

2021

Strategy to Clear and Prevent Domestic Arrears



MINISTRY OF FINANCE,
PLANNING, AND ECONOMIC
DEVELOPMENT

June 2021

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Foreword

The Strategy to Clear and Prevent Domestic Arrears has been prepared to address the perpetual problem of arrears for the Government of Uganda. Starting with FY 2021/2022, this strategy document will be used by all implementing agencies of government, including Ministries, Departments, Agencies, Local Governments, Public Corporations and State Enterprises.

The accumulation of domestic arrears calls into question our ability to effectively manage the resources of the country. The economic implications are also great. The consequences are far reaching in that it impacts the operations of small and medium sized businesses, results in a higher cost of doing business for us and perpetuates the reputation that we are poor fiscal managers and leaders.

The casual manner in which some arrears are created are contrary to good financial management principles. Abiding by the strategies will begin a new era in fiscal management for the country. The adoption of these strategies will increase credibility and the confidence investors have in the country. As a result of this new strategy, Government will take greater control of our budget and its implementation based on good financial management.

I take this opportunity to remind you that the accumulation of domestic arrears is prohibited by law and according to the PFMA 2015, Section 21 (2), “A vote shall not take any credit from any local company or body unless it has no unpaid domestic arrears from a debt in a previous financial year; and it has capacity to pay for the expenditure from the approved estimates as appropriated by Parliament for that financial year”.

Collectively, we can prevent arrears from accumulating. This strategy is geared toward improving financial management and transparency, and as such all Accounting Officers are required to comply with the strategies herein.

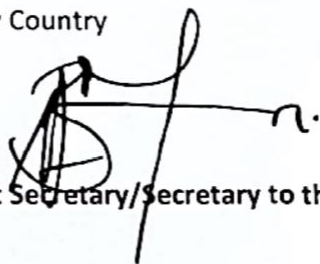
I am confident that the implementation of this strategy will lead to improved transparency, accountability and elimination of domestic arrears, thus better service delivery.

For God and My Country

Patrick Ocaïlap

For: Permanent Secretary/Secretary to the Treasury

June 2021



I. Acronyms and Abbreviations

Abbreviation	Text
AG	Accountant General
AGO	Accountant General's Office
CAF	Certificate as to Availability of Funds
CCS	Commitment Control System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DEA	Directorate of Economic Affairs
E&Y	Ernst and Young
GDP	Gross Domestic Product
GOU	Government of Uganda
IAD	Internal Auditor General's Department
IAG	Internal Auditor General
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
IPPS	Integrated Personnel and Payroll System
ISSD	Infrastructure and Social Services Department
LPO	Local Purchase Orders
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDA	Ministries, Departments, and Agencies
MALGs	Ministries, Agencies, and Local Governments
MOFPED	Ministry of Finance, Planning, and Economic Development
MOH	Ministry of Health
MOJCA	Ministry of Justice and Constitutional Affairs
MOPS	Ministry of Public Service
MTEF	Medium-Term Expenditure Framework
NAADS	National Agricultural Advisory Services
NDPIII	National Development Plan III
NWSC	National Water and Sewerage Corporation
O&M	Operational and Maintenance
OAG	Office of the Auditor General
OP	Office of the President
PAP	Project Analysis & Public Investment Department
PEFA	Public Expenditure and Financial Accountability
PFAA	Public Finance and Accountability Act, 2003
PFM	Public Finance Management
PFMA, 2015	Public Finance Management Act, 2015
PO	Purchase Orders
PPDA	Public Procurement and Disposal of Assets
UNRA	Uganda National Roads Authority

Abbreviation	Text
UPF	Uganda Police Force
UPS	Uganda Prisons Service
URA	Uganda Revenue Authority
Ushs	Uganda Shilling
UTL	Uganda Telecom Limited
VAT	Value Added Tax

II. Executive Summary

The accumulation of expenditure arrears is a persistent problem the Government of Uganda (GOU) has been trying to solve. Several assessments have been done over the years and solutions implemented accordingly. Previous attempts to curtail the arrears accumulation met with varying degrees of success. With the publication of this document, resolution efforts will focus on the enforcement of the strategy.

Even though, GOU has made annual budget provisions to pay arrears, the stock continues to rise. In fact, arrears in FY 2019/2020 were eight times higher than in FY 2006/2007 which represents an increase of almost 700 percent or Ushs 3.6 trillion. The problem of arrears impacts the implementation of the budget which results in the potential delay of planned services to the public. It also disguises the true level of the liabilities the government has to resolve.

The escalation in the arrears stock signifies the lack of fiscal discipline, poor financial management and leadership, and weak system controls. Discussions of solving the problem of arrears has been going on for more than a decade. However, until the underlying issues of financial management, budget planning, and leadership are addressed, the problem will persist.

A robust framework for reporting and preventing arrears must be implemented. Solving the issue involves implementing several remedies and it will require the discipline to live within the means of a realistic revenue forecast. A clearance strategy needs to be implemented after the analysis and validation of the stock of arrears is done.

The strategies contained in this framework, provide multi-level interventions ranging from legislative changes to the development of reporting and tracking solutions. A two-pronged arrears strategy is being implemented. One prong focuses on the phased **clearance** of the existing stock of arrears in the medium term. The second prong focuses on **management control** measures to stop the accumulation of new arrears.



While it is recognized the issue of the arrears can be remediated by providing funds to clear them, the underlying gaps in the PFM process that allow them to be created need to be addressed in line with this strategy.

Below are highlights of the specific measures that will be implemented:

- The stock of arrears will be compiled, and a baseline of valid arrears will be established.
- Once the stock of arrears has been finalized, Accounting Officers who subsequently accumulate arrears will be subject to sanctions allowable by Sections 79 and 80 of the PFMA, 2015 (as applicable) and subject to termination or not be reappointed.
- Establishment of a Database
- Establishment of a Payment Plan
- Establishment of an Oversight Team
- Enforce Accountability
- Ensure Budget Realism
- Improve Financial System Control
- Improve Organizational Budget Planning

The clearance of validated arrears will target the most overdue arrears first for payment. Only the validated arrears from the E&Y 2019 report, the Internal Auditor General, and the Accountant General are eligible for payment. Once the stock has been verified, resources will be allocated over a pre-determined time period to clear all the arrears. Penalties and sanctions will be applied to those who continue to create arrears following the finalization of the validated arrears stock.

The first in, first out philosophy will be used to make payment in each category. However, within each category, small businesses and suppliers and high interest earning arrears will be given priority for payment. The prioritization for clearing arrears is:

- Payroll related
- Taxes and deductions
- Classified
- Critical directives
- Small and medium sized businesses and suppliers
- High interest related arrears
- Compensation and other related arrears
- Counterpart funding
- Utilities and rent

It is recognized that good fiscal management and budget planning will prevent arrears from being created. Improving fiscal transparency provides greater understanding of the financial position and the exposure to fiscal risks. The accumulation of arrears is unacceptable. Arrears can be prevented from being accumulated. Each Accounting Officer is responsible for their own budget and accurate record keeping. Thus, managing the Vote's expenditure within the appropriated budget is a direct reflection on an Accounting Officer's performance.

III. Introduction

1. Over the years, the accumulation of expenditure arrears has become a persistent problem in Uganda. In the past several interventions have been implemented. However, the amount of arrears has continued to increase almost eight times since FY 2006/2007. This is an untenable situation which has serious financial consequences. Nevertheless, this is an issue that can be controlled and prevented by addressing the underlying causes.
2. There are multiple definitions of what an arrear is. For purposes of this strategy, arrears are defined as financial obligations of the Government of Uganda (GOU) that remain unpaid beyond the fiscal year in which they were incurred and due.
3. Arrears can arise in many categories of public expenditure including compensation of employees, purchases of goods and services, court awards, development/capital projects. Generally, the main causes of accumulation of arrears are failure to comply with existing regulations or policies and lack of proper control in the public finance management systems.
4. Arrears are a form of debt and pose a serious risk to the financial management, sustainability, and reputation of the country.

IV. Economic Impact of Arrears Accumulation

5. The creation and accumulation of arrears reflects serious fiscal management issues such as weaknesses in the internal control environment, Public Finance Management (PFM), and management inefficiency. The continuous creation of arrears jeopardizes the overall credibility of the budget, the country's financial reputation, and perpetuates the perception of an inadequate system of governance.
6. More importantly, arrear accumulation can disguise the true size of the government's deficit, significantly reduce the impact of fiscal policy, and potentially undermine macroeconomic stability. They also translate into:
 - a) **Reduced economic activity.** Businesses and suppliers may become hesitant to do business with the government because of delayed payments and liquidity constraints that put them at risk of failure or closure.
 - i) Specific impact to small and medium sized businesses which do not have the funds to operate without timely government payment for services rendered.
 - b) **Reduced confidence in GOU's fiscal policies.** Arrears are a signal to investors the government may not be managing its obligations properly and the true extent of the liability may be disguised.
 - c) **Higher costs to GOU.** More expensive government operations due to interest and penalties on outstanding payments.

- d) **Increased costs.** Suppliers are inclined to bid higher to mitigate against risks of delayed payments, resulting in higher costs to GOU.
- e) **Secondary implications.** Suppliers may withhold payment of taxes and deductions until payment from the government is received.
- f) **Negative impact on livelihoods.** The welfare of pensioners and existing employees to whom emoluments are owed.
- g) **Budget implementation.** Increases challenges in budget planning and execution because some arrears maybe off-budget and may not meet the GOU priority areas.
- h) **Reputational risk.** Perpetuates the impression with investors, creditors, and donors that GOU is not well managed and does not honor its obligations. It may lead investors to increase borrowing costs and donors to decrease contributions due to the potential of mismanagement of funds.

