

**FINAL REPORT BY EVALUATION AND AUDIT UNIT  
TO SECRETARY GENERAL ON  
MISAPPROPRIATION OF FUNDS IN THE OFFICE OF  
THE PRIME MINISTER, UGANDA**

**FEBRUARY 2014**

## **1. Background**

This report is a follow up on the interim report of November 15<sup>th</sup> 2012 on the misappropriation of funds in the Office of the Prime Minister in Uganda. The interim report was prepared in the aftermath of the misappropriation of €11.6 million of donor funds, including €4 million of funds provided by Irish Aid, intended for the Peace, Recovery and Development Plan (PRDP) in Northern Uganda but was misappropriated within the Office of the Prime Minister (OPM). The interim report provided detail of the nature of the misappropriation of funds and identification of systems weaknesses that either facilitated the misappropriation or prevented earlier detection. The interim report concluded:

*“that there was collusion at senior levels and across three key agencies – the OPM, the Accountant General’s Office (including Treasury) within the Ministry of Finance, Planning and Economic Development (MOFPED), and the Bank of Uganda. This was a very sophisticated and elaborate scheme and, given the level of collusion involved, it would have been difficult for normal systems to pick up as key controls were bypassed by the individuals who were responsible for implementing the controls. While weaknesses or non-application of controls on both the donor side and the GOU (referred to later in this report) made the fraud easier and possibly delayed earlier detection, it is considered that the fraud could only have been perpetrated by a level of collusion that would not have been reasonably anticipated”*

The interim report made a number of recommendations and this final report will assess the action taken to date around each recommendation and the current continuing validity of the recommendation.

## **2. Summary of Progress on Recommendations**

The interim report made fourteen recommendations and all have been either implemented or are in the process of implementation. Three of the recommendations related to immediate action around the recovery of funds and discontinuation of any further funding. These were fully implemented. Immediate request for refund of the misappropriated €4 million was made and direct funding to the Government of Uganda was suspended. A further three recommendations related to immediate and future audit work and the Office of the Auditor General in Uganda (OAG). These were complied with including funding of the OAG by the Irish Aid programme. Four recommendations (7-10) focused on immediate strengthening of the management systems at Embassy Kampala. An assessment of systems at Embassy Kampala was carried out in January 2014 and the conclusion rated systems as good. The recommendations can be considered as implemented though the nature of the recommendations are such that they will need to be continually assessed over a longer period to ensure the actions taken are embedded. One recommendation (11) relates to the Department’s internal audit function. This has been implemented and the required actions have been included in the relevant business plans for 2014. The final three recommendations

address broader systems issues across the Development Cooperation Division (DCD) including identification and management of risk. A number of actions and initiatives have been taken on foot of the recommendations and we are satisfied that adequate and appropriate progress has been made on these to date, though some will take further time to complete. More detail on the progress on each recommendation is provided in Annex 1.

### **3. Refund of misappropriated funds**

A full refund of the €4 million misappropriated funds was made on 27<sup>th</sup> December 2012 after a formal request for refund was made by Embassy Kampala on 30<sup>th</sup> October 2012. In total 58.5 billion Uganda shillings (approximately €16.3 million) was refunded to donors by the Uganda Government. The refund of €4 million amounted to 14.876 billion Uganda shillings. The amount was lodged to the Embassy Uganda shilling account and was reprogrammed for expenditure through non-governmental partners in 2013.

### **4. Management Actions post Interim Report – nature of programme, visits, capacity strengthening**

In the aftermath of the interim report on the misappropriation of funds, DCD Management took a number of important steps towards addressing issues raised in the report and designed towards immediate strengthening of management systems at the Embassy. As recommended in the interim report all funding using Uganda Government systems was discontinued and the aid programme to Uganda was restructured and realigned using partners that are considered reliable. Considerable management support from HQ was provided with a total of twelve visits from Senior Management, the programme support team (Desk) and Evaluation and Audit personnel. These visits have been supplemented with regular video-conference meetings. The financial oversight capacity at the embassy in Kampala was immediately strengthened by the recruitment of a financial management expert in March 2013.

