants (IFAC), and included such tests and auditing procedures as we considered necessary under the circumstances.

We performed the following procedures:

- Reviewed that World Bank disbursements to ASARECA from the trust fund have been used in accordance with the conditions of the trust fund agreement with due attention to economy and efficiency, and only for the purposes for which the grant was provided under the grant agreement referred as " Grant No. TF-093070 Multi-Donor Trust Fund Grant for Support to ASARECA".
- Determined that all necessary supporting documents, records and accounts have been maintained in respect of all project activities including expenditures reported using interim unaudited financial statements methods of reporting.
- Determined that the designated bank account has been maintained in accordance with the provisions of the trust fund grant agreement and funds disbursed out of the account were used only for the purpose intended in the trust fund agreement.
- Determined that national laws and regulations have been complied with and that the financial and accounting procedures approved for ASARECA (operational, finance procedures manual) were followed and used.
- Traced the expenditure to supporting documents and ensured that the untested amounts were not material to the fund accountability statement.
- Determined that financial performance of the MDTF support is satisfactory.

2.5.3 Evaluation of the adequacy and effectiveness internal controls

We designed and performed audit procedures to evaluate the design, implementation and operating effectiveness of internal controls relevant in ensuring that the fund accountability statement is free of material errors, whether due to error or fraud. The procedures included the following:

- Obtained a sufficient understanding of ASARECA's internal control environment in order to plan the audit and to determine the nature, timing and extent of tests to be performed.
- Evaluated the control environment, the adequacy of the accounting systems, and control procedures with emphasis on the policies and procedures that pertain to the recipient's ability to record, process, summarize, and report financial data relevant for the extraction of the fund accountability statement.

2.5.4 Evaluation of compliance with agreement terms, laws and regulations

We performed the following tests:

- Identified the agreement terms and pertinent laws and regulations and determined which of those, if not observed, could have a direct and material effect on the fund accountability statement.
- Checked for instances of non-compliance by ASARECA with laws and regulations that may materially affect the fund accountability statement as required by ISA 250: Consideration of Laws and Regulations in an audit of the income and expenditure statement.
- Assessed the inherent and control risk that material non-compliance could occur.
- Determined the nature, timing and extent of audit procedures to test for errors, fraud, and illegal acts that provide reasonable assurance of detecting both intentional and unintentional instances of non-compliance with agreement terms and applicable laws and regulations that could have a material effect on the fund accountability statement.

2.5.5 Evaluation of fraud and corruption

We evaluated the risks of material misstatements in the fund accountability statement due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. We identified and assessed these risks of material misstatement of the fund accountability statement due to fraud, obtained sufficient appropriate audit evidence about the assessed risks and responded appropriately to identified or suspected fraud.

2.5.6 Evaluation of ASARECA's governance

We performed audit procedures to determine any audit matters of governance interest arising from the audit of Fund Accountability Statement. We have communicated these to those charged with governance of ASARECA as required by International Standards on Auditing 260: Communications of Audit Matters with those Charged with Governance through the management letter addressed to the board.

2.5.7 Evaluation of risks

We determined the overall responses to assessed risks at the Fund Accountability Statement level, and designed and performed further audit procedures to respond to assessed risks at the assertion level as required by International Standards on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

2.6 Audit recommendations

Matters arising:

The recommendations arising from the audit are as follows:

Ref	Summary recommendations	Section
(i)	<i>Long-outstanding member contributions</i> Management should follow up with the respective member countries to ensure that all long-outstanding contributions are paid.	6.2.1
(ii)	<i>Long outstanding sub-grantee payables</i> Management should endeavor to clear all long outstanding liabilities going forward.	6.2.2
(iii)	<i>Long outstanding sub-grantee receivables</i> Management should ensure that all long outstanding receivables are promptly followed up on and going forward, management should institute an appropriate project advances policy governing all sub-grantee advances.	6.2.3
(iv)	<i>Non-compliance with the Income Tax Act</i> Management should ensure that the outstanding taxes are paid and going forward, management should adhere to the regulatory requirements in order to minimise financial losses as a result of fines and penalties.	7.2.1

3 Statement of directors' responsibilities

The directors are responsible for the preparation and presentation of the Fund Accountability Statement for funds received from the MDTF grant set out on pages 14 to 16, which include a summary of significant accounting policies and other explanatory notes in accordance with the modified cash basis of accounting and the terms and conditions of the MDTF grant agreement, and for such internal control as the directors determine is necessary to enable the preparation of Fund Accountability Statement that is free from material misstatements whether due to fraud or error.