V. Background

V.A. Assessments

7. The GOU has implemented several measures to tackle the problem of arrears following several assessments completed over the years. Arrears became a problem in the late 1990s, which led to the implementation of a commitment control system (CCS) to monitor and control the growth of arrears.¹ Initially the CCS was quite effective in controlling commitments and new arrears up until the mid-2000s, when the problem resurfaced.
8. A study conducted by the International Monetary Fund (IMF) in 2017² indicated the level of expenditure arrears to be around 1.5 percent of Gross Domestic Product (GDP) at the end of June 2015. It also pointed out that despite the clearance of known arrears in 2014/2015, the domestic arrears stock had increased and was larger than previously thought. The evaluation concluded that current weaknesses in the PFM cycle contributed to the persistent accumulation of arrears. These included: lack of budget realism, ineffective expenditure planning and controls, and lack of regular and comprehensive reporting of arrears.
9. As stated in PFM Reform Strategy, “Improved commitment controls are needed to prevent further accumulation of arrears, information technology systems need to be secure, integrated and monitored to protect data integrity and mitigate fiduciary risk, with internal audit providing internal assurance”.³ Additionally the 2016 Public Expenditure and Financial Accountability assessment (PEFA) states, “the current compliance-based approach does not support continuous improvement in the control environment. There is weakness in

¹ International Monetary Fund, *Managing and Preventing Expenditure Arrears* (2017), p. 5.

² International Monetary Fund, *Managing and Preventing Expenditure Arrears* (2017), p. 5.

³ Ministry of Finance, Planning, and Economic Development (2018). *Uganda Public Financial Management Strategy 2018-2023*. p. 30.

commitment controls and associated compliance with rules and procedures.”⁴ If the control factors are not addressed, expenditure arrears will likely continue to occur.

V.B. Legal Implications

10. The law explicitly prohibits the accumulation of domestic arrears: According to the Public Finance Management Act, 2015 (PFMA), Section 21(2):

“A vote shall not take any credit from any local company or body unless it has no unpaid domestic arrears from a debt in a previous financial year; and it has capacity to pay for the expenditure from the approved estimates as appropriated by Parliament for that financial year.”

11. There are several other provisions of the PFMA, 2015 that can be applied to address this issue, including sanctions and penalties. While funds have been provided to clear arrears, the level of arrears continue to increase. As such, resolving this perennial issue, will take more stringent measures such as applying sanctions and penalties on individuals who continue to create arrears.

V.C. Multi-Year Commitments

12. The failure to operate within the approved expenditure levels is evident in the over commitments made in multi-year contracts or projects. To resolve this issue, multi-year commitments should be considered in the planning and budgeting of the resource envelope. Once a contract is executed, it becomes an obligation of payment and should be included in revenue and expenditure forecasts.
13. In line with the PFMA, 2015, multi-year commitments must be approved by Parliament as stipulated below:
- a) Section 23 assigns responsibility to the Vote not to enter a contract, transaction, or agreement that binds the Government to a financial commitment for more than one financial year or which results in a contingent liability, except where the financial commitment or contingent liability is authorized by Parliament.
 - b) Parliament authorizes multi-year commitments through the approval of the Annual Budget and Medium-Term Expenditure Framework (MTEF)

⁴ Department for International Development (2017). *Uganda Public Expenditure and Financial Accountability (PEFA) Assessment* 2016. p. 82.

V.D. Supplementary Budgets

14. The need to finance unplanned expenditures within the fiscal year puts additional strain on financial resources. At times, institutional budget lines are suppressed to make room for the unplanned but critical expenditure. In cases such as these, the Accounting Officer is required to notify the PS/ST if there is a potential of creating arrears.

V.E. Local Governments and State-Owned Enterprises

15. Local Governments and state-owned enterprises are also not to accumulate arrears. Accordingly, it is required that bills be paid timely, and through comprehensive monitoring, reporting of liabilities is done.

VI. Understanding the Stock

VI.A. Ernst and Young Review as of June 30, 2019

16. Uganda has conducted various assessments on arrears. The most recent report released by Ernst & Young (E&Y) on the review of Uganda's arrears as at the end of June 2019 revealed failures in the system, including tracking and recording of arrears. For example, the report indicated that out of **Ushs 4.0 trillion** in arrears, the total amount of valid arrears was **Ushs 2.3 trillion**, **Ushs 710 billion** was contestable, while **Ushs 517 billion** was rejected. See the Table 1, for the E&Y Summary of Findings. Subsequently, the Internal Auditor General reviewed the arrears that remained contestable and expanded the scope to include arrears up to end June 2020. This review is still in progress, but preliminary findings indicate that the stock of arrears is continuing to grow, as reflected in Table 4.

Table 1

Arrears Examined by Ernst and Young (As of June 2019)		
Category	Amount	% of Total Reviewed
Valid arrears ^a	2,254,441,553,388	65%
Contestable arrears ^b	710,169,564,023	20%
Rejected arrears ^c	517,490,320,922	15%
Total arrears reviewed	3,482,101,438,333	100%
Arrears presented, but not reviewed ^d	528,244,981,825	
Grand Total (including classified)	4,010,346,420,158	

- a. **Valid claims:** Adequate documentation exists to recognize a government liability.
b. **Contestable claims:** Incomplete documentation has been provided.
c. **Rejected claims:** Legitimate documentation has not been presented.
d. **Presented, but not reviewed:** For a variety of reasons such as foreign missions did not present arrears for verification, classified arrears that could not be verified, or documentation was not provided.

17. According to the E&Y review, court awards made up 23 percent while Pension and Gratuity was 15 percent of the arrears stock as of June 2019. See Table 2 for details on amounts by expense category:

Table 2

Expense Category Amount (Ushs)		
Expense Category	Amount	% of Total
Court awards	915,002,731,658	23%
Other recurrent costs	797,009,449,189	20%
Employee costs (pension & gratuity)	587,291,379,422	15%
Taxes and other deductions	492,945,397,911	12%
Development	408,891,487,868	10%
Compensations	407,391,504,688	10%
Contributions to International Organizations	197,258,830,739	5%
Utilities	130,281,381,749	3%
Employee costs (salaries & allowances)	33,542,448,611	1%
Rent	20,383,139,233	1%
Amounts due to consolidated fund	20,348,669,090	1%
Total	4,010,346,420,158	

Source: Ernst & Young, Volume I, Agreed-upon procedures for the expenditure arrears stock as at 30 June 2019.

18. From FY 2013/2014 to FY 2020/2021 the total amount provided to settle arrears was Ushs 2.077 trillion. Additionally, for FY 2021/2022 **Ushs 400 billion** has been earmarked to address outstanding arrears. See Table 3 for approved amounts provided to clear arrears.

Table 3

Annual Approved Budget	
Financial Year	Amount (Shown in Ushs billions)
FY2014/15	80.0
FY2015/16	80.0
FY2016/17	110.0
FY2017/18	300.1
FY2018/19	380.5
FY2019/20	449.5
FY2020/21	676.9
Total	2,077.1
Planned FY2021/22	400.0
Total with planned amount	2,477.1

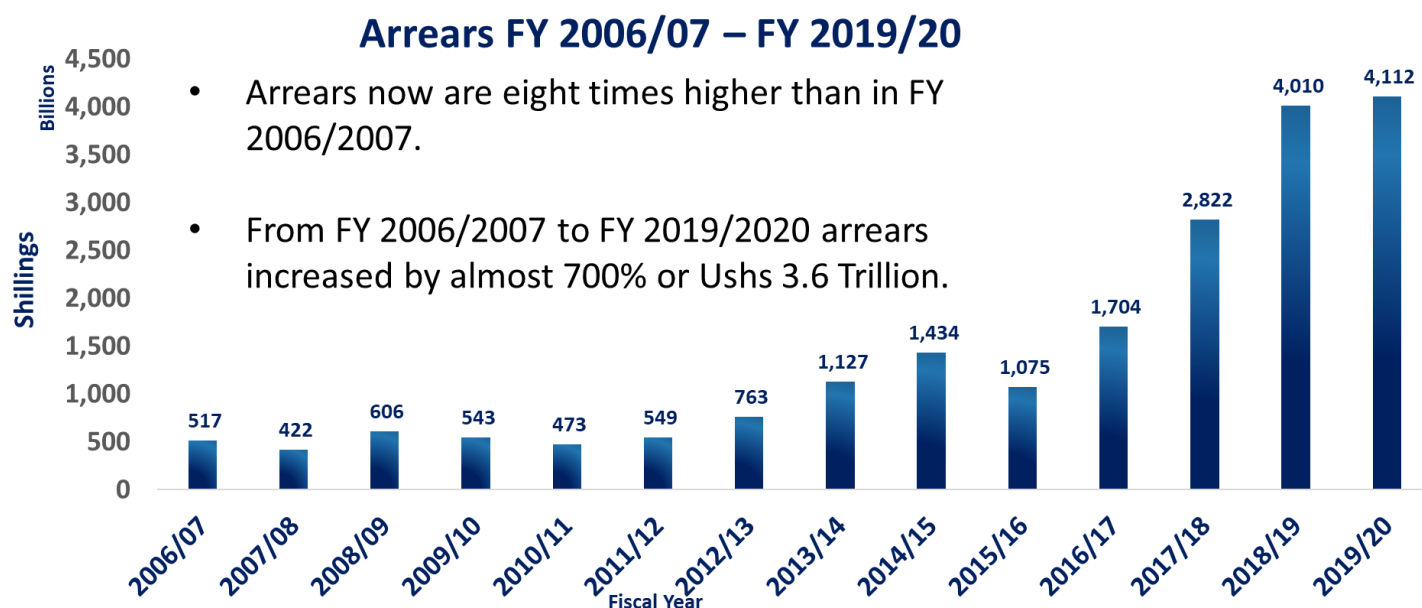
Source: MOFPED

VI.B. Trend of Arrears

19. Arrears are eight times higher than it was in FY 2006/2007. This increase reflects an astounding and undisciplined approach to financial management. In fact, from FY 2006/2007 to FY 2019/2020 arrears are estimated to have increased by **700 percent or Ushs 3.6 trillion**. The following tables and figures show the trend in arrears accumulation.