We are of the view that management actions towards addressing issues raised in the interim report have been substantial and appropriate and reflect the priority given to strengthening systems in Uganda and across other partner countries. However it is noted that as of January 2014 two key positions at the Kampala mission remain unfilled. While it is understood that these posts will be filled in the coming months, there are risks in having significant gaps in the management structure at mission level, notwithstanding the continued substantial support from HQ. While the current management and staffing level at the Embassy is coping for the current programme they are significantly stretched. Given the overall risk environment in Uganda, and also that a new Country Strategy Programme will be under preparation later in 2014, it is important that the mission is adequately and appropriately staffed.

### **5. Funds provided to Government pre suspension of funding**

A total of €18.1 million was provided through Government systems in 2011 and €361,886 was provided in 2012 up to the date of suspension. We have examined the various financial

and audit reports for this funding and are satisfied that the funds advanced have been accounted for properly or are being duly followed up by the Embassy.

## **6. Uganda Programme 2013 – Summary of areas supported and budget allocations.**

The Uganda programme expended grants of €21.7 million in 2013, all of which was spent through non-governmental systems. Most of the grants were a continuation of existing programmes and commitments, in the areas of governance, education, HIV and AIDS, gender based violence and livelihoods and economic opportunities and all were expended through existing Irish Aid partners. The detail is set out in Annex 2 attached.

## **7. Actions taken by Uganda Government**

The scale and nature of the misappropriation of funds has made a major impact in Uganda and has led to significant reaction at all levels of Government. A police investigation continues and to date one person has been convicted, six others are facing trial and fifty four are still being investigated. A number of officers in the Ministry of Finance, Planning and Economic Development (MOFPED) and Bank of Uganda remain on suspension while others have been transferred.

While the interim report identified collusion at a high level as the most important factor in facilitating the misappropriation of funds, the report, and reports of the OAG, identified weaknesses in controls in the office of the Accountant General and Bank of Uganda (the central bank). In the aftermath of the report of the OAG, both the office of the Accountant General and the Bank of Uganda (BOU) have strengthened controls in a number of key areas. Particular attention has been given to verification of authorisation for bank transactions and the steps taken to improve controls would appear to be substantial and address weaknesses and loopholes that were open to exploitation. The steps that have been taken include the following:

- Dormant bank accounts have been closed and all remaining accounts are much more closely monitored, which is an easier exercise with fewer accounts operational. Accounts are automatically blocked if there have been no transactions for six months, and will only be unblocked after written request and justification to MOFPED.
- A Treasury Single Account (TSA) system, which links all Treasury funding into one account, has been introduced and balances can no longer be held on any government account overnight – all balances are automatically cleared back into the Treasury consolidated fund at the close of business. Daily bank reconciliations are now done.
- MOFPED has conducted a thorough internal review of their systems and have introduced a number of procedures to strengthen controls, including that all transactions over a certain limit must be reconfirmed with the relevant Accounting

Officer in person, and they are also required to review and confirm schedules of payments.

- Restrictions have been put in place now so that specific individuals can only effect particular types of payments, so that if a particular type of payment file, e.g. salaries, comes from someone else in MOFPED it will automatically be rejected by BOU system.
- The BOU assigns electronic keys to MOFPED to effect payments – these are now assigned to named individuals rather than to the Ministry, so that it can be traced back who effected any given payment or transaction. Bank of Uganda now generates weekly reports of all payments over US\$50m (approx €15,000) for all Accounting Officers against their respective budgets, including donor funds, so they can see and if necessary query any transactions that might be unusual. These reports are copied to the Permanent Secretary / Secretary to the Treasury in MOFPED.
- An alert system has been set up in MOFPED so that internal audit is routinely notified when a new supplier is created, and when certain payments are effected.
- MOFPED is in the process of tightening controls over cash, limiting the number and size of cash withdrawals and advances. Measures include getting ministries to organise formalising of service providers and setting them up properly on the system so that they can be paid through the system rather than staff needing to take cash advances for procurement and bypassing the procedures.
- The steps taken by both MOFPED and Bank of Uganda should improve internal controls as regards payments and make a repetition of the misappropriation less likely. The work undertaken to date demonstrates a commitment at the technical and management level to improve systems and to tighten controls, but there is further work to be done.

## **8. Assessment of Management Systems across Partner Countries**

One of the recommendations of the interim report was that a review should be undertaken of the management arrangements, including risk and financial management, in all partner countries to ensure that all procedures and protocols are being properly implemented and risks appropriately identified and managed.