The directors are required to prepare Fund Accountability Statement for each year that presents, in all material respects, the state of affairs of the grant at the end of the year and of the operating results of the MDTF grant for the year ended 31 December 2017. It also requires the directors to ensure the Secretariat keeps proper accounting records that disclose with reasonable accuracy the financial position of the grant.

The directors accept responsibility for the Fund Accountability Statement set out on pages 14 to 16, which has been prepared using appropriate accounting policies supported by reasonable and prudent judgments, in conformity with the basis of accounting described in note 5.2 and the terms and conditions of funding of the MDTF grant.

The directors are of the opinion that the Fund Accountability Statement presents, in all material respects the financial affairs and the results of the program activities for the year ended 31 December 2017. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the fund accountability statement, as well as adequate systems of internal control.

Approval of the fund accountability statement

The fund accountability statement which appears on pages 14 to 16 was approved by the directors on 15th AUGUST 2018 and was signed on its behalf by:


.....
Interim Executive Secretary


.....
Acting Head of Finance

Date: 29/08/..... 2018



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Independent auditors' report

To the Board of Directors of ASARECA

Opinion

We have audited the Fund Accountability Statement of the MDTF grant to ASARECA, which comprises of the statement of receipts and expenses for the year ended 31 December 2017 and the notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Fund Accountability Statement of the MDTF grant for the year ended 31 December 2017 is prepared in all material respects, in accordance with accounting policies set out in note 5.2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of Matter – Basis of Accounting and Restriction on Use

We draw attention to note 5.2 to the Fund Accountability Statement, which describes the basis of accounting. The Fund Accountability Statement is prepared to assist the Secretariat in complying with the accounting policies in note 5.2. As a result, the Fund Accountability Statement may not be suitable for another purpose. Our report is intended solely for ASARECA and the World Bank and should not be used by parties other than ASARECA and the World Bank. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Fund Accountability Statement

The directors are responsible for the preparation of the Fund Accountability Statement in accordance with the accounting policies described in note 5.2, and for such internal control as directors determine is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the Fund Accountability Statement, the directors are responsible for assessing the Secretariat's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Secretariat or to cease operations, or have no realistic alternative but to do so.



Independent auditors' report

To the Board of Directors of ASARECA (Continued)

Auditors' Responsibilities for the Audit of the Fund Accountability Statement

Our objectives are to obtain reasonable assurance about whether the Fund Accountability Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Fund Accountability Statement. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also;

- Identify and assess the risks of material misstatement of the Fund Accountability Statement, 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 our 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 Secretariat's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Secretariat's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the secretariat to cease to continue as a going concern.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is CPA Asad Lukwago P0365.

KPMG

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Kampala, Uganda

Date: 03 September 2018

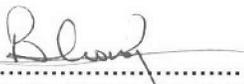
4 Fund accountability statement

4.1 Statement of income and expenditure for the year ended 31 December 2017

	Actual (USD)	Note
Opening fund balance	774,616	
Receipts	-	
Total grant income	774,616	
NRM & eco-systems (Component-1)	122,496	
Research management	37,646	
Research support	-	
Governance	21,926	
Secretariat management & administration	531,908	
Total expenditure	713,976	
Fund balance	60,640	5.3

Note: ASARECA operated without an approved budget, however, the World Bank approved every expenditure of the Secretariat.

The fund accountability statement of the MDTF grant managed by ASARECA was approved by the directors on 15th AUGUST..... 2018 and was signed on its behalf by:



 Interim Executive Secretary



 Acting Head of Finance

Date: 29/08/..... 2018

The notes set out on pages 15 to 16 form an integral part of the fund accountability statement.

5 Notes to the fund accountability statement

5.1 Reporting entity

The Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) is a not-for-profit Sub-regional Organization (SRO), which was formally established in September 1994 by the Directors of the National Agricultural Research Institutions (NARIs) representing the eleven member countries of the Eastern and Central Africa that include: ISABU of Burundi, INERA of D.R. Congo, NARI of Eritrea, EIAR of Ethiopia, KALRO of Kenya, FOFIFA of Madagascar, RAB of Rwanda, MoAFS of South Sudan, ARC of Sudan, ORD of Tanzania and NARO of Uganda.

ASARECA aims to increase the efficiency of agricultural research in the sub-region so as to facilitate economic growth, food security and export competitiveness through productive sustainable agriculture.

5.2 Basis of accounting and principal accounting policies

5.2.1 Basis of preparation

(a) Statement of compliance

The fund accountability statement has been prepared on a modified cash basis. The basis is modified to accrue for outstanding payables and receivables.

Accordingly, the fund accountability statement is not intended to comply with International Financial Reporting Standards (IFRS).