VI.C. Accumulation of Arrears Over the Last 14 Years

Figure 1



Sources: GOU Financial Statements, Ernst & Young report, and IAG Report

Figure 2



VI.D. Trend of Arrear Stock Over the Last Three Years

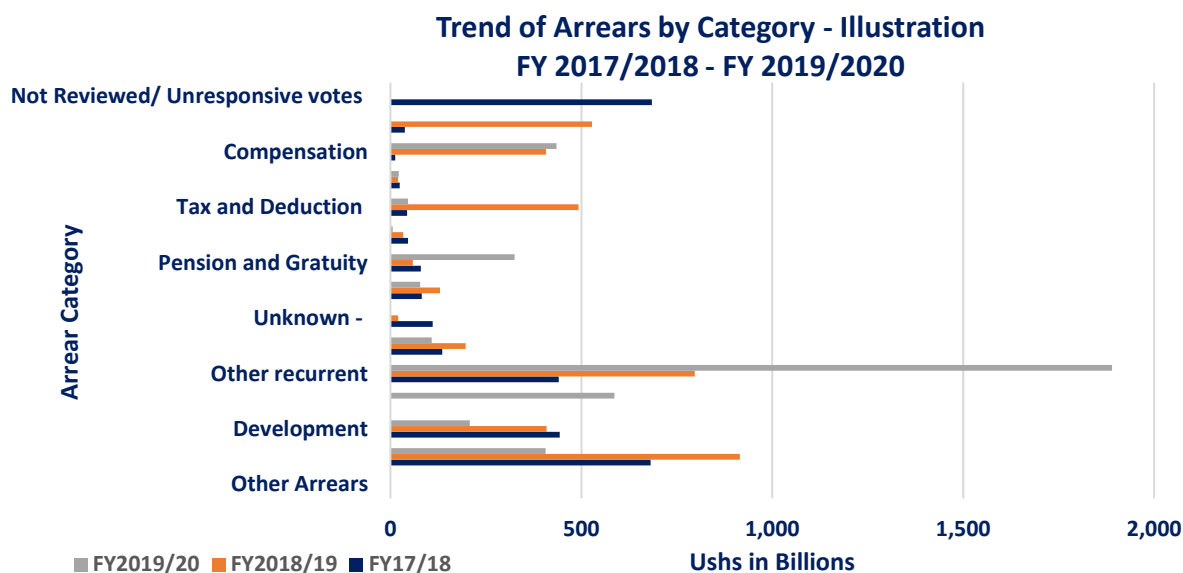
Table 4

Trend of Arrears Stock FY 2017/18 - FY 2019/20 (Ushs Billions)						
Category	FY17/18	FY2018/19	FY2019/20	As % of Total FY 2017/18	As % of Total FY 2018/19	As % of Total FY 2019/20
Other Arrears	0.00	0.00	0.68	0.0%	0.0%	0.0%
Court Awards	681.60	915.00	406.49	24.2%	22.8%	9.9%
Development	443.47	408.89	207.68	15.7%	10.2%	5.1%
Goods & Services	0.00	0.00	586.80	0.0%	0.0%	14.3%
Other recurrent	440.75	797.01	1,871.35	15.6%	19.9%	45.5%
Contributions to International Organisations	135.74	197.26	108.24	4.8%	4.9%	2.6%
Unknown	110.23	20.35	0.00	3.9%	0.5%	0.0%
Utilities	82.26	130.28	78.21	2.9%	3.2%	1.9%
Pension and Gratuity	79.42	59.05	325	2.8%	1.5%	7.9%
Salaries	46.30	33.54	6.05	1.6%	0.8%	0.1%
Tax and Deduction	43.34	492.95	46.50	1.5%	12.3%	1.1%
Rent	23.99	20.38	21.94	0.9%	0.5%	0.5%
Compensation	12.36	407.39	434.70	0.4%	10.2%	10.6%
Classified and Missions Abroad	35.09	508.64	18.29	1.2%	12.7%	0.4%
Not Reviewed/ Unresponsive votes	687.23	19.61	0.00	24.4%	0.5%	0.0%
TOTAL STOCK	2,821.79	4,010.35	4,111.73	100.0%	100.0%	100.0%

Source: GOU Financial Statements, Ernst & Young Reports, IAG Report

Note: Category " Other Recurrent" showing increasing trend for all the 3 years above. Segregation of this this category is vital.

Figure 3



Source: GOU Financial Statements, Ernst & Young Reports, IAG Report. Note: Category "Other Recurrent" is showing an increasing trend for all of the three years. Segregation of this category vital.

VI.E. Validated Domestic Arrears as of June 30, 2020

20. Out of the total stock of **Ushs. 4.11 trillion** in arrears, Table 5 shows the valid arrears by category which total almost **Ushs. 1.7 trillion** (including Classified) as of June 30, 2020):

Table 5

Validated Domestic Arrears as at 30th June 2020 (Ushs)							
No.	CATEGORIES	Ministries	Agencies	Referral Hospitals	Missions Abroad	Validated	% Share
1	Court Awards	408,934,787,449	30,296,523,708	-	-	439,231,311,157	26.1%
2	Other Recurrent Costs	235,805,874,605	71,516,286,155	977,278,765	163,916	308,299,603,441	18.3%
3	Compensations	87,859,209,378	214,311,121,582	-	-	302,170,330,960	18.0%
4	Development	83,580,630,054	124,677,466,614	1,558,722,996	-	209,816,819,664	12.5%
5	Pension and Gratuity	89,377,123,999	33,890,590,559	589,471,220	-	123,857,185,778	7.4%
6	Contributions to International Organisations	105,476,167,814	497,855,436	-	-	105,974,023,250	6.3%
7	Goods and services	-	71,852,725,715	677,209,360	-	72,529,935,075	4.3%
8	Taxes and other deductions	41,325,080,828	4,060,640,563	97,495,834	435,764,018	45,918,981,243	2.7%
9	Rent	7,649,272,423	11,121,109,073	-	-	18,770,381,496	1.1%
10	Classified	12,712,540,000	5,577,066,500	-	-	18,289,606,500	1.1%
11	Electricity	1,534,233,524	13,853,273,197	748,398,155	-	16,135,904,876	1.0%
12	Water	57,240,957	13,926,716,227	435,312,631	-	14,419,269,815	0.9%
13	Salary Arrears	1,457,072,609	4,657,492,078	23,699,267	-	6,138,263,954	0.4%
14	Telephone	583,845,081	37,076,620	-	-	620,921,701	0.0%
	TOTAL	1,076,353,078,721	600,275,944,027	5,107,588,228	435,927,934	1,682,172,538,910	100.0%

Source: Internal Auditor General Office, AGO Classified

VII. Causes and Interventions Undertaken To-date

VII.A.Causes

21. Arrears occur for a variety of reasons, but a key factor to preventing them, is having a strong commitment control system.
22. The causes of GOU arrears vary, but some are due to:
- a) Court awards because of the inadequate management of construction contracts, unpaid land compensation, violation of human rights, or not resolving disputes prior to judicial involvement.
 - b) Salary shortfalls caused by delays in Ministries, Departments and Agencies (MDAs) enrolling new staff on the Integrated Personnel and Payroll System (IPPS), arbitrary and erroneous drop offs of staff from the payroll, interdictions, and reinstatements after a very long time.
 - c) Pension and gratuity payments caused by delays in processing pension files beyond a financial year, errors and inaccuracies on the pension payroll and in payments sometimes to wrong accounts/claimants, and weak accountability of pensions funds.
 - d) Utilities and other recurrent expenditures arising out of rent obligations, food for Uganda Prisons Service (UPS), Uganda Police Force (UPF) and not installing prepaid utility meters.
 - e) Outstanding counterpart funding obligations for development projects.
 - f) Unpaid subscriptions to international organizations and professional memberships.
 - g) Non-remittance of tax deductions on salaries (pay as you earn) and development projects (withholding tax) by some Accounting Officers to Uganda Revenue authority.
 - h) Use of funds for purposes other than what they were intended for, such as salaries, pensions, gratuities, and contracts.

See Appendix 1 for matrix for specific causes and remediation strategies. The strategies listed in this Appendix are components of the more general strategies described in Section VIII of this paper.

VII.B. Past Interventions

23. To address the problems, various interventions over the years have been implemented. These included:
- a) Decentralized the processes of computations, verification, and payment of salary, pension and gratuity arrears from Ministry of Public Service to the respective Ministries, Agencies, and Local Governments (MALGs).

- b) Issued guidelines and templates to standardize arrears verification salary, pension and gratuity payments and accountability documents.
- c) Streamlined processes for the processing of pension and gratuity claims resulting in a quicker timeframe for payment of claims.
- d) Improved process and timeline to start the collection of pension payroll information at least six months before retirement to complete within the same financial year.
- e) Established a separate budget as part of the annual appropriation dedicated to the settlement of arrears.
- f) Used debt swaps with utility companies as a means of settlement of outstanding bills.
- g) Issued one-year non-interest-bearing promissory notes to credit suppliers.
- h) Introduced the Commitment Control System (CCS) in 1999.
- i) Introduced prepayment system for utilities; starting with Uganda Telecom Limited (UTL) in the FY 2002/2003 and subsequently followed by UMEME & the National Water and Sewerage Corporation (NWSC).
- j) Integrated the Domestic Arrears Strategy into the 2007 Public Debt Strategy.
- k) Strengthened the legal framework i.e.: the PFM system with special provisions entrenching the CCS in the Public Finance and Accountability Act, 2003 (PFAA) and PFMA (2015).
- l) Introduced the Integrated Financial Management System (IFMS) with a built in CCS in FY 2003/2004.
- m) Decentralized salary and pension payroll processing and payment and ensuring the settlement of arrears takes first call on the MTEF resources.
- n) Negotiated with beneficiaries of court awards to waive interest and penalties.

24. Failures of previous interventions can be attributed to the following:

- a) Inadequate funding and planning for expenditures.
- b) Limited application of CCS because it could not be applied to multi-year commitments, or services like utilities, whose consumption is of a continuous nature.
- c) Not migrating to an accrual-based accounting system, which would have allowed the tracking of obligations and commitments as a liability from one fiscal year to the next and not complying with section 16 of the PFMA, 2015.
- d) Not segregating or ring fencing the money dedicated to paying off arrears in institutional budgets. Thereby, providing an avenue for institutions to use the funds for different purposes rather than paying off an existing arrear. This represents an internal control failure and insufficient management and leadership.