This work was carried out and systems were assessed in nine countries. A synthesis report of the country assessments has been completed and published. The report found that while there are variations in approaches across countries, the overall conclusion is that systems and controls in place for management of the aid programme are adequate to good across all missions. This includes Uganda. However the assessment exercise has identified

weaknesses particularly in relation to documentation of systems, level of detail around risk management and human resources policy as it applies to countries that manage large and complex aid budgets. All recommendations were accepted by management and a process is underway to address the recommendations.

## **9. Conclusion**

We are satisfied that DCD management have taken adequate steps in the aftermath of the misappropriation of funds to recover the funds in question, withdraw from using Government systems in Uganda and in addressing systems weaknesses both at the mission in Uganda and across DCD. Significant steps have been taken towards strengthening of controls and risk management systems though some of this work will require a longer timescale. We would again emphasise the importance of adequate staffing of missions both in terms of numbers and skills and that any inability to provide adequate personnel resources or to react to unexpected staff resignations raises the overall risk profile. People remain an important and inherent part of risk management systems.

With regard to the overall risk profile of Uganda and the nature of future programmes there, the conclusion is that the nature and scope of any programme must be thoroughly analysed from a risk perspective before any decisions are taken as to what areas to support, what modalities to use and what partners to work with are finalised. A CSP planning process will be undertaken in 2014 and consideration of these issues will be an important part of the process. With regard to working through Government, while systems weaknesses from a technical perspective have been addressed it will be more important to assess broader risk in areas such as governance and corruption before any decisions are made. Until this more in-depth analysis is carried out it remains prudent to not provide any funding through Uganda Government systems.

## **ANNEX 1: REPORT BY E&A ON THE OPM FRAUD - RECOMMENDATIONS**

<b>Recommendation</b>	<b>Responsibility</b>	<b>Status January 2014 E&amp;A</b>
1. Full recovery of the €4 million should be sought and funds should be returned to an account under the control of the Department of Foreign Affairs and Trade.	Ambassador / Head of Development	Funds recovered in full (€4 m) on 27 <sup>th</sup> December 2012 and deposited in the Embassy Ugandan Shilling account.
2. No further disbursements should be made to the Government of Uganda until all the follow up audits planned by the OAG are completed, Government's response to the findings has been assessed and there is credible evidence of sustained improvement in internal controls over the PFM system. This is likely to be late second half of 2013 at the earliest.	Head of Development	<p>No further disbursements have been made to Government of Uganda since the misappropriation came to light, with the exception of support for the Office of the Auditor General in 2013 (see below, recommendation 5).</p> <p>In 2012, the only grants that were disbursed to GOU prior to the misappropriation were four grants totalling €361,886. Each of these was for specific discrete projects or activities.</p> <p>All grants disbursed to Government of Uganda prior to this incident have now been verified as fully utilised, or are being duly followed up by the Embassy, or funds were recalled back into Irish Aid bank accounts.</p> <p>In the meantime, the OAG audits have been proceeding and Ireland, together with the other donors, has been analysing these and tracking their findings and recommendations. Whilst there has been some progress by Government with regards to the High Level Action Matrix as agreed in the wake of the OPM fraud, such as the closure of dormant accounts, the moving to a treasury single account system, and sharper controls over expenditure, there is still a way to go before full confidence has been restored in the system.</p>
3. It would not be advisable to proceed with any	Head of	The current interim Irish Aid programme (2013/14) has no

