

**Document of the World Bank**

**Report No. 114470-GE**

**Uganda Intergovernmental Fiscal Transfers Program**

**Integrated Fiduciary Systems Assessment**

**June 4, 2017**

## I. Fiduciary Assessment Methodology

1. As part of the UgIFT Program preparation and in accordance with OP/BP 9.0, a fiduciary assessment was carried out that evaluated the Program fiduciary systems to determine whether they provide reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purpose. The fiduciary assessment comprised of three separate assessments of the Procurement, Financial Management and Governance aspects of the Program. In addition, the assessments took into account the requirements of the *Guidelines on Preventing Fraud and Corruption in Program for Results Financing*. The objective of the fiduciary systems assessment was to provide a reference that can be used to monitor fiduciary systems performance during Program implementation and identify actions, as needed, to enhance the fiduciary systems during Program preparation and implementation.

2. The Integrated Fiduciary Risk Assessment of the Intergovernmental Fiscal Transfers Program for Results was prepared by a team comprising of: Paul K. Kamuchwezi (Sr. Financial management Specialist); Barbara Magezi Ndamira (Sr. Public Sector Management Specialist), Timothy Williamson (Sr. Public Sector Specialist); and Grace M. N. Munanura (Sr. Procurement Specialist). Field information was collected by three consultants that undertook field visits in the following LGs – Kayunga, Jinja, Bukedea, Namutumba, Bushenyi, Isingiro, Rakai, Wakiso and Luwero. The team also obtained feedback from the following MDAs- Ministry of Health, Ministry of Education and Sports, Ministry of Finance Planning and Economic Development, Ministry of Local Government (LG), The Public Procurement and Disposal Authority (PPDA) and the LG Finance Commission. Guidance was received from Sanjay Vani (Lead Financial Management Specialist) and Nagaraju Duthaluri (Lead Procurement Specialist). Strategic guidance was provided by George Larbi (Practice Manager- GG019).

## II. Legal and Regulatory Framework

3. The Central Government, in accordance with Article 193 of the Constitution, is mandated to provide grants to LGs. Intergovernmental Fiscal transfers fall under three categories of grants: conditional, unconditional, and equalization.

4. The Legal and Regulatory Framework for Public Procurement, Public Financial Management (accounting, reporting, auditing etc.), and fighting Fraud and corruption in Uganda are as follows:

5. **Public Procurement:** Public Procurement in Uganda is governed by the Public Procurement & Disposal of Public Assets Act, 2003 (PPDA Act), the Central Government Regulations of 2014 and the Local Governments (PPDA) Regulations, 2006. The Act and the Regulations 2014 are applicable to the Central Government while the Act and the Regulations 2006 are applicable to the LG. The Regulations 2006 for the LG are under review and revised regulations are expected to be issued in 2017. However, due to the structural weaknesses in the law and the need for other legislative changes, the Government of Uganda (GoU) is reviewing the PPDA Act to: (i) align it with the new procurement policy currently being finalized; (ii) reduce procurement lead times; (iii) introduce good practices and tools that add value; (iv) re-define the roles of key stakeholders; and (v) use the procurement function to promote socio-economic development.

6. **Public Financial Management:** Government PFM policies and procedures are governed by the PFM Act 2015, Local Governments Act 2007, the PFM regulations 2016 and the Local Governments Financial and Accounting Regulations (LGFAR) of 2007. The LGFAR 2007 are yet to be revised to make them consistent with the PFM Act of 2015.

7. **Fraud and corruption:** Fraud and corruption are governed by the Inspectorate of Government Act, 2002, the Anti-Corruption Act, 2009 for effecting prevention of corruption by defining corruption, setting offenses and penalties, outlining the powers of the Inspector General of Government and the Director of Public Prosecutions. Other related laws include; The Leadership Code Act, 2002 that sets the minimum expectations for the conduct of public officials, Access to Information Act, 2005 which provides for the right of access to information and the Whistleblowers Protection Act, 2010. In addition, prosecution of cases of mismanagement of public funds can be done under The Penal Code Act Cap 120.

### III. Financing of Local Government

8. Fiscal transfers fall under three categories of grants: conditional, unconditional, and equalization as follows:

- (a) **Unconditional grants**, which are the minimum grants paid to LGs to run decentralized services;
- (b) **Conditional grants** that are given to LGs to finance programs agreed upon between the central government and the LGs, funds provided by CG can only be used for the purposes intended for UPE and PHC and cannot be diverted. The LGs have no flexibility to use them for other priorities; and
- (c) **Equalization grants** paid to LGs for giving subsidies or making special provisions for the least developed districts, and are based on the degree to which a LG unit is lagging behind the national average standard for a particular service.

9. LG Financing is facilitated by MOFPED through the Directorate of Budget and the process involves engagement with the LG Finance Commission (LGFC), and Ministry of LG, Sectors and LGs themselves.

10. A recent OAG assessment<sup>1</sup> of trend of budgeted amounts compared to releases for the three broad categories of grants indicate the following results:

- (a) LG planning is guided by Indicative Planning Figures (IPFs), as received from the Centre and pre-determined by individual sectors basing on prior year allocations.
- (b) There were variances between budgeted and actual releases especially on conditional and unconditional grants although overall releases were between 93% (2015/16) and 97% (2013/14) of budgeted amounts.

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<sup>1</sup> For the year ended June 30, 2016, the OAG undertook an audit to assess the extent to which the current measures ensure that financing of LGs is adequate, fair and equitable. The study covered a period of three (3) financial years from 2013/14 to 2015/16 and focused on a sample of 32 LGs comprising 16 districts and 16 municipalities which were selected from 115 districts and 41 municipalities in Uganda.

- (c) There was no strong evidence to suggest that priorities and needs of LG were taken care of in the allocations.
- (d) The service delivery obligations of LGs require far more resources than what is currently provided due to the overall resource envelope.

11. Budget allocations for transfers are based on a sector allocation formula which is used to determine the amounts to transfer to individual districts and the beneficiary institutions. The OAG review revealed that allocation of conditional grants to LGs does not take into consideration established formulae, resulting in funding gaps for LGs. For example, the FY 2016/17 the UPE allocation formula was not used, the allocation was based on the allocations of FY 2015/16 although new districts had been created and student enrollment had changed. Further still the allocations are sometimes distorted by political decisions such as presidential pledges paid out of capital development grants for the education and health sectors. For example, whereas the sector of Education needed UGX.128.2 billion for USE grants to LGs for the FY 2014/15, MoFPED only provided UGX.105.6 billion leaving a deficit of UGX.22.6 billion which resulted in a shortfall of the unit rate allocation. The Program is explicitly intended both to encourage adherence to revised formulae, and to address the issue of adequacy of funding.