- e) Failure to complete the rollout of the utility prepayment system to Ministry of Defense, UPF, and UPS.
- f) Diversion of arrears resources, such as the pension scam which involved the misuse of funds.
- g) A strong system of accountability and penalties does not exist for those who knowingly create arrears.

VIII. Strategy to Clear and Prevent Arrears (Way Forward)

26. A two-pronged arrears strategy is being implemented.

One prong focuses on the phased clearance of the existing stock of arrears in the medium term. The second prong focuses on management control measures to stop the accumulation of new arrears.

27. The strategy builds upon the recommendations contained in the Public Debt and other Financial Liabilities Management Framework FY2018/19 -

FY2022/23 developed by the Directorate of Debt and Cash Management, Ministry of Finance, Planning, and Economic Development.

28. While it is recognized that the issue of the arrears can be remediated by providing sufficient funds to clear them, the underlying gaps in the PFM process that allow Votes to create additional needs to be addressed.

29. The specific measures that will be implemented follow:



VIII.A. Establishment of a Database

30. The stock of arrears will be compiled, and a baseline of valid arrears will be established. The E&Y review, the Internal Auditor General's, and the Accountant General's review will be used to establish the baseline.

31. Once the stock has been finalized, Accounting Officers who subsequently accumulate arrears will be subject to sanctions allowable by Sections 79 and 80 of the PFMA, 2015 (as applicable) and subject to termination or not being reappointed.

32. MOFPED will develop and maintain a comprehensive database of all arrears. The database will include domestic arrears (verified, valid, potential, and rejected). Institutions will also maintain a database of their arrears as well. The databases will have the following information:

- Age of the arrear.

- Name of institution which incurred the debt.
- Name of creditor.
- Economic category (compensation of employees, goods and service, transfers, acquisition of financial/non-financial assets).⁵
- Currency in which the debt is owed.
- Amount owed (amount in the currency owed, amount in Ushs, and the exchange rate).
- Contractual terms (term of contract, penalties, termination clause).
- Payment status (total amount due, amounts paid, amount outstanding, and interest),
- Risk of non-payment (potential of litigation, employee strike, project completion delays or stoppage).

33. MOFPED will keep the database up-to-date and record settlements, discharge of debt, or additions to the stock. Information will be added based on the quarterly reports submitted by the Accounting Officers.

34. MOFPED will provide reports to the appropriate decision makers and keep them updated regularly.

35. The Internal Auditor General is required to complete the verification of arrears each fiscal year by September 30, following the close of the prior fiscal year on June 30, and the database should be updated accordingly.

VIII.B. Establishment of a Payment Plan

36. MOFPED will undertake an analysis of the verified arrears and develop payment plan with respect to the resource envelope. The financial plan will be used to clear the established baseline of valid arrears. The financial plan will dedicate resources and be integrated into the fiscal outlook and the MTEF.

37. The payment plan will include provisions to clear verified, valid arrears identified in the E&Y report and by the Internal Auditor General.

- All arrears which have been paid will be clearly identified and removed from the stock of outstanding arrears.
- Alternative financing strategies will be explored, and the associated benefits and negative impacts will be clearly identified and the impact to the debt ratios clearly communicated.
- Alternative payment schedules with stock creditors will be evaluated. A pre-defined calendar and payment amounts with an agreed upon interest rates will be developed.

⁵ International Monetary Fund (2001), *Government Finance Statistics Manual* 2001, pp. 63-75.

- MOFPED will provide payment guidelines. The guidelines will stipulate timelines for payments to be made to suppliers and vendors. To help maintain continuity and increase sustainability, small and medium businesses and suppliers must be paid within fewer than 30 days from receipt of the invoice.

VIII.C. Establishment of an Oversight Team

38. MOFPED will create an oversight team to work through issues and implement the arrears clearance and prevention strategy. The group will review internal control, business processes, priority setting of programs, timeliness in absorption, and other activities that lead to the creation of arrears. Members will have the technical expertise to oversee the liquidation of the arrears and make sure the principles of the strategy are applied uniformly and the prioritization of clearance is followed.
39. The team will have a working knowledge of budget, finance, accounting and financial system principles.
40. The responsibilities of the oversight team include:
 - Review and implement viable recommendations compiled based on the E&Y 2019 Arrears report (see Appendix 3 for detailed recommendations).
 - Work with Desk Officers to increase capacity to help institutions prevent further accumulation of arrears.
 - Update Top Management regularly.
 - Reconcile the claims made against the money provided for payment.
 - Develop a plan to decentralize court award payments and how the payments will be made. They should also develop a methodology that will deduct court award payments from the budget ceiling of the responsible Vote.
 - Require the cash flow committee to report quarterly to the oversight team. Cash flow projections should be reviewed in relation to overdue payments of each Vote. If there are overdue payments, the Vote should provide an explanation of what caused the overdue payment and a plan for payment. This team should also check for realism in the cash flow projections to sustain the operational and development needs without creating new arrears.
41. The team will explore legislative changes to define what a contract is and under what conditions the government will consider an obligation of payment.
 - Once definitions are made clear, an outreach educational campaign will commence for vendors and others doing business with the government. The campaign will explain what the types of contracts, obligations, or purchase orders the government will consider valid.
 - Templates and examples will be used to educate businesses and vendors on the format of what a valid contract or purchase order looks like.

- It will be known that any other formats will not be considered as an obligation for payment by the government.
42. The team will also explore expanding the authority provided in section 46(3)(d), PFMA 2015 to include the ability to cancel or stop contracts that are entered into without the sufficient evidence of funds. Currently, the section allows the Accountant General to disallow payment of funds against a voucher or electronic request for funds, which is wrong or deficient in content or which contravenes any law for the management of public money, or which is unacceptable in support of a charge on public funds.

VIII.D. Enforce Accountability

43. Sanctions and penalties will be applied to those who create arrears going forward. All Accounting Officers are required to operate within the appropriated budget. The PFMA, 2015 contains provision for the application of sanctions and penalties, even on a personal level.
44. The Performance Contract for Accounting Officers has been modified to include language to address the creation of arrears.
45. Accounting Officers will be required to submit a quarterly report on arrears to the PS/ST in a format prescribed by MOFPED. This requirement falls under the provisions of section 16 (2) of the PFMA, 2015 which states:

“Report on expenditure commitments.

(1) An Accounting Officer shall, every three months prepare and submit to the Secretary to the Treasury, an expenditure commitment report indicating the actual and forecast commitments and cash position of the vote.

(2) The Secretary to the Treasury shall, using the report submitted in subsection (1), submit a consolidated expenditure commitment report of all the votes, to the Minister, within thirty days after the end of the three months.”

46. Be aware the quarterly report will be published on MOFPED’s website.
47. Pursuant to Part VII - Accounting and Audit, Section 45 (3) of the PFMA, 2015, the authority is vested with the PS/ST to appoint or reappoint Accounting Officers. Accounting Officers are hereby reminded that employment is dependent upon performance and management of the budget. As such, Accounting Officers are subject to termination or sanctions and penalties.
48. Section 11 (2)(g) of the PFMA, 2015 mandates the Secretary to the Treasury to appoint or designate Accounting Officers in accordance with the Act except that the Secretary to the

Treasury shall not appoint or designate a person an Accounting Officer where according to the report of the Internal Auditor General or Auditor General, that person has not accounted for the public resources and assets of a vote for a financial year. Accounting Officers are hereby notified that reappointment will take into account how arrears have been handled throughout the fiscal year.

49. Pursuant to section 45 (6) of the PFMA, 2015, the internal auditor of each vote is required to, every three months, submit a report on the execution of the workplan to the Accounting Officer and the audit committee specified in section 49, and give a copy of the report to the Internal Auditor General.
50. Subsequently, since the Internal Auditor General is responsible to the Secretary to the Treasury per section 47 (3), PFMA, 2015, a consolidated report will be provided to account for all the public resources and assets and obligations to the Secretary to the Treasury.
51. Sanctions and penalties will be imposed on officials who incur arrears without the assurance of funding to pay the bill.

VIII.E. Ensure Budget Realism

52. Accounting Officers are required to submit a realistic budget. Historical expenditure analysis should be undertaken to make sure all costs have been included for the next fiscal year during the budget preparation process.
53. The MTEF projections will be scrutinized for accuracy and completeness. All known costs (including capital projects coming online) need to be factored into the projections and the financial outlook should reflect these obligations.
54. Over commitment of multi-year projects will be eliminated. Multi-year projects will only be approved up to the level of funds available in the five-year forecast. Commitments for multi-year projects must fall within the resource envelope projections.
55. The budget must contain enough funds to cover all compulsory items, such as pension, gratuity, salaries, utilities, and contractual obligations.
56. The March 24, 2021, Circular on Payroll Management and Processing issued to all Accounting Officers by MOFPED must be followed. The creation of arrears in the wage, pension, and gratuity lines are preventable with good planning, record keeping, and verification procedures. Accounting Officers must ensure there are no ghost employees and salaries, pension, gratuities, and taxes are paid accordingly. See Appendix 2 for circular.
57. Utilize IFMS to track arrears and record settlements. The system will be updated regularly. Financial reconfiguration will occur to the extent possible to allow for the entry of all expected payment dates when first recording an obligation or contract. Internal Auditors are to provide a monthly overdue payment report to their Accounting Officer.