<p>programmes managed or under the supervision of the OPM for the foreseeable future and at least until the further reports are received from the OAG and substantively addressed.</p>	<p>Development</p>	<p>relationship, either funding or technical, with the OPM. It should be noted that the number of programmes now directly managed by OPM has been significantly reduced.</p> <p>It is understood that the OPM, under new leadership, is re-establishing its mandated role of cross-Government coordination and donor liaison and while Ireland, in line with other donors, is engaging accordingly, there is no current or planned financial relationship.</p>
<p>4. Any further audit work relating to PRDP, OPM and MOFPED controls should be left to the office of the OAG. Donors, including Irish Aid, should establish a mechanism for communication with the OAG to ensure that areas of concern are included in future audits.</p>	<p>Internal Auditor/ Financial Management and Audit Specialist + E &amp; A Section</p>	<p>This was complied with and the OAG carried out additional work arising from his initial report which was reported on in the Annual Report of the OAG for 2011-12. Embassy Kampala has had appropriate access to the office of the OAG and we are satisfied that areas of concern for Irish Aid are reflected in the work programmes of the OAG.</p>
<p>5. If so requested, support should be considered for the OAG to ensure that the work programme outlined is completed in the shortest possible timeframe.</p>	<p>Head of Development / Internal Auditor/ Financial Management Audit Specialist</p>	<p>Irish Aid provided funding of €300,000 to the OAG in August 2013 to establish a Directorate of Forensic Audit.</p>
<p>6. In implementing programmes, in particular new programmes, consideration should be given as to whether additional audit work over and above the annual statutory audit by the OAG is necessary. This should be discussed with the OAG and could include internal audit, specific programme audit, or some form of ongoing audit of internal controls at various levels of the programme.</p>	<p>Internal Auditor/ Financial Management and Audit Specialist, Economist+ E &amp; A Section</p>	<p>This has not yet arisen as no such new programmes have been initiated so far. In the event that any such programmes are planned in future, additional measures for accountability will be discussed with HQ and the Evaluation and Audit Unit.</p>
<p>7. Provisions of MOUs must be translated into</p>	<p>Core Team +</p>	<p>An appropriate MOU tracking system is in place, and is regularly</p>



<p>specific systems, processes and actions at operational level. This applies in particular to the requirement that proper financial information is available. All programme managers should understand the financial flows and key obligations agreed to in programme MOUs and have the tools to assess risks in the programme they are managing. A basic understanding of the system of national accounts is essential in this.</p>	<p>Financial Management and Audit Specialist</p>	<p>monitored and updated by the Irish Aid programme team. This indicates when reports and audits are due, and also allows for checking of any other provisions contained in agreements. The Embassy has mapped out the flow of funds for all partners to facilitate the tracking of funds disbursed.</p> <p>A series of training events for programme staff on financial management systems and procedures and risk management have been undertaken since in August 2013. This will allow the programme staff to oversee implementation of the country programme to the required standards of accountability and financial management.</p> <p>Further work on systems development is underway in line with overall development and documenting of systems in DCD.</p>
<p>8. Embassy Kampala should review and strengthen where necessary its implementation of the requirements of the Irish Aid Financial Policies, Guidelines and Procedures Manual and also ensure that roles and responsibilities in this area are clearly defined and properly understood.</p>	<p>Core Team + Financial Management and Audit Specialist</p>	<p>A review has taken place and as a result some processes have been strengthened e.g. end-of-month checklists.</p> <p>Roles and responsibilities are now more clearly defined and properly understood through better defined team meetings and role profiles.</p> <p>The financial oversight capacity at the embassy in Kampala was immediately strengthened by the recruitment of a financial management expert in March 2013.</p>
<p>9. Embassy Kampala must ensure procedures are in place to track clearly that funds disbursed to Government are properly received into and transferred to the agreed accounts on a timely basis and reflected in published government accounts.</p>	<p>Programme Staff</p>	<p>No further funds have been disbursed to Government since (except OAG). A Partnership Monitoring Form has been developed which indicates every step, from approval to finalisation, of each grant agreement and this has been applied to all of the current partnerships entered into by Irish Aid.</p>
<p>10. The required structures for regular interaction</p>	<p>Senior</p>	<p>More formalised procedures for financial, audit and risk information</p>