(b) The functional and presentation currency

The fund accountability statement is presented in United States Dollars (USD), which is the Secretariat's functional currency.

(c) Income

Grant income represents amounts received from World Bank during the year. All receipts are recorded as deferred income and recognised as income when actual expenses are incurred and expenses as costs incurred when paid. There were no receipts in 2017.

(d) Expenditure

Expenditure represents amounts disbursed and costs incurred in USD during the year. Expenditure is recognised when payments are made.

(e) Foreign currency transactions

Transactions denominated in functional currencies (Uganda Shilling- UGX) other than the USD were converted to United States Dollars using the exchange rate obtained from the Bank at the time of monthly exchange of USD to UGX.

(f) Bank balances

Bank balances represent unrestricted balances held with Citibank bank under a designated MDTF account.

(g) Fixed Assets

Fixed assets are expensed fully in the year of purchase.

(h) Taxation

Management of ASARECA applied to the Government of Uganda for the diplomatic organisation status in 2014 and was granted diplomatic status. The organisation and its expatriate employees are exempted from taxes subject to receiving written confirmation from the ruling commissioner of Uganda Revenue Authority.

(i) Un-liquidated project sub-grant advances

ASARECA recognizes funds disbursed to sub-grantees but not accounted for at year end as advances. There were no project advances as at 31 December 2017.

5.3 Fund balance as at 31 December 2017

	31 December 2017 (USD)
Bank balances	60,640
	60,640



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6 Part 3: Auditors' report on internal control

6.1 Auditors' report

The Board of Directors
ASARECA
PO Box 765
Entebbe, Uganda

We have audited the fund accountability statement for the MDTF grant managed by ASARECA for the year ended 31 December 2017, and have issued our report on it dated *03 September 2018* 2018.

We conducted our audit in accordance with the International Standards of Auditing (ISAs). In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for expressing our opinion on the Fund Accountability Statement, but not for expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's fund accountability statement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider material weaknesses, as defined above.

However, we noted certain matters involving internal control and its operation that we have reported to the directors and management of ASARECA in section 6.2 of this report.

This report is intended for the information of ASARECA and World Bank. However, upon release by World Bank, this report is a matter of public record and its distribution is not limited.

KPMG
Certified Public Accountants
PO Box 3509
Kampala, Uganda

Date: *03 September* 2018

6.2 Findings and recommendations on internal control

6.2.1 Long outstanding member contributions

Condition

ASARECA member countries are required to pay membership fees of US\$ 15,000 every year. The fees are meant to facilitate the Secretariat activities that are not covered by donor grants.

However, during our audit of member contributions we noted that several member countries had significant outstanding annual contributions as at 31/12/2017. The examples are highlighted below:

Country	Outstanding amount (US\$)
Madagascar	62,081
Rwanda	55,000
South Sudan	55,000
Kenya	30,000
Burundi	30,000
INERA – D.R.Congo	28,000
NARI – Eritrea	15,000
ARC – Sudan	15,000
Total	290,081

Effect

Failure to pay member contributions as required deprives the Secretariat of the necessary financial resources needed to implement the planned project activities.

Recommendation

Management should follow up with the respective member countries to ensure that all long outstanding contributions are paid.

The board representatives should liaise with the mother institutions to settle the outstanding member contributions.

Management comments

Management has sent out reminder notes for outstanding to respective Member Countries each time of new year invoicing. Management has also, on every Board of Directors' seating reminded Board members of their respective outstanding. Management to present the same for consideration and discussion in the August 2018 BOD meeting.

6.2.2 Long outstanding sub-grantee payables

Condition

Prior to the World Bank fiduciary review, implementing partners working with ASARECA often used their own financial resources to implement planned project activities and later reimbursed by ASARECA after the review of the related accountabilities. However, following the fiduciary review the pre-financing arrangement was suspended.

From our audit of payables, we noted that ASARECA still owes International Livestock Research Institute (ILRI), a sub-grantee based in Kenya an amount of USD 29,967 related to programme expenses that were incurred in 2014 and appropriately accounted for, however as at the time of the audit, the reimbursement had not been made.

Effect

Failure to clear long outstanding liabilities may expose the Secretariat to potential legal claims from the creditors, which may subsequently expose the Secretariat to significant financial losses.

Long outstanding payables may also create opportunities to perpetuate fraudulent payments in future through inflated amounts of liabilities.

Recommendation

Going forward, management should endeavor to clear all long outstanding liabilities.

Management comments

ILRI was a sub-grantee implementing activities in Eritrea. In 2014, World Bank halted sub-granting due an ongoing in-depth review. There were precedents that some sub-grantees used their own funds to finance projects when there delays in disbursement from ASARECA.