58. Reduce over commitments for multi-year projects by utilizing the new project selection model being developed by the Project Analysis and Public Investment Management Department, MOFPED. Based on the selection criteria, this model will address how a project moves from the appraisal stage to funding approval in the budget.
59. The Accountant General in consultation with the Uganda Revenue Authority should submit a quarterly report to the PS/ST on the taxes due, collected, and outstanding. This report should be used to cross check taxes paid by each Accounting Officers. If a nonpayment is identified, the equivalent amount will be deducted from the budget ceiling or cash limit of any Vote that failed to pay the tax.
60. Accounting Officers who fail to pay taxes, will be subject to sanctions and penalties allowed by the PFM Act, 2015.
61. Develop a process that includes the information gathering by the Solicitor General and the legal staff to ascertain the landscape of pending cases and their potential outcomes. Without reference to specifics or names, potential payout amounts should be included in the financial projections for the upcoming fiscal years.
62. Migrate to an accrual method of accounting so arrears are monitored on perpetual basis. In accrual accounting revenue/income is recorded when it is earned, and expenditures are recorded when it is incurred regardless of when associated cash flows occur.

VIII.F. Improve Financial System Control

63. An internal control assessment will be conducted to identify weaknesses and gaps of the commitment control system. This review may be completed using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) frameworks for enterprise risk management or some other similar assessment framework. This assessment will complement activities of the Public Finance Management Reform initiatives currently in place.
64. The audit function will be strengthened and fully integrated into the daily operations to reduce costs, gaps, and redundancies that can expose the country to unanticipated risk consequences.
65. The contract module of IFMS will be used to encumber contract amounts prior to execution. This will set funds aside (ring fence) for the payment of the contract during the fiscal year.

66. For multi-year contracts, funds will be encumbered annually (ring fenced), whole amount, or per a schedule by fiscal year that is stipulated in the contract. Additionally, a funds certification statement will be included in the contracts:

Sample language:

*I hereby certify that funds are available and encumbered in
the total amount of: _____
to cover this contract for: _____
For the _____ fiscal year.*

Signed by:

Title:

67. Accounting Officers are not allowed to utilize funds other than for the intended purpose. IFMS will be modified to prevent the movement or transfer of salary, pension, and gratuity appropriations to fund other purposes.
68. Payments for court awards will be decentralized based on the plan developed by the oversight team.

VIII.G. Improve Organizational Budget Planning

69. Accounting Officers will be required to adequately budget for utilities, obligations, salaries, pensions, and gratuities, and other compulsory obligations.
70. To decrease budget shortfalls, no new units of government will be created unless specifically authorized by Parliament.
71. Efforts are underway to rationalize government to avoid duplication by institutions and free up resources for critical services. The full implementation of the new planning approach under the National Development Plan III (NDPIII) will help this effort.
72. Pursuant to Section 46 (3)(d) of the PFMA, 2015, Accountant General has the authority to stop payment on vouchers or electronic requests that are wrong, deficient, or contravenes law, or unacceptable use of public funds. This provision will be enforced to prevent funds from being used for which it was not intended or for a commitment made that did not have evidence of sufficient funding.
73. The roll out of pre-paid meters will be completed for the Ministry of Defense, UPF, and UPS. Once the rollout is done, the creation of new arrears in this category will be subject to sanctions and penalties.

IX. Criteria and Prioritization of Clearing Verified Arrears

74. The clearing of arrears will target the most overdue arrears first for payment. Only the validated arrears from the E&Y 2019 report, the Internal Auditor General, and Accountant General are eligible for payment. Once the stock has been verified, resources will be allocated over a pre-determined time period to clear all the arrears. Penalties and sanctions will be applied to those who create arrears following the finalization of the validated arrears stock.
75. The first in, first out philosophy will be used to make payment in each category. However, within each category, small businesses and suppliers and high interest earning arrears will be given priority for payment. The prioritization for clearing arrears is:
- Payroll related
 - Taxes and deductions
 - Classified
 - Critical directives
 - Small and medium sized businesses and suppliers
 - High interest related arrears
 - Compensation and other related arrears
 - Counterpart funding
 - Utilities and rent

x. Conclusion

76. The existence, continuous, or the creation of arrears, is an indication the financial system has gaps which allow commitments or obligations to be made without having sufficient funds set aside to honor the payment. It negatively impacts the credibility of the budget which can partially be attributed to weaknesses in the public financial management systems. The existing stock of valid and verified arrears will be cleared and new ones prevented by enforcing this strategy.
77. Good fiscal management and budget planning will prevent arrears from being created. The accumulation of arrears is unacceptable. Those who knowingly create arrears will be held accountable and sanctioned accordingly.

Appendices

Appendix 1: Causes and Remediation Strategies

Causes and Proposed Remediation Strategies			
No.	Category	Cause	Strategy
1.	Budget Planning	<p>In adequate assessment of financial risk. Prior commitments are not fully reflected in the budget, revenues are over-estimated, and expenditure is under-estimated.</p> <p>Projections do not capture future years costs and financial consequences of new obligations, including salaries, and development projects.</p>	<p>Once the arrears stock is verified, the annual budget should include funding to settle arrears. Revenue and expenditure forecasts should be realistic and attainable. A comprehensive exercise should be undertaken at the beginning of budget preparation to account for financial obligations, upcoming costs, and potential impacts to revenues.</p> <p>The Medium-Term Expenditure Framework (MTEF) projections should be scrutinized for accuracy and completeness. All known costs (including capital projects coming online) should be factored into the projections and the financial outlook should reflect these obligations.</p> <p>Contingency funding should be considered to address unplanned, unavoidable, and unforeseen expenditures, especially court awards.</p> <p>Right-size the budget for compulsory items, such as pension, gratuity, salaries, utilities, and contractual obligations.</p> <p>Adopt an accrual method of accounting so arrears are monitored on a perpetual basis. Use the IFMS system for tracking of arrears and identify which arrears have been settled. The system should be updated in real time.</p>
		<p>Budget is unrealistic. Unrealistic budgets can be the result of overly optimistic revenue projections and underbudgeting for compulsory items.</p>	<p>Historical data/patterns should be used to verify revenue and expenditure projections. Repetitive expenditure items should be tracked, verified and included in the projections of MDAs, such as, budgeting for utilities.</p>
		<p>Prior year commitments are not fully reflected in the budget.</p>	<p>Once the arrears stock is verified, the annual budget should include funding to settle arrears. Revenue and expenditure forecasts should be realistic and attainable. A comprehensive exercise should be undertaken at the beginning of budget preparation.</p>

Causes and Proposed Remediation Strategies			
No.	Category	Cause	Strategy
		Creation of new votes or administrative centers without a corresponding budget appropriation.	Create and approve a policy that does not allow the creation of new units without corresponding appropriation. A baseline of minimal costs to include in the analysis of the new units should be completed prior to approval. A template developed by MOFPED and used by the MDAs should be required and completed prior to the creation of any new unit or initiative.
2.	Expenditure Commitment	Commitments made without verification of funding availability.	<p>Cash availability should be verified, and obligations committed after funds have been verified.</p> <p>Encumber contracts in the financial system. Set the money aside in the IFMS to pay the annual obligation of the contract. The Accounting Officer should sign a certification of funds for each contract prior to execution. A certification section should be added to the signature page of each contract. An MDA shall not execute a contract or modification of a contract that causes or will cause an increase in funds without having first obtained a certification of funds. Certificate as to Availability of Funds (CAF) refers to the certification made by the proper accounting official that funds have been duly appropriated/allotted for the purpose of entering into a contract involving expenditure of public funds and the amount necessary to cover the proposed contract for the current fiscal year is available for expenditure.</p> <p>Sample language: I hereby certify that funds are available and encumbered in the total amount of _____ to cover this contract for _____ for _____ fiscal year. Signed by: _____, Title: _____.</p>

Causes and Proposed Remediation Strategies			
No.	Category	Cause	Strategy
		Legal authority to commit public funds should be clarified in legislation.	Consider legislative language that defines how an obligation of expenditure is valid with public funds. For example: No obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget unless [1.] the budget includes an appropriation authorizing the obligation [2.] an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year. No obligation may be incurred for a capital project or a grant project unless authorized by Parliament. [3.]If an obligation is evidenced by a contract or agreement requiring the payment of money or by a purchase order for supplies and materials, the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been certified to assure compliance.
		Some expenditures are not included in the financial system like off budget resources.	All commitment for goods and services accrued are recorded in the system and Purchase Orders or an encumbrance is created to obligate money for the payments.
		MDAs commit obligations without the assurance of funds to pay the bills.	Consider legislative changes to provide the Minister of Finance or Internal Auditor General with the authority to stop a contract or payment that is potentially harmful or commits funds that are not included in the budget or financial plan.
		Payment orders are not processed in a timely manner or payments are made late.	Develop payment guidelines for all MDAs. Stipulate timelines that an MDA must abide by for payments to suppliers or vendors. Include sanctions if guidelines are violated and enforce them.
		Cash is rationed because cash flow forecasting is poor.	Budget must be realistic, and forecasts must be accurate.
		Development projects are approved without counterpart multi-year funding	Development projects should not be approved without a source for counterpart funding. Funding commitments should be verified prior to submission of project approval to Parliament.