<p>and communication between internal audit and senior management at the Embassy should be fully activated and utilised and relevant issues arising should be brought to the attention of headquarters promptly in accordance with existing policies.</p>	<p>Management Team (SMT)</p>	<p>sharing have been developed, including regular meetings between the Internal Auditor and the Head of Mission, Risk Team meetings on a monthly basis, Senior Management Team meetings, Programme Team meetings, and regular Core Team meetings.</p> <p>There is regular engagement with and communication to the Evaluation and Audit Unit in headquarters.</p>
<p>11. The Evaluation and Audit Unit should review its workplan and consider ways to further strengthen its focus on risk areas. Linkages and communications between internal auditors at headquarters and field level should be strengthened including increasing frequency of visits.</p>	<p>Evaluation &amp; Audit</p>	<p>The work plans of internal auditors at partner country level will be more clearly aligned with the work programmes of E&amp;A from 2014 with particular emphasis on audit of internal controls. A system of formal monthly meetings by VC between E&amp;A at HQ and internal auditors at mission level has been initiated.</p> <p>E&amp;A representatives have increased the number of supervision and support visits to the Embassy, with clearly defined and agreed outputs and outcomes. E&amp;A Unit visited Embassy Kampala in February 2013, April 2013, November 2013 and January 2014.</p>
<p>12. The adequacy of the Department's policy around handover processes should be reviewed to ensure that there is adequate continuity between changing staff in managing complex programmes of this nature. This should include provision for substantive face-to-face handover in the Embassy.</p>	<p>Department of Foreign Affairs and Trade</p>	<p>At Embassy level, handover processes have been reviewed to include face-to-face handovers where feasible. The current Head of Development (HoD) had a face-to-face handover period with the previous HoD between August and September 2013.</p> <p>The more general issue of handovers across missions with responsibility for the Irish Aid programme has also been reviewed including in relation to the provision of appropriate training. An intranet site, with guidance, has recently been launched to support these processes and the Embassy will utilise this for future handover processes.</p>
<p>13. Regular risk assessments should be carried out</p>	<p>Senior</p>	<p>Risk management systems and structures have been improved in line</p>

<p>across all programmes including risk assessments of specific programmes or projects. This would take account of the changing risk profile which is characteristic of many developing countries.</p>	<p>Management Team + Core Team</p>	<p>with the guidance from the Department of Foreign Affairs and Trade HQ, for example in the business planning for 2014 and in the development of a specific risk profile and mitigating actions for each partnership that Irish Aid has entered into. This is amalgamated into a Programme Risk Register (PRR).</p>
<p>14. In the light of issues raised in this report a review should be undertaken of the management arrangements, including risk and financial management, in all programme countries to ensure that all procedures and protocols are being properly implemented and risks appropriately identified and managed.</p>	<p>Financial Management and Audit Specialist and Senior Management Team</p>	<p>At the request of the Secretary General, Ambassadors undertook immediate reviews of internal control and risk management systems in December 2012. The Secretary General also met with Ambassadors to reinforce the importance of having appropriate systems in place. A comprehensive review by the Evaluation and Audit Unit of management arrangements in all programme countries has been completed and a report with recommendations has been presented to the Secretary General.</p>

## Annex 2: Uganda Programme 2013 – Summary of areas supported and expenditure

<b>PARTNER/ SECTOR</b>	<b>Actual €</b>	
<b>Governance</b>		
Office of the Auditor General (OAG)	300,000	Grant to set up a forensic audit unit in OAG
Democratic Governance Facility	2,750,000	Multi-donor support to civil society organisations supporting democracy, human rights, access to justice and accountability
<b>Education</b>		
Education Support – FAWE & ACHOLI (Karamoja bursaries)	936,534	Grants to two CSOs for provision of bursaries and scholarships for secondary and tertiary education for students from Karamoja
Quality education projects (UNICEF & Sesemat)	364,000	Support to improving quality of education in Karamoja
Karamoja Primary Education Programme	6,089,601	Rehabilitation and construction of classrooms in 21 primary schools in Karamoja region
<b>HIV/AIDS</b>		
UN Joint Programme of Support to AIDS /Partnership Fund / Karamoja Decentralised Response (TASO)	2,000,000	Support to coordinate and implement response to HIV and AIDS at national and local levels, including delivery of clinical and other services on HIV and AIDS at local level
Civil Society Fund	4,500,000	Multi-donor supported pool fund for CSOs working in HIV and AIDS prevention, treatment and care
<b>Gender Based Violence</b>		
CEDOVIP / Uganda Women’s Network / Inter-Religious Council of Uganda / Uganda Episcopal Conference	500,114	Support to four CSOs promoting gender equality and working on preventing and mitigating gender based violence, including provision of shelters
<b>Livelihoods and Economic Opportunity</b>		
Social Assistance Grants for Empowerment (SAGE)	2,400,000	Social protection programme in Northern Uganda, implemented by management agent
Oxfam	814,845	Agricultural livelihoods programme in Karamoja region implemented by Oxfam and a number of local civil society organisations
<b>Economic Opportunities</b>		
Traidlinks and International Alert	950,000	Support to business development, increased employment opportunities; good governance and advocacy in the oil sector
<b>Humanitarian Response</b>		
World Food Programme	130,000	Provision of foods for refugees
<b>Total programme grants</b>	<b>21,735,094</b>	