ASARECA would thereafter refund some expenditure when funds were available. Such commitments were undertaken outside formal contracts. Cases of this kind of claims were brought the attention of the board. The board instructed management to decline payment of such claims and inform the sub-grantees in writing accordingly. ILRI was not notified about the board decision because their case did not come to the attention of management before the board decision.

6.2.3 Long outstanding sub-grantee receivables

Condition

Following the World Bank fiduciary review, ASARECA refunded to the World Bank monies on behalf of sub-grantees with in the member countries for which the related accountabilities had not been availed at the time of the review.

During our audit of receivables, we noted that ASARECA has not recovered a significant amount of monies from the respective sub-grantees. Examples of sub-grantees with long outstanding receivables are highlighted below:

Sub-grantee	Amount(USD)
National Animal Genetic Resources Centre	35,272
INERA - D R Congo	30,880
Total	66,152

Effect

Long outstanding receivables may consequently result into irrecoverable debts, which may expose the Secretariat to significant financial losses.

Recommendation

Going forward, management should endeavor to clear all long outstanding liabilities.

Management comments

Management has been following up with sub-grantee on ineligible expenses and has recovered to date approximately US\$ 98,000. Follow-up is ongoing with National Animal Genetic Resource Centre and DRC.



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7 Part 4: Auditors' report on compliance

7.1 Auditors' report

The Board of Directors
ASARECA
PO Box 765
Entebbe, Uganda

We have audited the Fund Accountability Statement of the MDTF grant for the year ended 31 December 2017, and have issued our report on it dated 03. September 2018.

We conducted our audit in accordance with International Auditing Standards (ISAs). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of agreement terms, laws, and regulations that have a direct and material effect on the determination of the Fund Accountability Statement amounts.

Compliance with agreement terms and laws and regulations applicable to ASARECA is the responsibility of its directors. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of ASARECA's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms, laws, and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. Our audit did not reveal any material instances of non-compliance with laws and regulations.

We noted certain immaterial instances of noncompliance that we have reported to the directors and management of ASARECA in section 7.2 of this report.

This report is intended for the information of ASARECA and World Bank. However, upon release by World Bank, this report is a matter of public record and its distribution is not limited.

KPMG
Certified Public Accountants
P O Box 3509
Kampala, Uganda

Date: 03. September 2018

7.2 Findings and recommendations on compliance

7.2.1 Non - compliance with the Income Tax Act

Criteria

Section 118A of the Income Tax Act, requires every resident person who pays management or professional fees to withhold tax at rate of 6% on the gross amount of the payment. Further, the Act requires the withholding agent to furnish a tax return and remit the tax not later than fifteen days after the end of the month to which the withholding tax relates.

Condition

During the audit, we noted that the Secretariat withheld tax on all professional fees payments, however, the collected taxes were not remitted to the Uganda Revenue Authority.

Effect

Failure to comply with regulatory requirements may expose the Secretariat to fines and penalties from the Uganda Revenue Authority.

Recommendation

Management should ensure that the outstanding taxes are paid and going forward, management should adhere to the regulatory requirements in order to minimise financial losses as a result of fines and penalties.

Management comments

The previous External Audit firm (Ernest & Young) brought the issue of WHT to the Board and Management. Noting the diplomatic status of the organization Management adopted a cautious approach and started deducting WHT on goods and services but did not remit to URA in the likely event that the organization was exempted. Management then undertook training of fiduciary staff and the Interim Executive Secretary on Taxation, during which they explored circumstances where diplomatic institutions withheld taxes.

Management followed this training with informal consultations with URA. URA reviewed ASARECA status. The process eventually revealed that ASARECA was removed from the list of taxable organization. The deductions were returned to the suppliers of goods and services after revelation.

7.3 Follow up on status of prior year audit recommendations

The Secretariat was a subject of the annual MDTF grant audit. We have reviewed the prior year management letter and made a follow-up of the issues raised. It must be appreciated however that the matters reported in the prior years were not specific to the program activities funded by the MDTF grant. We exercised our professional judgment as the issues relevant to the grant and present the results of our follow up below.

Ref	Recommendation	Status at the time of audit	Action taken by management / Management comments
1.	<p>Withholding tax not deducted and remitted for professional and management fees payments</p> <p>Our review indicated that withholding tax was not deducted and remitted to the Uganda Revenue Authority for professional consultants and service providers.</p> <p>Recommendation The organisation should ensure that the WHT is deducted and remitted to URA by the 15th of the following month.</p>	Not resolved	<p><i>Management is addressing this matter in accordance with the recommendations of the external auditors.</i></p>