Causes and Proposed Remediation Strategies			
No.	Category	Cause	Strategy
3.	Pension Computations	<p>Pension payments are decentralized, but MDAs have not maintained procedures for pension management and do not have justifiable computations to support the recognized obligations. MDAs do not maintain soft copies records and computations, and instead rely on hand-written computations maintained on the employee files. These could be easily manipulated. Many votes do not maintain an accurate record on the files for the payments made to date.</p> <p>Pension and Gratuity arrears due to delays in processing pension files beyond a financial year, errors and inaccuracies on the pension payroll and in payments sometimes to wrong accounts/claimants, and weak accountability for pensions funds.</p>	<p>Right-size the budget to include all valid pension costs. Review and analyze the process, by which MOFPED can validate the costs during budget preparation. Include these obligations in the long-term financial forecast.</p>
4.	Salaries	<p>Salary arrears are sometimes due to delays of MDAs enrolling new staff on the Integrated Personnel and Payroll System (IPPS), arbitrary and erroneous drop offs of staff from the payroll, interdictions, and reinstatements after a very long time.</p>	<p>Quality assurance processes should be implemented in the MDAs. Accounting officers should verify the payroll monthly to ensure all staff are accounted for and no ghost employees exist. Expected timeline for enrolling and verification of staff on the payroll system should be developed by MOPS and disseminated to all MDAs.</p>
5.	Rental Arrangements	<p>MDAs at times accrue rent arrears without valid contracts or are unable to produce invoices for payments due.</p>	<p>A schedule of allowable rates should be developed to provide ministries guidelines for agreeing to rental agreements. An approval of the rental agreement can also be routed to MOFPED (or designee) for approval. MOFPED or the appropriate ministry can develop a template for contracts/amendments to use when negotiating rental agreements.</p> <p>Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.</p>

Causes and Proposed Remediation Strategies			
No.	Category	Cause	Strategy
6.	Tracking and Reporting	Accounting Officers compile the record of domestic arrears at the end of the financial year, and during the financial year, all records in IFMS, are based on cash-based accounting principles. Therefore, domestic arrears, and their accounting are not part of the view of the accounting officers on a day-to-day basis.	Adopt an accrual method of accounting so arrears are monitored on perpetual basis. Use the IFMS system to track arrears which arrears have been settled from period to period.
		Most MDAs do not have a process for monitoring of domestic arrears or reconciliation. This can lead to paying an arrear twice or open the door for fraudulent claims.	Designate one financial/accounting staff person in each MDA to reconcile unpaid bills each month. A quarterly report showing the invoices, payment due, amount paid, date paid, and when payment was due should be prepared. This running list should be reconciled at the end of the year and provide a final report to Ministry of Finance, Planning, and Economic Development (MOFPED) with the outstanding amounts clearly designated. The Accounting Officer should review and approve all reports and a copy sent to the PS/ST and the MOFPED desk officer quarterly. The desk officers should analyze the report for validity. MOFPED should maintain a central file which records outstanding amounts for each ministry quarterly and use this file for budget planning.
		Many MDAs are not able to reconcile arrears, ones that were paid and report accurately even with the releases made by MOFPED to settle arrears.	A quarterly recording of arrears and those which have been paid should be submitted to MOFPED. The IFMS should be used to track and report the status of all arrears.
		No clear process of reporting arrears.	A clear and standardized reporting process should be put in place. Timelines and sanctions should be explicitly included in the guidelines to the MDAs. The schedule of submission by the MDAs and verification by MOFPED should consider the timelines stipulated in the budget calendar.
7.	Leadership and Management	Knowledge transfer from previous staff to new staff is lacking. Many Accounting Officers do not have a record of arrears that existed before they took office.	Accurate record keeping and use of IFMS to record obligations will help to address the issue of the knowledge transfer when the previous staff departs. Reporting and tracking should be created and updated regularly for all arrears.

Causes and Proposed Remediation Strategies			
No.	Category	Cause	Strategy
		Court awards are one of the highest categories of arrear payments.	<p>Develop a process that includes the information gathering by the Solicitor General and the legal staff to ascertain the landscape of pending cases and their potential outcomes. Without reference to specifics or names, potential payout amounts should be included in the financial projections for the upcoming fiscal years. A contingency fund can be used to address court awards.</p> <p>While a process for paying court awards can be developed, the number of cases will not diminish until the underlying issues of management, leadership, record keeping, and controls are addressed.</p>
		Sanctions and penalties are not enforced, as such obligations are made without adherence to budget considerations or funding availability.	Sanctions should be enforced and enacted according to the law or performance agreements signed by the Accounting Officers.

Appendix 2: Circular on Payroll Management and Processing

Telephone : 256 41 4707 000
: 256 41 4232 095
Fax : 256 41 4230 163
: 256 41 4343 023
: 256 41 4341 286
Email : fin.ec.civil@finan.ec.go.ug
Website : www.fin.ec.go.ug

In any correspondence on
this subject please quote No. HRM 155/222/02



Ministry of Finance, Planning & Economic
Development
Plot 2-12, Apollo Kagame Road
P.O. Box 8147
Kampala
Uganda

10th March, 2021

All Accounting Officers (Central and Local Government)

CIRCULAR ON PAYROLL MANAGEMENT AND PROCESSING

As you may be aware, achieving the NDP III objective of public sector transformation will rely on, among others, the strengthening of the human resource management function of Government for improved service delivery.

In line with the above, Government shall continue to streamline the management of salary and monthly pension payrolls. Therefore, we have identified a number of issues that still affect payroll management and measures to address them are:

- 1. Processing of Salary, Pension and Gratuity payments on the IPPS;**
All staff recruited by Service Commissions, Boards & Councils and Appointing Authorities should use the Integrated Personnel and Payroll System (IPPS) for processing of their salary, pension and gratuity. Non-compliant Votes will not receive releases for salaries, pension and gratuity effective July, 2021.
- 2. Mischarges on the Wage Item to pay ineligible local staff and other non-salary related expenditure;**
Staff who are recruited by Ministries, Departments and Local Governments (MALGs) under Local Contracts and Temporary Staff should not access the IPPS but rather be paid using Item 211103 - Allowances. Furthermore, as part of the ongoing IFMS upgrade, Accountant General's Office (AGO) should configure the Integrated Financial Management System to ensure that only Salary related payments are charged on the Wage Item Codes- 211101, 211102 & 211104. The payments of salaries, pension and gratuity on the IFMS must have National Identification Numbers (NIN), Tax Identification Numbers (TIN), Supplier Numbers and IPPS Number as mandatory requirements.
- 3. Use of dummy supplier number in the IFMS to make payroll payments;**
Going forward, in order to eliminate the use of dummy numbers, a duly appointed Public Officer should have a VALID National Identification Number, Supplier Number before being accessed on the IPPS. In this regard, on a weekly basis, Accountant General should share information on Supplier Numbers for new or reactivated officers to be accessed on the payroll.
- 4. Unauthorized Recruitment;**
Under no circumstances should Public Universities and Ministries, Departments and Local Governments recruit without the explicit authorization of Ministry of Public Service and the confirmation of the availability of wage. Accounting Officers (AOs) who do not adhere to this guidance will be **held liable in accordance with the law.**

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

5. **Recruitment and Deployments of Secondary Teachers and Health Workers;**
Accounting Officers must ensure that they accurately capture the number and wage requirements of Health workers and Secondary Teachers at the beginning of the planning period. Relatedly, the Ministries of Health and Education and Sport should not recruit, deploy and transfer staff without ensuring availability of wage at the destination Votes.
6. **Inefficiencies in processing of Statutory and Non-Statutory deductions;**
Accounting Officers are directly responsible for making deductions from staff salaries. To that extent, Accountant General will ensure that no partial payment/ invoicing by Accounting Officers is authorized on the IFMS to ensure that all deductions are made at the same time as salary payments. In addition, MALGs should note that payroll deductions on behalf of credit agencies will be discontinued when the current MoU expires.
7. **Poor budgeting at Cost Centre and Departmental level;**
Accounting Officers are required to align staff under their correct cost centers under PBS during budgeting and on IPPS and IFMS at execution.
8. **Capacity gaps of Accounting Officers (CAOs, HROs and Internal Auditors) in the computation and processing of salary, pension and gratuity;**
Ministry of Public Service should undertake training of all relevant stakeholders as well as provide technical information and updates concerning payroll processing through the Uganda Media Centre and other print media.
9. **Lack of transparency in the payroll management as a result of not implementing the Government policy of regular and timely issuance and display of pay slips;**
All MALGs must publish payrolls on their notice boards and issue pay slips monthly, without fail.
10. **Delayed processing of Pension and Gratuity for retiring Officers;**
This practice has continued to be a menace. Accounting Officers must program to pay gratuity and pension for all staff retiring in each Financial Year. Accounting Officers must ensure that Human Resource Personnel transparently and accurately compute Pension and Gratuity requirements and that payments are made in a timely manner.

By copy of this letter, the Permanent Secretary of the Ministry of Public Service is requested to follow up and provide technical support towards the implementation of the above measures. The Accountant General is also requested to ensure that the IFMS upgrade prioritizes the creation of necessary system controls to prevent mischarges and other inconsistencies.

Patrick Ocailap



FOR: PERMANENT SECRETARY/SECRETARY TO THE TREASURY

Copy to: The Rt. Hon. Prime Minister
All Hon. Ministers and Ministers of State
The Head of Public Service and Secretary to the Cabinet
The Permanent Secretary, Ministry of Public Service
The Accountant General
The Internal Auditor
All Resident District Commissioners
All District Chairpersons and Mayors for Municipalities

Mission

"to formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

Appendix 3: Recommendations for Remediation Based on the E&Y Report (2019)

Review and recommendations of Ernst & Young's Arrears Report on Volume I Agreed-upon Procedures for the Expenditure Arrears Stock as at 30 June 2019

NOTE: Discussions and process mapping are required to refine recommendations.