12. Section 14(2) and (3) of the Public Finance Management, (PFM) Regulations, 2016 requires all central government grants (conditional and unconditional) from MoFPED to be released by the 10th day of the beginning month of a quarter and development grants by the 3rd quarter. The 2016 OAG's review of the non-wage recurrent and development releases by MOFPED to LGs, revealed MoFPED had in some instances not released the grants in a timely manner. In 2014 and 15 it took between 3 – 6 weeks from the start of the quarter and release of funds (non-wage releases) to the LGs/service delivery units in order to implement planned activities according to a study done by the LG Finance Commission. This could slow down delivery of services hence relevant sectors together with LGs will have to work closely with the MoFPED to ensure that funds are released to the districts within one-two weeks from the start of the quarter. Delays were attributed to late submission of release advice by Sector ministries in collaboration with LGs on their Warrants while IFMS connectivity was also cited as a problem. The Warrant system changed in 2016/17 and this has led to further delays, as LGs get used to the new system. Delays in releases therefore remain a risk.

### **Planning and Budgeting**

13. **National Level:** The country's planning and budget process is managed within a year horizon in line with a five-year National Development Plan (NDP). Government has a costed National Development Plan and sectors have developed sector strategies aligned to the policy priorities of the National Development Plan. Uganda has a five-year Medium-Term Expenditure Framework (MTEF) which is meant to coincide with the planning horizon of the NDP.

14. The overall mechanism by which Government allocates its resources is the Medium-Term Expenditure Framework (MTEF). The MTEF sets sector spending ceilings within a rolling three-year framework (the first year being the Annual Budget) for both the Central Government (CG) and the LGs. The level of expenditure is determined by the resource envelope, which takes

into consideration the macroeconomic environment and the prospects for resource mobilization. Grants are provided for within the MTEF for each sector.

15. The National Budget Framework Paper (NBFP) is the Uganda Government's overall strategy document for the budget and provides the link between the Government's overall policies (identified in the NDP) and the annual budget. It is cleared by Cabinet and presented to Parliament by the 31st of March each year, prior to the finalization of the Annual Budget. Sectors of Education and Health use agreed formulae for schools (pupils) and health facilities to arrive at budget figures (grants) which are submitted to the Ministry of Finance and placed in the BFP, which is the Government's budget strategy document. The BFP contains information on: macroeconomic policy and plans; overall fiscal strategy, such as revenue projections; the overall resource envelope for the medium-term; overall priority interventions and proposed sectoral expenditure plans. It also contains summary information on LG grants.

16. In cognizance of these shortcomings and as part of the lessons of implementing the first NDP, the government has instituted measures to consciously align more strategically the budget to the plan. GOU has started upgrading from Output Based Budgeting to Program Based Budgeting (PBB) which will enhance budget functionality and alignment to the NDP II, and also help sectors to report more on outcomes that impact on service delivery rather than routine activities and outputs starting with the Health sector in the 17/18 financial year.

17. The Uganda budget classification is based on an administrative, economic and programmatic classification. The classification codes include fund and funding source, administrative organization (vote and cost centres), project category, MTEF (sector, program, output), and account (class, item, and sub-item).

18. MoFPED compiles quarterly Budget Performance reports from MDAs and LGs. The Budget Monitoring and Accountability Unit (BMAU) in MOF also follows up government spending up to LG and spending unit level.

19. Government continues to make budget information increasingly available to the public. This is a good indicator for promoting **budget transparency** and accountability with the Ministry of Finance providing up-to-date budget information by publishing quarterly releases in the budget website ([www.budget.go.ug](http://www.budget.go.ug)). Grants to schools and health facilities are displayed on noticeboards at LG and facility levels. In addition, it has launched an Online Transfer Information Management System (OTIMS) which provides the public with information useful for monitoring expenditure and demanding accountability. The International Budget Partnership (IBP) 2015 Open Budget Survey, which assesses the budget transparency of countries in the world, ranked Uganda as 3rd best in Africa; scoring 63% compared to 55% in 2010.

20. Procurement planning is mandatory for all GoU Public Procuring and Disposing Entities as an important instrument to control the use of the budget and for achieving value for money (VfM). Procurement planning is an integral part of the budget process.

21. The PPDA law requires that public procurement and disposal opportunities are accessible to all interested providers to encourage competition. Procurement plans are displayed on entity websites and the Government Procurement Portal ([www.ppda.go.ug](http://www.ppda.go.ug)).

22. **District/Municipality and Facility Level:** Related to the Program, District and Municipal Local Governments prepare individual district budgets and work plans within the expenditure ceilings provided by the central government. All cost centers in districts such as schools and health units are required to prepare and submit work plans and budgets to the Districts for consolidation and inclusion in the overall district budget. The Districts prepare the plans for capital development grants for both the District and the School and health units.

23. At District level, there is a challenge with the Procurement Plans (PPs) submitted by end users/user departments and technical staff which provide inadequate information regarding the technical requirements resulting in inaccuracy of the cost estimates. Implementation of the PPs is affected by non-availability of funds for some items or funds available at the end of the financial year.

24. School and health units prepare plans and budgets for the recurrent non-wage grant funded by UPE/USE or PHC grants. Further Donor funded activities are not reflected in these budgets. There is a risk of duplicate funding for the same set of activities in health centers by both the government and off-budget donors. Procurement plans are not prepared at primary school and health center level due to the very low expected grant amounts.

#### **IV. Procurement**

25. **District Level:** Districts budget for and execute planned activities funded from the conditional Development Grant for district as well as School and health units. The assessment established that: (i) PDUs customize Standard Bidding Documents (SBDs) issued by PPDA for specific bidding requirements for goods and works, and similarly for the Request for proposals for consultancies are comprehensive with relevant information which enable bidders to adequately prepare their bids and provide bidders a mechanism to lodge complaints; (ii) some of the PDU staff lack skills in the preparation of the solicitation documents resulting in incomplete details and methodology for carrying out evaluation ; (iii) the PDUs adhere to appropriate methods of procurement, minimum bidding period, advertising of bid opportunities; (iv) the Local Government Regulations 2006 are not aligned to the PPDA Act 2003 amended 2014; (v) The Evaluations of bids and proposals are carried out by members of evaluation committees approved by Contracts Committees (CC), however, there are delays in finalization of evaluation beyond the 21 days allowed for by Law attributed to inadequate participation by some evaluation members due to lack facilitation in monetary terms, and limited knowledge and experience in carrying out evaluations; (vi) some of the Contracts Committees are not fully constituted, for example out of the five members required to constitute a CC, the councils of Bushenyi, Isingiro, and Wakiso are not fully constituted as they have 3 members; (vii) Award of contracts receives appropriate approvals of CC followed by posting a notice of best evaluated bidder notice and approval of Solicitor General if applicable; (viii) Political interference/influence peddling in the procurement process was also cited as a major constraint to value for money in the procurement cycle at district level; and (ix) the councils maintain registers for signed contracts but lack important details such as contract commencement date, duration and completion date.

26. **Facility level:** The Health Facility In-charge is the Accounting officer, who is also responsible for Procurement, and Accounts. At school, depending on items to be purchased, the

Head Teacher hands over money to a teacher to do the purchase. After purchasing the items, the teacher accounts for the money by delivering purchased items and submitting receipts for accountability purposes. At both the school and health unit levels, competitive bidding processes are not used.

27. **Procurement Record Keeping:** Record keeping, one of the key indicators used to measure procurement performance, has been established by PPDA as the weakest point in the procurement cycle. Data from the PPMS<sup>2</sup> revealed that there has been a declining trend in the performance under this indicator for the last two FYs with performances of 23.4% in FY 2014/2015 from 29.9% in FY 2013/2014 which had complete records with the missing contract management records being the leading cause of non-compliance.