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
14	1.11	Review of contestable/rejected arrears from the 2016/17 review	Most MDAs do not have a process for monitoring of domestic arrears, therefore there was no system to monitor the arrears that were classified as contestable or rejected during the previous exercise. Most Accounting Officers indicated that they needed time to reconcile their schedules to identify any arrears that were previously verified.	Designate one financial/accounting staff person in ministry to reconcile unpaid bills each month. A monthly report showing the invoices, payment due, amount paid, date paid, and when payment was due should be prepared. This running list should be reconciled at the end of the year and provide a final report to MOFPED with the outstanding amounts clearly designated. The Accounting Officer should review and approve all reports and a copy sent to the PS/ST and the MOFPED desk officer quarterly. The desk officers should analyze the report for validity. MOFPED should maintain a central file which records outstanding amounts for each ministry monthly and use this file for budget planning.	Budget Directorate, Accountant Generals' Office (AGO), Internal Audit Department (IAD)	Management	Accountability
14	1.11	Review of contestable/rejected arrears from the 2016/17 review	Some of the arrears that were previously classified as contestable or rejected had since been paid. Therefore, these arrears did not constitute the stock of arrears as at 30 June 2019. As such, it was not possible to have the files presented for verification.	Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	Ministry of Finance, Planning and Economic Development (MOFPED)	Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
14	1.11	Review of contestable/rejected arrears from the 2016/17 review	From the analysis of the aging schedules, most of the arrears existing as at year-end had been accrued over the last two financial years, therefore it was counter-intuitive to dedicate extended periods of time to investigate arrears that now constitute an insignificant portion of the arrears stock.	Pay off appropriate bills and begin fresh with preventative measures in place to not allow unauthorized expenses.	MOPED	Reconciliation/ Process Improvement	Standardization
14	1.11	Review of contestable/rejected arrears from the 2016/17 review	At some MDAs, the issues for which the arrears were previously rejected or contested still exist, and there was no evidence for a pro-active approach to improve systems for accrual of arrears.	Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	IAD, AGO	Process Improvement	Standardization
15	2.2	Brief from the review of the expenditure arrears stock	Ministry of Finance, Planning and Economic Development: Tax incentives of Ushs 205 billion and new commitments to capitalization of government-owned institutions of Ushs 45 billion, were accrued in financial year 2018/19.	Validate tax incentives of agreements. Make payments, accordingly, develop long-term payment schedule if there are insufficient revenues. Revise process to capture commitments during budget development. These incentives should be included in the long-range financial forecast and planned for accordingly in subsequent budgets.	MOFPED, Uganda Revenue Authority (URA)	Reconciliation/ Process Improvement	Budget Planning
15	2.2	Brief from the review of the expenditure arrears stock	Ministry of Trade, Industry and Co-operatives: Compensations due to selected Co-operative Unions amounting to Ushs 124 billion were recognised as arrears for the first time in financial year 2018/19.	Validate tax incentives of agreements. Make payments, accordingly, develop long-term payment schedule if there are insufficient revenues. Revise process to capture commitments during budget development. These incentives should be included in the long-range financial forecast and planned for accordingly in subsequent budgets.	MOFPED, URA	Reconciliation/ Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
15	2.2	Brief from the review of the expenditure arrears stock	Ministry of Water and Environment: Arrears of Ushs 89 billion have been accrued. This mainly relates to development projects (Ushs 27 billion), other recurrent (Ushs 17 billion) and development expenditure at National Water and Sewerage Co-operation amounting to Ushs 34 billion, that has never been reported before.	Validate tax incentives of agreements. Make payments, accordingly, develop long-term payment schedule if there are insufficient revenues. Revise process to capture commitments during budget development. These incentives should be included in the long-range financial forecast and planned for accordingly in subsequent budgets.	IAD, Budget Directorate (Project Analysis & Public Investment Department, (PAP) and Infrastructure and Social Services Department, (ISSD))	Reconciliation/ Process Improvement	Budget Planning
15	2.2	Brief from the review of the expenditure arrears stock	Uganda National Roads Authority: Arrears accrued in 2018/19 amount to Ushs 474 billion which, mainly relate to completion certificates reported for long-term development projects works and supervision (Ushs 433 billion).	Validate tax incentives of agreements. Make payments, accordingly, develop long-term payment schedule if there are insufficient revenues. Revise process to capture commitments during budget development. These incentives should be included in the long-range financial forecast and planned for accordingly in subsequent budgets.	IAD, Uganda National Roads Authority (UNRA), PAP	Reconciliation/ Process Improvement	Budget Planning
15	2.2	Brief from the review of the expenditure arrears stock	National Medical Stores: Arrears of Ushs 110 billion have been accumulated in the last quarter of 2018/19 on the basis that these will take first call on the budget for 2019/20. National Medical Stores procures with the view that medicines should be made available and paid for with the release for the subsequent financial year.	Validate the amounts and make sure the items were received. Map process by which items are procured, invoiced, and delivered to prevent overextension of available funds. Maybe change the funding model to reimbursement once stock is delivered to the end user.	Ministry of Health (MOH), IAD	Reconciliation/ Process Improvement	Standardization
15	2.2	Brief from the review of the expenditure arrears stock	Treasury Operations Service: Arrears of Ushs 133 billion reported under this vote are also reported in duplicate at the Ministry of Justice and Constitutional Affairs. The two votes have failed to	MOFPED and Accountant General should decide the appropriate entity.	Budget Directorate, AGO	Management	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			agree on which vote should hold the arrears; and therefore, government arrears are overstated.				
15	2.2	Brief from the review of the expenditure arrears stock	Uganda Prisons Service and Uganda Police: The two entities accrued aggregate arrears of Ushs 134 billion. These mainly relate to food items procured with no evidence for adherence to the PPDA Act, i.e.: supplies made against expired call-off orders, supplies made with no framework orders, or call-off orders at all.	Ask Ministry and vendor to validate expenses within a timeframe. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	AG, IAD, Uganda Prisons Service (UPS), and Uganda Police Force (UPF)	Reconciliation/ Process Improvement	Standardization
15	2.2	Brief from the review of the expenditure arrears stock	Uganda Coffee Development Authority: In 2018/19 alone, Uganda Coffee Development Authority accrued arrears of Ushs 89 billion relating to supplies made by nurseries. The Authority is mandated by an Executive Order to supply to farms seedlings of up to 300 billion, every financial year. This is not backed by a budget flexed to meet this requirement.	Right size the Budget. Budget the appropriate amount or develop a plan of payment over the subsequent fiscal years.	Budget Directorate, IAD	Reconciliation/ Process Improvement	Budget Planning
15	2.2	Brief from the review of the expenditure arrears stock	Regional Referral Hospitals: The decentralisation of the pension system implies that referral hospitals must handle new pension arrears that were not included in their budgets for FY 2017/18 and FY 2018/19. On average arrears of Ushs 1 billion have been assigned to the referral hospitals for the first time.	Right size the budget to include all valid pension costs. Review and analyze the process, by which MOFPED can validate the costs during budget development. Include these obligations in the long-term financial forecast.	MOH, MOFPED	Reconciliation/ Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
16	2.21	Unreported arrears from votes that were not previously reported	Four ministries (including State House), that have reported total arrears of UGX 148,494,630,797. The four ministries include the Ministry of Defence, which was not previously included in the verification exercise.	Validate the expenses. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	IAD	Reconciliation/ Process Improvement	Standardization
16	2.21	Unreported arrears from votes that were not previously reported	Six upcountry referral hospitals and universities which have reported total arrears of UGX 11,924,403,777	Validate the expenses. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	MOH, IAD	Reconciliation/ Process Improvement	Standardization
17	2.21	Unreported arrears from votes that were not previously reported	The Uganda Land Commission, whose documents were not available during the previous exercise and has now reported arrears of UGX 194,562,927,311.	Validate the expenses. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, or a validated encumbrance.	IAD	Reconciliation/ Process Improvement	Standardization
17	2.21	Unreported arrears from votes that were not previously reported	The National Agricultural Advisory Services Secretariat, which is reporting arrears for the first time. Although the arrears could have existed as at 30 June 2017, the MDA has explained that the completed documentation files have been submitted over the last two financial years. The MDA has reported total arrears of UGX 34,990,758,668.	Validate the expenses. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	IAD	Reconciliation/ Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
17	2.21	Unreported arrears from votes that were not previously reported	Missions and embassies abroad that were not included in the previous exercise have reported arrears of UGX 404,073,854.	Right size the budget to include all valid costs. Review and analyze the process, by which MOFPED can validate the costs during budget development. A process can be developed in which a central point of contact can reach out to missions and embassies to gather the payments due for the subsequent budgets. These figures should be included in the long-term fiscal forecast and be known during the budget development process.	MOFPED	Reconciliation/ Process Improvement	Budget Planning
17	2.21	Unreported arrears from votes that were not previously reported	New votes that have reported arrears for the first time over the last two financial years, have contributed a total of UGX 7,520,261,606 to the reported arrears as at 30 June 2019.	Validate the expenses. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	AGO, IAD	Reconciliation/ Process Improvement	Standardization
17	2.21	Unreported arrears from votes that were not previously reported	The Department of Treasury Operations in the Ministry of Finance has reported arrears of UGX 362,755,308,727 that were not previously included in the schedule of domestic arrears. These relate to court awards that have been negotiated by the Ministry of Finance, and are handled by the same Ministry, however, Ministry of Justice, and Constitutional Affairs, inexplicably also continues to recognise the same arrears, at an even higher amount, that does not account for the negotiated amount.	Right size the budget to include all valid costs. If interest is included, negotiate a cancellation of interest (if possible) or a stay of future interest on unpaid amounts. Review and analyze the process, by which MOFPED can validate the costs during budget development.	MOFPED, Ministry of Justice and Constitutional Affairs (MoJCA)	Reconciliation/ Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
17	2.21	Unreported arrears from votes that were not previously reported	Other votes that were not previously reported contribute UGX 1,072,675,618 to the arrears balance as at 30 June 2019.	Right size the budget to include all valid costs. Review and analyze the process, by which MOFPED can validate the costs during budget development. Do not pay unless validated. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	MOFPED, Ministries, Departments and Agencies (MDA's)	Reconciliation/ Process Improvement	Budget Planning
19	2.2.2	Guidance on harmonisation of pension computation	A majority of MDAs, after the decentralisation of pension management from the Ministry of Public Service have not maintained independent procedures for pension management, and as such, they could not present reasonable and justifiable computations to support the pension arrears hereby recognised. The Accounting Officers, years after the decentralisation still referred the review team to the Ministry of Public Service. Although idyllic, MDAs do not maintain soft copies records and computations, and instead rely on hand-written computations maintained on the employee files. These could be easily manipulated. Many votes did not maintain an accurate record on the files for the payments made to date.	Either MOFPED or MOPS should develop a database that contains a standard methodology for pension calculations. Using a common platform and methodology will ensure consistency and accuracy of calculations by multiple sources.	MOFPED, Ministry of Public Service (MOPS)	Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
19	2.2.2	Guidance on harmonisation of pension computation	MDAs also maintained varying approaches to the computations. The constitution of Uganda, Article 254 (3) stipulates that the pension payable to any person shall be exempt from tax and shall be subject to periodic review to take into account changes in the value of money. The Ministry of Public Service has guided that the adjustment for value of money should be based on details and statistics provided by the Uganda Bureau of Statistics. However, adjustments made by some votes such as the Office of the Auditor General, were irreconcilable to any verifiable inputs, and the Ministry of Public Service has not offered a formal position on the approach. In case the Ministry of Public Service does not offer formal guidance, the approaches taken by a number of votes, thereby understating the amount due to some pensioners, while overstating for others.	Either MOFPED or MOPS should develop a database that contains a standard methodology for pension calculations. Using a common platform and methodology will ensure consistency and accuracy of calculations by multiple sources.	MOFPED, MOPS	Process Improvement	Standardization
19	2.2.2	Guidance on harmonisation of pension computation	Adjustments for the time value of money will overtime hinder the budgetary process, since such inputs and parameters as inflation, cannot be accurately predicted. Therefore, at every budgeting period, these inputs should be shared before the commencement of the financial year, so that they are included in the budgeting process.	The budget call circular should be modified to include this information.	MOFPED	Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
19	2.2.3	Lack of sufficient information to support pension obligations	Over the last two financial years, the Ministry of Public Service and the Ministry of Health have decentralized the pension payroll so that pensioners are paid at the hospitals where they retired. This process has not been backed up by adjustment of the budgets of the respective hospitals to enable them to meet the obligation. For example, at Masaka Regional Referral Hospital, the arrears previously constituted of utilities, that are billed at the end of the financial year, however, after the decentralisation of the government payroll, Masaka Hospital, as a case study has accrued pension arrears that are not covered by the available budget.	Either MOFPED or MOPS should develop a database that contains a standard methodology for pension calculations. Using a common platform and methodology will ensure consistency and accuracy of calculations by multiple sources. Additionally, MOFPED should right size the budget to cover pension costs. A payment plan should be developed to address the arrears.	MOFPED, MOPS	Management/ Process Improvement	Standardization
19	2.2.3	Lack of sufficient information to support pension obligations	In addition, the decentralisation of the payroll has availed opportunities for irregularities, since there is no institutional memory at the MDAs where the pension has been transferred. Many individuals, who were not included before, have come to the MDAs with new claims, or claims that the current balance is understated. The Accounting Officers, having never managed this program before, are now faced with a new situation, that could over time, result in further accrual of previously unrecognised arrears, whether legitimate, or not. Furthermore, due to the absence of this institutional memory, the Accounting Officers have not been availed with computational details, and records of payments made thus far, that would enable them to prepare an	Either MOFPED or MOPS should develop a database that contains a standard methodology for pension calculations. Using a common platform and methodology will ensure consistency and accuracy of calculations by multiple sources. Additionally, training for those responsible for pension at the Ministries should undergo training on how to verify personnel, calculate pensions, and be versed in the benefits.	MOFPED, MOPS	Management/ Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			accurate computation and record of amounts due to the pensioners.				
20	2.2.4	Inadequate monitoring of rental arrangements	However, a number of votes have accrued rental arrears with no valid contracts.	Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.	IAD, AGO	Process Improvement	Standardization
20	2.2.4	Inadequate monitoring of rental arrangements	The Ministry of Gender has also incorporated interest of 19% in their rental obligation. The rate is not only higher than the court rate of 6% but is not based on any contract nor is it approved by the Solicitor General and is therefore ultra-vires. The interest was only agreed in a meeting with the landlord and is supported by minutes from the meeting. We propose a dedicated investigation into this contract, so that payment can only be made for contractually agreed amounts.	A schedule of allowable rates should be developed to provide ministries guidelines for agreeing to rental agreements. An approval of the rental agreement can also rout to MOFPED (or designee) for approval. MOFPED or the appropriate ministry can develop boiler plate contracts/amendments for use when negotiating rental agreements.	MOPED	Process Improvement	Standardization
20	2.2.4	Inadequate monitoring of rental arrangements	Internal Audit should continue to involve themselves in the budgetary process and assist Accounting Officers in the validation of their submissions to the Ministry of Finance.	Ongoing training should be available to personnel for key areas. IAD can identify areas of concern that are consistent issues across entities. MOFPED can provide the training sessions either in person or online. These trainings should be readily accessible and incorporate a variety of personnel and functions.	MOFPED, MDAs	Management/ Training	Accountability
20	2.2.6	Goods and services procured without local	For an MDA to make a payment, the MDA is required to attach a Local Purchase Order (LPO) to the funds available on the Integrated Financial	The system should not allow for the circumventing of LPOs. System controls need to be modified to require a LPO prior to payment. Accounting Officers	AGO, IAD	Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
		purchase orders (IPOS)	Monitoring System (IFMS). When an LPO is attached to funds, the funds can only be used for purposes of settling the expense for which an LPO has been raised. Therefore, when funds are not available, Accounting Officers cannot legally commit government, or so it seems. We have noted that Accounting Officers have bypassed this control by procuring goods and services without raising an LPO. The service providers instead provide a Service Order Form, which is then approved by the requisitioning MDA, and substituted for an LPO whenever funds are not available, so that goods and services are provided without the requirement of funds availability in IFMS. This practice is prevalent at Uganda Prisons Service, Uganda Police Force, and Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), among other MDAs. At MAAIF, procurements from New Vision Limited and Monitor Publications were also made without raising a system LPO. At a number of MDAs, LPOs are dated after the supply is made. The LPO is generated in a subsequent period when funds are then availed. Such a practice implies that since arrears take first call on the budget for a subsequent period, goods and services procured in that period, in turn become arrears.	should be held accountable for making purchases without available funds. If an emergency arises, MOFPED should be consulted, and a solution achieved to meet the emergent need. Entities should not be allowed to commit funds with without the proper appropriation. Identify and analyze the process by which this can happen and implement actions that prevent payment against unauthorized obligations. The system should only allow for payments based on obligations via purchase order, contract, encumbrance, or an AG approved method.			