28. The PPDA Act sets out detailed requirements for PDEs with respect to management and storing of procurement records. At District level, most PDUs have limited working space and for storage of records, compromising the safety and integrity of the records. It was noted that among the visited councils, Namutumba and Luwero have inadequate working space. There were no procurement files found at the Health facilities or schools.

29. **Contract Management:** The PPDA law provides that it is the contract manager's responsibility to ensure that the contracts are implemented in accordance with the provisions of the contract, as well as to take the necessary action to correct or sanction deviations from contract terms and conditions. Contract variations and cost overruns not uncommon since the procurement law provides for the review and approval of variations decisions of up to 25 percent of the initial contract price.

30. At District level, there was a noted challenge in contract management mainly for civil works contracts due to inadequate design of the works, and limited knowledge of contract management resulting in time and cost overruns, and most commonly the work done not meeting the technical standards shortening its life.

31. **Reporting to PPDA** There was mixed performance under this indicator. Performance regarding procurement reports to PPDA improved from 72% in FY 14/15 to 76% in the FY 15/16. There was a slight drop on compliance to submission of procurement plans from 90% in FY 14/15 to 80% in FY 15/16.

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<sup>2</sup> Procurement Performance Monitoring System.

**Table 1. Performance of the Public Procurement System for PPDA**

High level Outcomes	PPDA Indicators	Metric	Baseline (2013/14)	FY2014/15			2014/15
				Target	Actual (#)	Actual (%)	Results Rating
<b>Enhancing the Efficiency of the Public Procurement Process</b>							
Improved budget absorption rate resulting in better service delivery	Absorption rate = Procurement Budget utilized / Procurement Funds released	%	94%	95%		93%	
	Proportion of Entities compliant with submission of procurement plans	LG Entities	63%	136	102	75%	
		CG Entities	62%	148	116	78%	
	% of HSEs recording reduced time variations in implementation of procurement plans	#		100 <sup>11</sup>	n/a	80%	
	Number of Entities compliant with submission of reports	LG Entities	43%	136	99	73%	
CG Entities		31%	148	108	73%		

Source: PPDA's Annual Performance Report FY 2015/16.

32. The drop in compliance to submission of procurement plans is partly as a result of some new PDEs in the Financial Year that did not have their procurement structures fully filled. The assessment established that at LG level, generally the PDUs lack of reliable internet connectivity which is important for communicating with the PPDA for submitting procurement related information and also to service providers. Health Centers submit work plans to the District but no procurement plans.

## V. Financial Management Arrangements

33. The PFM reform strategy is currently being implemented starting with changes to the 2015 PFM Act.

34. These changes enable better cash management and improve predictability in funds flow for sector ministries. However, to sustain these it is important that (i) GoU continues to work on ensuring a credible medium term fiscal framework, with credible annual revenue and expenditure estimates; and (ii) budget and expenditure commitment controls through the IFMIS are adhered to prevent overspending and expenditure arrears.

35. **IFMS and other Information Systems:** The accounting systems of the central government are computerized using IFMS Tier 1. Only 59 of the 115 districts are computerized on IFMS as follows: (i) 14 Municipal councils on Tier 1, and (ii) 45 districts on Tier 2. The rest of the 56 districts still use manual systems. The Tier 2 IFMS is not fully compatible with the Tier 1 IFMS that is used by the central government and poses challenges in processing grant transfers and consolidation of government financial reports. The IFMS is used for record keeping, processing and making payments and generation of financial reports. Use of the IFMS has the following challenges:

- (a) **Incomplete coverage:** The IFMS is not installed in 56 districts and therefore officers in these districts (CAO and CFO) have to travel to Kampala or a nearby

district (regional center) that has access to the system to perform such roles as processing warrants to transfer funds to districts, sub counties, Schools and health units which is both time consuming and expensive.

- (b) **Accountable advances:** The IFMS does not provide for tracking of advances and therefore advances are expensed immediately on disbursement thus making it difficult to track and seek refund of unused advances.
- (c) **Intermittent internet connection:** Reliability of internet provision and power supply in LGs is an impediment to the operation of an IFMS site.
- (d) **Budget Control, Monitoring and financial reporting systems** need to be strengthened by having the IFMS complete coverage of the central government budgetary entities, and coverage of LG entities to the extent possible. IFMS controls include an adequate audit trail, and prevent any commitment that would take cumulative expenditure above the cumulative quarterly limits. In the past these controls have been sometimes bypassed, such that commitments were made outside the IFMS. However, a strategy to deal with such expenditure arrears has recently been instituted. Internal controls exist, however OAG audit reports still show that they continue to be somewhat ineffective.

36. The government uses several ICT systems but these are not integrated. The IFMS for accounting, OBT for budgeting in LGs, PBS for budgeting in central governments and IPPS for payroll processing. Manual intervention is required to input data from one system to the other. This compromises data integrity and increases the risk of errors that may cause financial losses as in the case of the overpayments to staff noted by the Auditor General in the 2015/16 audit report. It is necessary to integrate the different ICT systems to minimize manual interventions and ensure data integrity.

37. **Manual book keeping:** In the 56 districts without access to IFMS, and the schools, health units and sub counties, maintain their accounts manually. The primary schools maintain a cash book for the UPE bank account. These cashbooks are generally well maintained by the head teachers and are sufficient to explain utilization of UPE funds in schools.

38. Districts designate a sub- accountant for Health Centre IVs who is responsible for book keeping. Accounts are maintained manually but are not sufficient to prepare proper financial statements. Health Centre-IIIs do not maintain accounting books. Sub accountants at sub counties are responsible for the accounting function for health centers III but in practice they do not perform this role.

39. **Treasury Single Account (TSA):** The MFPED introduced a TSA in October 2013 in accordance with the Public Finance Management priorities to improve resource utilization. A TSA is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Prior to the creation of the TSA, the treasury operated over 2000 accounts, some of which had long become dormant. Multiple accounts presented a breeding ground for the misappropriation of public funds (as was the case in the OPM in 2012) and resulted in inadequate supervision by MFPED. Sometimes, public funds would lie idle and undetected in some accounts while the ministry borrowed to finance other activities. With the

implementation of the TSA, a number of idle and dormant accounts in the Bank of Uganda and other commercial banks were closed. The Treasury Single Account system has been rolled out to all government MDA accessing funds from the Consolidated Fund and on IFMS. The treasury has since benefited from improved absorption capacity, improved Cash management through optimal use of available funds and a reduction in government borrowing

40. The TSA framework is being implemented in a phased manner where the Central Government votes covered MDAs and extended gradually to include salary accounts which are all processed through the IFMS, and bank accounts maintained at the Bank of Uganda (BoU), as well as LGs and upcountry referral hospitals connected to the IFMS. In the later phase, the TSA is expected to include donor funded projects and other accounts holding public funds.

41. Central government grants are transferred quarterly to the district TSA that is maintained in Bank of Uganda. The district then transfers the amounts also on quarterly basis to the sub counties, health units and schools. The transfers are electronically processed using the IFMS. The process is not efficient and substantial delays in processing transfers were noted in the districts, schools and health units that were visited. These delays are attributed to inadequate capacity of some users of the IFMS and intermittent IFMS connections. Such delays prevented the recipients from fully utilizing the grants within the year resulting in refund of unused balances at the year-end.

42. **Banking arrangements at LG** - Districts maintain a bank account- the Treasury Single Account (TSA) in Bank of Uganda on which all district grant funds are deposited. The districts also maintain a collection bank account and donor specific bank accounts in commercial banks. Local revenue collections are transferred from the district collection bank account to the TSA. An operations bank account is maintained in a commercial bank for cash payments.

43. Schools and health units maintain grant specific bank accounts for the PHC grant and UPE grant. The signatories to the school bank accounts are the head teacher and School Management Committee Treasurer. For health units, the signatories are the health unit in charge, District health officer (DHO) or sub county chief. The Accountant General's authorization is required to open a bank account. Guidelines should clarify the specific signatories to health unit account.

## **VI. Auditing Arrangements**

44. **Internal audit** Following the PFM Act 2015, the Office of the Internal Auditor General was set up and thereby given more responsibility in the conduct of its oversight function of the Public Finance Management reforms in the Country. The office is required to review and consolidate internal audit reports from the votes and externally financed projects and also consolidate the reports of all the audit committees of the respective votes.

45. Section 49(1) of the Public Finance Management Act 2015 mandates the Minister of Finance, Planning and Economic development to establish an audit committee for each sector of Government and audit committees for a number of votes in LGs.

46. The process is being decentralized and strengthened with Audit Committees in each sector and technical guidance from the center, but improving its effectiveness ultimately depends on the Accounting Officer of each MDA taking action on identified weaknesses in audit reports.

47. There are 8 sector Audit Committees together with 6 Audit committees for LGs established bringing to a total of 14 audit committees. Each audit committee is composed of 5 members and 1 secretary. Key sectors relevant to the Program would be Health, Education and Accountability (MOFPED) and LG audit committees.

48. The District administration structure provides for an internal audit department. The departments were functional in all the districts that were visited. The scope of the district internal auditors includes; schools, health facilities, and sub counties within the district. The auditors are required to prepare quarterly internal audit reports that should be submitted to CAO, with copies to the chairman of the Council and the Internal Auditor General. The independence of the Internal Auditor is diminished because he is supervised by the CAO. The Internal auditor reports to the CAO and the CAO is responsible for his appraisal and approval of his/her work plans.

49. **External Audits by OAG.** The Auditor General is responsible for the audit of all government funds including funds at the LG and facility levels. The Auditor General conducts annual financial audits on all government ministries, and LGs including facilities such as schools and hospitals.

50. Due to resource constraints, the auditor general does not cover all lower LGs (sub counties) and secondary schools. For the financial year 2015/2016, 1,189 sub counties were not audited due to lack of funds. Similarly, 277 secondary schools and tertiary institutions (22%) out of a population of 1,280 schools and tertiary institutions were not audited. This poses a risk of failure to detect misuse of funds in lower LGs and secondary schools and tertiary institutions. In that same financial year, the OAG reported shillings 4.9 billion unaccounted (lacking supporting activities to explain expenditure) for funds in LGs of which 1 billion were in respect of the 418 lower LGs that were audited that represented 26% of all lower LGs. The OAG also noted that 84 District LGs failed to utilize UGX 13.2 billion by June 2016 due to various factors, and the funds were returned by LGs to the consolidated fund under the Treasury.

51. During the year ended June 30, 2015, OAG audited 109 Ministries, Departments and Agencies (MDAS), 83 Statutory Corporations, 119 Projects, 35 Forensic investigations, 4 IT audits, 878 LGs, 277 secondary schools and tertiary institutions, 13 referral hospitals, 11 value for money audits and 4 specialized (engineering) audits.

52. Results of the June 2016 OAG audit report indicate that MOFPED had an unqualified opinion while MOES and MOH had qualified opinions attributed to nugatory expenditure, outstanding advances and mischarge.

53. The table below provides a breakdown of the types of opinions issued:

**Table 2. Results of the 2016 OAG report.**

Opinions	2010	2011	2012	2013	2014	2015
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<b>Unqualified</b>	40%	59%	45%	58%	70%	79%
<b>Qualified</b>	57%	40%	47%	38%	30%	20%
<b>Disclaimer</b>	3%	1%	7%	4%	0%	0%
<b>Adverse</b>	0%	0%	1%	0%	0%	1%

Source: OAG report 2015.

54. The table clearly shows improving trends of audit opinion over the period.

55. **Timeliness of audits:** There has been major improvement in external audit over the last five years. The Public Audit Act of 2008 greatly increased the financial, legislative and administrative independence of the office. The quality of audits has greatly improved and these are in line with INTOSAI standards. For the last two years, Annual Audit reports were issued within six months of the end of the FY following the new PFM Act of 2015. OAG prepare a separate audit report for each LG which can be accessed at [www.oag.go.ug](http://www.oag.go.ug). Follow up of the OAG recommendations is made by the Parliamentary PAC, Statutory Agencies PAC at CG, and LG PAC at the respective LG.

56. **Follow-on Budget reports, Audits and Public Access:** PAC work is not yet up to date and there continues to be a backlog of old audit reports not yet reviewed, especially for LGs. The PAC attempts to deal with the latest audit reports first, but there is a delay in discussion of these reports in Parliament. GoU has followed up on these reports by issuing seven Treasury Memoranda. There is need for discussion of the more recent reports in Parliament and follow up by the Treasury on these reports. The PEFA assessment for both 2008 and 2012 provided a D+ rating to PI 28 (legislative scrutiny of external audit reports). The main reason for this rating is that Parliament has not consistently debated and approved audit reports on the Consolidated Accounts. In terms of public access to audit reports, OAG makes available key financial audit information on the official OAG website [www.oag.go.ug](http://www.oag.go.ug) which is widely accessible.

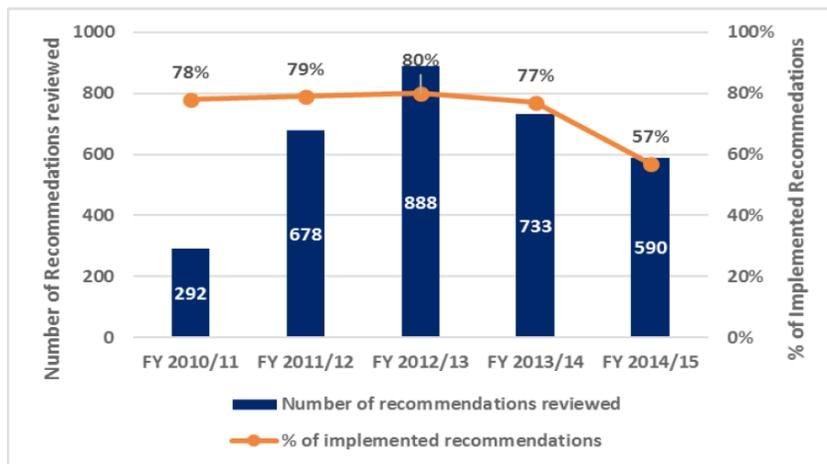
57. **Procurement Audits:** Besides procurement review and investigations form a core part of PPDA's mandate of oversight. Procurement Audits: In FY 15/16, the Authority conducted 114 (81%) out of the planned annual target of **140 procurement and disposal audits**. A key test of the efficiency of the procurement audits is the number of recommendations that are implemented.

58. **Follow-up of Audits and Investigations Recommendations<sup>3</sup>** A total of 590 recommendations were reviewed and of these, 336 recommendations (57%) were found to have been implemented and 254 (43%) were either partially implemented or not implemented. The key recommendations that were not implemented by the Entities were: (a) 21% - related to contract award and implementation mainly due to poor contract monitoring and preparation of the attendant reports; (b) 21% - failure of the Procurement and Disposal Units (PDUs) to maintain complete procurement action files as stipulated in the PPDA Act -missing payment records and contract management records; (c) 14 % - Failure by the Accounting Officers to take disciplinary action against officials in their PDEs .

<sup>3</sup> Public Procurement and Disposal of Public Assets Authority: Annual Performance Report for the Period July 2014–June 2015

59. The trend of the follow up of recommendations and their status of implementation is presented below:

**Figure 1. Trend of the Follow Up Recommendations and Status of Implementation**



60. This shows a downward performance on the part of Entities. The Local Government Assessment tool can't track this indicator as it is not availed for all Entities on annual basis.

## VII. Integrity of Procurement Function

61. The recent integrity survey report undertaken by the PPDA indicated that the perception index about the existence of corruption in public procurement is 71.8% in this survey, up from 69.8% in the previous survey. It further found that 59.8% of service providers had ever gratified public officials to influence winning of tenders and that 54% of respondents reported that bribes were over 10 percent of the contracted. Participants were from both CG and LGs, and thus this risk transcends all Government levels.

62. The overall recommendations from the survey is for PPDA to;

- (a) Initiate measures to improve accountability in public procurement by collaborating with the civil society through organizing regular community meetings.
- (b) Set strict guidelines for the evaluation committees at all levels, to have at least one technically qualified person to guide the technical evaluation of the bids.
- (c) There is need for further legal reforms giving the Authority powers to prosecute culprits.

### *Staffing in LGs*

63. There is a vacancy rate amongst the LGs. The levels ranged from 10% in Kibuku District LG to 89% in Kamuli Town Council. Understaffing overstretches the available staff beyond their capacity, creates job-related stress to the fewer staff and negatively affects the level of public

service delivery to the community. This was attributed to limited wage bill and a ban on recruitment by the Ministry of Public Service.

64. The district LG finance structure provides for sufficient finance staff with clearly stipulated qualifications and experience. In the nine districts visited, 4 (four) did not have substantive Chief Finance Officers (CFO). The absence of competent CFOs may compromise the quality of financial management. The head of the department (CFO), is required to have a Bachelor’s degree, a professional accounting qualifications, and a Diploma in Public Financial Management.

65. Staffing vacancy levels in LG have not improved in the recent past as shown by the OAG report of 2016 in the table below:

**Table 3. Staffing Vacancy Levels in Local Government**

No.	Level of understaffing	No of Entities
1	Above 40%	119
2	Between 20%-40%	45
3	Below 20%	143

66. **Limited staffing and supervision at the health facilities.** The MPDR Report 2015/16 shows that inadequate numbers of staff stood at 14% while absence of critical human resource stood at 29% and are attributed to the common factors to maternal deaths. Although the national HMIS system has **been** rolled out countrywide and generating information from the lower level facilities, health facility reporting has not attained the desired 80% of the national HMIS target in most health facilities.

67. **Staffing of the procurement function.** The PPDA Act of 2003 provides for the establishment of the relevant administrative organs within a Procuring and Disposing Entity (PDE) composed. The staffing levels in the District PDUs were noted to be adequate in terms of the numbers of staff depending on the government establishment requirements for respective councils. The staff consists of Senior Procurement Officer (SPO), and/ or Procurement Officer (PO), and Assistant Procurement Officer (APO) with appropriate qualifications and experience, however the support staff are not adequate, for example, the districts of Jinja, Namutumba, Rakai and Luwero don’t have support staff (e.g. secretary/ records officer) responsible for procurement documentation and record keeping. This aspect will also be covered by the LG Assessment tool.

### **VIII. Institutional Arrangements for Investigating and Prosecuting Corruption Practices**

68. **At central government level,** the fight against fraud and corruption is carried out by a number of agencies under the anti-corruption Inter Agency Forum (IAF) coordinated by the Directorate for Ethics and Integrity in the Office of the President. These include the Inspectorate of Government (IGG), the Public Procurement and Disposal of Public Assets Authority (PPDA); the central intelligence and investigation department of police (CIID); the directorate of public prosecutions (DPP); the office of the Auditor General (OAG) and the Anti-Corruption Division

(ACD) of the high court. Further, investigation on funds mismanagement and abuse of offices arising out of the OAG reports are discussed by the public accounts committee of Parliament (PAC) and the LG PAC (Local Governments), and the Committee on commissions, statutory authorities and state enterprises (COSASE). The IGG, DPP, PPDA, CIID and ACD all have regional offices that have enabled the Government take the fight against corruption closer to the citizens.

69. The ACD operates as the arm of the judiciary with regional branches. The cases handled include corruptly soliciting gratification; neglect of duty; causing financial loss; embezzlement; abuse of office; corruption. The High Court Data Centre shows in table below growing case management during 2014 and 2015 National Anti-Corruption Strategy 2014-2019 came onto the scene.

**Table 4. Anti-corruption Division of the High Court case management during 2014-2015**

Case File category	2014	2015
Cases brought forward	166,000	168,000
Cases registered	158,000	155,000
Cases concluded	153,000	152,000
Cases pending	172,000	173,000

Source: High Court Data Centre.

70. **Alignment with ACG for PforR Operation** - To address the F&C associated with fiduciary risk the Program for Results implementation will be aligned to the Anti-Corruption Guidelines (ACG) applicable to PforR **Operations** - Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results financing”, dated February 1, 2012. The measures that will be instituted under the Program in line with the ACGH guidelines include the following:

- (a) Sharing of information on F&C allegations – in line with the PforR ACGs, the Inspectorate of Government (IG) will share with the World Bank, through its statutory bi-annual reports of its activities to Parliament, action taken or being taken on complaints and grievances received from the general public on F&C. The Criminal Investigations and Intelligence Directorate (CIID) and Directorate of Public Prosecutions (DPP) will also share with the World Bank, through their Annual Reports action taken or being taken on cases reported to them. The IG, CIID and DPP are mandated by their governing Statutes to receive complaints and reports from the public and other stakeholders. However, for the Program for Results, the IG will be the coordinating institution for receiving and reporting on cases of suspected fraud and corruption. The IG, CIID and DPP have established Regional Offices strategically throughout the country to deliver its services closer to the people.
- (b) Sharing of debarment list of firms and individuals. The GoU Public Procurement and Disposal of Public Assets Authority (PPDA) will share with MoFPED, the participating agencies and the IG, CIID and DPP, on a quarterly basis, the list of firms and individuals which have been debarred or suspended from participating in procurement in Uganda. Likewise, MoFPED will obtain a list of temporary suspended firms and individuals from the World Bank and share this list with the

PPDA, IG, CIID and DPP. The bidding documents for works, goods and services to be financed under the Program will have explicit clauses to the effect that firms and/or individuals which have been debarred or suspended by the World Bank or PPDA would not be eligible to bid under the Program.

- (c) Investigation of F&C allegations – The IG and CIID as the primary and secondary agencies for investigation, and in the case of IG, prosecution, of cases of corruption and crime respectively, are granted powers by the Constitution (1995) and their governing Statutes to enable the agencies perform these functions. The IG is also granted independence in the performance of its functions and is not subject to the direction and control of any authority and is only responsible to Parliament. The IG governing Statute empowers the IG to work in consultation with other technical experts to enhance the performance of its functions. In 2010 the IG entered into an MoU with the Integrity Vice Presidency (INT) of the World Bank to cooperate with each other within the scope of their mandates, and specifically to closely cooperate and consult each other regularly on matters of mutual interest by, amongst others; (i) sharing information of relevance for detection, substantiation and prevention of F&C in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under the World Bank Group rules and policies and (ii) undertake joint activities and collaborate when appropriate in each party's efforts to detect, substantiate and prevent F&C. The MoU will therefore make it possible for the INT to collaborate with the IG on any case of suspected fraud and corruption in the Program and INT will also leverage the synergies of the MoU to similarly collaborate with the CIID and DPP on such cases.

71. In addition to the above measures, the Program for Result will also benefit from the enhanced budget transparency initiatives currently under implementation by the MoFPED. These initiatives have provided scope for Non-State Actors, civil society coalitions to participate in budget preparation and implementation processes at all stages of the Program to help improve chances of meeting Program outcomes. The MoFPED will be required to publicly disseminate information on Program implementation and results.

72. In addition, the LG performance assessment process have incorporated measures to mitigate F&C. To ensure LG adherence, these measures will form part of the scoring for each LG and inform the grant allocation process and the Program Action Plan on capacity building. These include:

- Monitoring LG actions on status of implementation of internal audit and OAG findings. This will ensure that any indications of misuse of public funds is reported on and acted upon as soon as possible.
- Enhanced transparency and citizen participation in the management of LG activities. The LGs are required to set up and designate office for grievance and complaints handling and will be assessed on its functionality. Further the LGs will be required to display work plans and the sources and use of funds.
- Report by LG's to the IGG of all actions taken on the F&C cases.

73. **Institutional framework for supporting managing and accountability for resources at LG level.** At the LG and service delivery facility levels the accountability infrastructure is in place and involves the District Internal Auditor who conducts at least one audit in every financial year at each government-aided public primary and secondary government-aided schools and health facilities. The Internal Auditor reports his audit findings to the Chief Administrative Officer (CAO), who then forwards irregularities to either the District Service Commission (Human Resource issues) or the LG PAC (funds accountability) for further administrative action. The DSC and LGPAC resolutions are forwarded to the Council for discussion and resolutions that are forwarded to CAO for relevant administrative action. The progress on implementation of council resolutions are reported upon by the CAO in subsequent council meetings. The absence of DSCs in some LGs such as Bushenyi and Rakai districts curtails their work to stamp out administrative indiscipline and funds mismanagement. Selective reporting for public funds have created challenges in the past and therefore require immediate rectification. A clear regulation is required on authorization for accessing PHC grants (health) and UPE or USE (education) funds accountability are standardized across the country.

74. The following framework supports the management of funds at the LG level:

- (a) **LG Councils:** They are the highest political authorities within their areas of jurisdiction with legislative and executive functions. Through their District Chairpersons and Mayors, they are the political heads of the LGs mandated to monitor general administration and implementation of council decisions. They approve all plans, budgets and report of Council. The LG councils can make adjustments to allocations for grants such as in education and health funds transfers on account of their devolved discretion powers. While this mechanism is not clearly spelt out in any guidelines, this means that the intention to have a fully functional educational constructed facility in one financial year, has not been realized.
- (b) **Committees of Council including LGs' Executive Committees:** The standing committee for health and education (sometimes called a standing committee for social services), scrutinize education and health sector plans and budgets and make recommendations to Council for approval. Additionally, they receive quarterly status reports on the implementation of plans and budgets from the sector heads and in turn carry out physical site verification and monitoring visits which findings they present at the next council sitting.
- (c) **Technical Planning Committee:** This committee initiates, implements, and reports on implementation of plans and budgets on a quarterly basis to the respective standing committee of Council.
- (d) **Chief Administrative Officers and Town Clerks of Municipalities:** They guide councils on implementation of laws, supervise, monitor and coordinate activities in the LGs and are the Accounting Officers.
- (e) **The District Internal Auditor:** The Office is engaged in regular audit of accounts of government institutions including all public schools and health facilities. The Challenge is the lack of their involvement in auditing Private for Profit health

facilities which place public funds transferred to these health facilities at risk, and therefore require immediate rectification.

- (f) **District Service Commissions:** They are responsible for the appointment, promotion, disciplining and removal from office of all employees of LGs except for Chief Administrative Officers, Deputy Chief Administrative Officers and Town Clerks of Municipalities. Some districts, such as Bushenyi do not have functional DSCs on account of delayed clearance of nominated officials that are meant to constitute it. Also, the Rakai DSC is entangled in legal battles with the IGG. These occurrences render such LGs risky as decisions relating to their human resource management mandates from other accountability reports are not promptly handled.
- (g) **LGs Public Accounts Committee:** This entity is often involved in pursuing resolutions of Council that require further investigation of impropriety and abuse of funds at LG Levels. The Committee is constituted by members who are not councilors, examine reports of the Auditor General, Internal Auditor, and Commissions of Enquiry. In cases of impropriety, their recommendations are presented to Council which deliberate and generate resolutions that are forwarded to the Chief Administrative Officer for administration action. Status of implementation of these resolutions are prepared and presented to council at their subsequent meeting.
- (h) **The Civil Society Organizations:** These function as watchdogs who also monitor the performance of LGs for improved accountability including the media. They are responsible for collective action within the sector to expose corruption. Other interventions carried out through citizen engagement include the Barazas, a public dialogue where government officials provide accountability for funds received and types of social investments and service delivered during a particular period of the financial year. The challenge with the Barazas is that they are not well funded to ensure regular citizenry demanding for accountability.
- (i) **Universal Primary Education (UPE) Schools: The following institutional framework exists:**
- **The School Management Committee (SMC):** The SMCs scrutinize school annual work-plans and budgets that are prepared by the **Finance Committee** which is constituted by school teachers and chaired by a Deputy Head teacher. Additionally, they receive end of term accountability report on the receipt and utilization of UPE grants. The challenge is that some primary schools such as Ssanje Primary School, Rakai district, have been operating without SMCs for up to a year due to delayed district clearance of nominated persons to serve onto the SMC. In FY2015/16, Head teachers and deputies were trained in School leadership and Accountability under the Uganda Teacher and School Effectiveness project.
  - **School Inspection mechanism:** The education facility supervision has been augmented by use of Associate Assessors; acquiring motorcycles to some districts to carry out inspection; improved internal supervision by the Head

teachers; enhanced capacity building for the district inspectors; and, commencement of implementing the revised inspection model that uses GPS.

**(j) At the Health facilities level following institutional framework exists:**

- **The Health Unit Management Committee (HUMCs):** The Health Centres IIIs and IVs are managed by the in-charges (the designated accounting officers). An Accounts Officer sits at the HC-IVs and where not available, a district Accounts Officer performs regular visits to the facility to manage the books of accounts. The HC-IIIs however rely on the sub-accountant at the Sub-county of jurisdiction, for performing the financial management function. The heads of sections in HC-IIIs or departments for HC-IVs, prepare and produce the annual work-plans and budget that are approved by the facility oversight organs, the Health Unit Management Committees (HUMCs). The in-charge at HC-IVs, mainly medical doctors, also perform theatre work and this creates overload.
- **Facility inspection mechanism:** The district heads perform support supervision at the HC-IVs and in turn mandates the in-charge of HC-IVs to cascade support supervision to lower health units, i.e. HC-IIIs and IIs. Additionally, the District standing committee for social services or health in some LGs, conduct regular implementation monitoring visits, at least once a quarter.

**IX. Complaints and Grievance Handling Systems within IGFT agencies**

75. The handling of fraud and corruption in the context of the IGFT will be done in line with the existing Government of Uganda processes and using the existing mandated institutions.

76. The agencies mandated to fight fraud and corruption include the Inspectorate of Government (IG), the Criminal Investigation and Intelligence Directorate of the Uganda Police Force and the Directorate of Public Prosecutions. The OAG and PPDA support the process of scrutiny in the use of public funds and their reports will inform the work of the three agencies mandated to fight F&C. To enhance their work, the three main agencies have set up regional offices to take services closer to the people.

77. Further, (i) the IG has put in place a citizen monitoring mechanism in the 56 districts in the greater North and this will help expedite receipt and transmission of F&C complaints to the center; (ii) the Government, via the budget website and budget hotline has established a system for the public to provide feedback on LG budgets, and is in the process of establishing a feedback follow up mechanism.

78. The avenues for grievance redress will therefore be as follows:

- At the facility level for a such as the HMC and the SMCs
- At the LG, via the complaints focal points
- Nationally via the IG and budget website.

79. Guidelines for facilities in investments will be revised to require facilities to public avenues for grievance redress at the facility level, including when for new investments.

## **X. Program Fiduciary Arrangements**

80. The IGFT P4R fiduciary arrangements will be implemented at the Central Government and LG levels following Government procedures and processes as follows:

- (a) **Managing Transfers at the Central Government level** – the Ministry of Finance, Planning and Economic Development (MOFPED) and the two sector ministries of Education and Health responsible for the Program grants responsible for the grant formulae as well as the budgeting, planning and funds release processes.
- (b) **The Auditor General, Inspectorate of Government and the Public Procurement and Disposal of Public Assets Authority (PPDA)** will play their roles in the accountability chain to ensure compliance with the laws while the Central Bank (BOU) will facilitate funds flow processes.
- (c) **Managing Transfers at the LG level**, the CAO is responsible for preparing and submitting warrants to MOFPED, based on which funds are released to Districts as well as to health and education facilities under the existing government program.
- (d) **The LG annual performance assessment framework** will be used to measure and incentivize LG institutional performance improvements with respect to fiduciary, safeguards, revenue mobilization, project implementation and management. OPM will coordinate the assessment process.
- (e) **Targeted Performance Improvement Programs.** The Ministry of LG's role is coordinating a process of targeted support to poor performing LGs and LG processes, as well as to Inspect, monitor and, offer advocate for LGs.

81. A results-based modality will be followed whereby funds will be disbursed against achievement of results into the designated Program account at the Bank of Uganda controlled by the MoFPED/Treasury. Given that funds will be disbursed using the DLI approach, it will work as follows:

- (a) A set of DLIs for each year of the Program will be determined and this will start in year 1, 2017/18.
- (b) At effectiveness – Year 1 (around quarter 2 2017), an advance against Year 1 results corresponding to the cost of grant management, assessment and support in 2017/18 (approximately USD 2.5 million), can be disbursed to the MoFPED/Treasury designated Program account if requested.

82. There will be annual reporting and verification of DLIs which will result in typically one disbursements per year against results (as well as one advance) or any other period as agreed with MoFPED. MOFPED will also ensure that results areas are appropriately budgeted for and release of funds effected for Program implementation.

83. **Disbursing Funds under the Program:** The following summarizes the steps to be followed for disbursing funds under the Program:

- (a) Endorsement of the DLIs by the IGFT Steering Committee using the reporting and verification processes set out in Annex 3.
- (b) MoFPED notifies IDA and requests for disbursement of funds based on the verified and agreed assessment results and DLIs amount through a withdrawal application.
- (c) In case of outstanding advance against DLIs, subsequent results achieved will be used to offset or liquidate the advances.
- (d) IDA transfers funds to GoU Treasury Holding Account in Bank of Uganda and notifies the client through client connection.

84. The risk that funds transferred from the treasury may be different from the funds received at the service delivery units has been minimized by the automation of funds transfer by straight through processing (STP) and electronic fund transfers. There is also transparency by publishing the transfers in the popular local media/daily newspapers by MOFPED. Funds received by the districts and service delivery units are also displayed on their notice boards. Sensitization of the transparency mechanisms in place will be essential for the citizens, schools and health centres to be aware where to access information.

85. The assessment considers the banking and funds flow system to be relatively strong with a moderate risk.

86. **Program Financial Statements:** The main Program financial statements will be made of Receipts and Payments where by receipts will be composed of the two main sources of funds: (i) Government own resources; (ii) IDA PfR funds

87. The payments side will aggregate all transfers to LGs, Schools and Health facilities in regard to the four grants being supported by this Program. In addition, any relevant program expenditures from the national level implementing ministries or agencies (MoFPED, OPM, MoLG, MoH, MoES) will be included.

88. **Program Audit:** The Program will be audited within OAG existing framework. The OAG will audit the above described Program financial statements (PFS) as a whole and provide an audit opinion thereon. Auditing the “program” of transfers will entail the OAG to audit how the transfers take place (whether in accordance with the Program design), whether the recipients receive the transfers (including the final recipients such as schools and hospitals) and the timeliness. OAG will also carry out relevant tests using sampling techniques to confirm the receipt of “Program funds” by these recipients.

## **XI. Summary Risk Assessment:**

89. Considering that the PDO of this operation is geared towards financing mechanism at the upper-end of the value chain, the following summarizes program fiduciary risks from that perspective.

90. The Fiduciary Systems Assessment has identified the various implementation and program risks and their potential impact on the ability of the Program to attain its development objectives. As discussed above, the Program implementation framework is characterized by weak systems at LG and facility/school level as well as by capacity constraints to deliver the required services. Low staffing levels, systems availability (IFMS) and connectivity pose additional risks. The Program will be implemented in an environment of low levels of compliance to laws and regulations with weak enforcement regimes. Planning and budgeting figures are not consistently adhered to resulting in ad hoc resource allocation. Weaknesses in procurement practices and control systems results in creating opportunities for the substitution of legitimate procedures that give the scope for rent-seeking. The gaps in the functioning of monitoring and oversight systems like audit coverage of lower LGs.

91. The FSA identified three groups of risks which are set out in the table.

- The first group of risks relate to the functioning of existing processes and systems at the local level.
- The second area relates to problems in LG systems and processes, which require adjustment at the center to adjust/improve them.
- The third group of risks relate to the awareness of LGs to implementing systems and processes which is likely to result in a lack of adherence to those systems.

92. Key design features of the proposed IGFT P4R is to incentivize change by rewarding desired LG operational and institutional performance through the new LG assessment tool and operationalization of the grants allocation formulae. Risk mitigation measures will be built into the Program by a set of Action Plans (PAPs). Linking the achievement of Results to the disbursement of World Bank funds (through the use of DLIs) along with PAPs will also mitigate the risks identified to a considerable extent.

93. Based on the above analysis of the risks, the overall fiduciary risk of the Program is rated as Substantial.

**Table 5. Risks and Mitigation Measures**

No.	Issue	Risk	Mitigation Measure	Responsible
<b>1. Functioning of existing processes and systems at the local level:</b>				
i	There is understaffing in key positions e.g. Chief Finance Officer (CFO) creates funds absorption challenges and undermines delivery of services;	Absorption challenges and slow down delivery of services	Through Targeted Performance Improvement Programs support the weakest LGs to fill critical positions in District and incentivize filling of positions through the assessment process.	MoLG
ii	Lack of skills in Preparation of Solicitation documents for works and consulting services as well as evaluation of bids and proposals; and most LGs do not capacity to supervise civil works	Contract award to otherwise non-qualified firms, and shoddy work	Compliance with preparation of bidding documents incentivized through the assessment process.  Through Targeted Performance Improvement Programs, support the weakest LGs to improve solicitation documents for works and consulting services; evaluation of bids and proposals to the weakest LGs.  <i>Parallel programs would support broader capacity building, which could include requiring Contract Managers (civil works) to do online contract management course at <a href="https://www.procurementlearning.org/index.php">https://www.procurementlearning.org/index.php</a>,</i>	PPDA, MOH, MOES, MOLG, LGFC
iv	Accounting officers do not systematically implement the recommendations of the OAG, PPDA, Internal Audit and LG PAC	Lack of accountability and no value for money in execution of Govt programs	As part of Revision to Guidelines, the Government will develop timelines and responsibility centers for implementation of all OAG and LG PAC recommendations  Audit follow forms part of annual assessment and is also monitored by IAG and factored into appointment of accounting officers	AGO, NITAU MOPS, MOLG, LGFC, OAG, MOFPED/IAG
V	High No of Fraud and corruption complaints (abuse of office and funds) received by the Inspectorate of Government against the District staff as well as school and health unit staff (June 2016 Report to Parliament)	Fraud and Corruption	The performance assessment includes provisions for financial management transparency and accountability.  <i>There are Parallel programs supporting the strengthening of IGG (e.g. SUGAR, GAP) and other institutions to deal with corruption cases.</i>	AGO, NITAU MOPS, MOLG, LGFC, OAG, IGG, CIID,
<b>2. Problems in LG systems and processes, which require adjustment at the center to adjust/improve them:</b>				
I	Non alignment of Legal Framework at CG and LG level - Regulations 2006 for the LG inconsistent with amended PPDA Act and the LGFAR 2007	Noncompliance to PPDA Act and PFM Act at LG level	LG accounting and procurement manuals will be updated to reflect the new legal framework.  <i>Under FINMAP or a similar program, LG financial and</i>	AGO, PPDA, MOLG, LGFC, MOJCA

No.	Issue	Risk	Mitigation Measure	Responsible
	inconsistent with the new PFM Act of 2015		<i>accounting as well as procurement Regulations harmonized with national laws.</i>	
ii	The HLGs, schools and health units' plans and budgets are incomplete and do not include donor funding as well as for funds from Ministries that are not part of IPFs	Double accountability and duplication of resources	Adjust guidelines for schools and health units to prepare detailed budgets including revenue from all sources, and to indicate that all funds received during the FY should be reported to and acknowledged by the HUMC and SMC.  Budget requirements include capturing donor resources allocated to facilities within the overall district budget. The Government is developing the Service Delivery Results Assessment Tool for Schools and Health Facilities and this will be implemented in FY18/19 to influence the FY 19/20 allocations to LGs.  Annual Assessment monitors and incentivises compliance to the guidelines.	MOH, MOES, MOFPED, MOLG, LGFC
iii	There have been substantial delays of 3 – 6 weeks from the start of the quarter to release of funds to cost centers (non-wage and development) as a result of the new warrant system. This requires LGs to enter warrants directly onto IFMIS. As the IFMIS is not installed in several districts and there is unreliable internet connectivity in others there are delays in warrant preparation by LGs.	funds do not reach cost centres promptly creating funds	MoFPED will ensuring that LGs have reasonable access to IFMIS sites or equivalent to process warrants, whilst the IFMIS is being rolled out by MoFPED and MoLG. NB: MoFPED is already in the process of establishing regional IFMIS centers.  <i>In parallel to the Program, FINMAP will continue to roll out of IFMS and National Backbone to all districts</i>	AGO, NITAU MOPS, MOLG, LGFC
<b>3. Awareness of LGs to implementing systems and processes which is likely to result in a lack of adherence to those systems</b>				
i	Guidelines (both Higher LG and Facility) are not communicated to the LGs/beneficiary institutions adequately.	Sector expenditures may not be used in line with national policies and guidance and LG needs	Disseminate revised grant and other relevant guidelines to districts/municipalities as well as school and health units.  Develop a single online repository for guidance relating to LG transfers and related issues.	MOH, MOES, MOPS, MOLG, LGFC,
ii	Elected Leaders from 2016 General Elections have are not aware of PFM and grant guidelines	This poses risk of making decisions which are unlawful/not in line with guidelines	Develop/revise and disseminate standardized training manuals for orientation of councilors in their roles in budgeting, procurement and the transfer system.	MOFPED, MOES, MOPS, MOLG, LGFC,
iii	Statutory Oversight committees (DSCs, Contracts Committees, HUMCs, SMCs)	Lack of oversight resulting in increased	Annual Performance Assessment to verify presence and functionality of committees	MOFPED/PSS T, MOES,

No.	Issue	Risk	Mitigation Measure	Responsible
	not in place for checks and balances or not fully constituted, and not well facilitated/funded	absenteeism, delayed service delivery and no value for money	<ul style="list-style-type: none"> <li>• The Government is developing the Service Delivery Results Assessment Tool for Schools and Health Facilities and this will be implemented in FY18/19 to impact the FY 19/20 allocations to LGs. This should capture the existence and functionality of the oversight statutory committee.</li> </ul> <p><i>PS/ST to approve replacement of CC members in a more timely manner</i></p>	MOPS, MOLG, LGFC,