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
21	2.2.6	Commitments are entered into with suppliers with no funds available	Many votes spent significant amounts on other recurrent expenses with the expectation that these would be settled with the release for Quarter one 2017/18. This implies that Quarter one expenditure will in turn become an arrear for the subsequent Quarter and so on.	Self-perpetuating system of arrear creation. MDAs should be held accountable to staying within the budget. MOFPED should review the expenditure needs of ministries and right size budgets as appropriate. If funds are not available for rightsizing, then a long-term financial plan should be developed to reach the appropriation level needed. Use a two-prong approach: 1) assess the service for streamlining/expense reduction/need, 2) right size budget appropriation.	MOFPED, MDAs	Process Improvement	Budget Planning
21	2.2.6	Goods and services procured without local purchase orders	In addition, there was also NARO which purchased a machine that had high electricity consumption levels. Prior to its purchase, no adjustments had been made to the utilities budget thereby leading to an overlap of the utilities budget.	Ministries should consider all aspects of operations and maintenance costs when purchase large items or entering into agreements. Modify the procurement process to include operational/ongoing cost assumptions for budget planning purposes.	MDAs, IAD, AGO, Public Procurement and Disposal of Assets (PPDA)	Process Improvement	Budget Planning
21	2.2.7	Delays in refunds of non-tax revenue paid into the consolidated fund	Public universities and referral hospitals collect non-tax revenues through the Uganda Revenue Authority, and these revenues are remitted to the consolidated fund, before, re-allocation to the institution. The Public Finance Management Act requires that all revenue collected, or received by a vote, state enterprise or public corporation shall be paid into the consolidated fund and is refundable at a future date on fulfilment of specified conditions. We have noted that delays in the refund of the fees collected into the consolidated fund, implies that settlements that could have been made by the end of the financial year, are made in the	There should be clear timeline of when refunds will be made and under what circumstances. In the meantime, should the need arise, a credit line or a loan from the Treasury for the universities or hospitals can be set up to make payments in timely manner. When the refund is provided, repayment to the Treasury can be made.	MOFPED, URA	Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			subsequent period, should the non-tax collections be refunded after year-end. Whereas the Public Finance Management Act does not specify the period when the collections should be refunded to the vote, such guidance should be clear, and should allow for settlement of obligations accrued at the end of the year, to be settled timely. Whereas the Government Treasury Instructions, 2017 provide details on the procedure for remittance of non-tax revenue to the consolidated fund, there is limited information on the appropriation of funds to the MDAs to enable settlement of arrears.				
21	2.2.8	Inadequate supporting documentation for the arrears	Government has accrued a number of arrears for which settlement could have been made, earlier, should the relevant documentation have been available. Furthermore, interest continues to accrue, where applicable. However, with the passage of time, staff turn-over and other personnel changes, supporting documents have been misplaced. On occasion, where partial payments have been made, the MDAs archive the payment file, and this cannot present original documentation for review. Government Treasury Instructions, however, require that Accounting Officers should retain all financial information in its original form (Section 7.16). Accounting Officers are also required to attach all supporting	Records should be maintained electronically in IFMS. The system should be modified to capture backup documentation. Validity checks can be programmed to not allow payments unless an attachment is uploaded to the transaction.	AGO	Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			documents to the payment instruction in their original form (10.5.5).				
22	2.2.8	Inadequate supporting documentation for the arrears	Although the Government's accounting system, IFMS, has not been configured for custody of scanned information, the accounting structure on which the system Oracle has been constructed, has the capabilities for the custody of such documentation. Benchmarking on best practices, most entities do not maintain hard-copy documentation, but rather scan all support documents, for approval, and payment. When partial payments are made, the documentation is retained on the system, before further payments can be made. This way, there is an audit trail for all approvals before payments are made, and the scanned documents, are retained on the system for further reference.	Records should be maintained electronically in IFMS. The system should be modified to capture backup documentation. Validity checks can be programmed to not allow payments unless an attachment is uploaded to the transaction.	AGO	Process Improvement	Standardization
22	2.2.9	Three-way match in the IFMS system inexistent	Government Treasury Instructions require that Accounting Officers and Imprest Holders should maintain invoice registers with details of each invoice received and the relevant local purchase order system, and other documents required. Where documents are missing, the matter should be reported to the Accounting Officer to notify the Accountant General who then notifies the Secretary to the Treasury. However, despite this requirement, MDAs are still able to make payments without relevant support documents, because the IFMS system only requires an internally	Records should be maintained electronically in IFMS. The system should be modified to capture backup documentation. Validity checks can be programmed to not allow payments unless an attachment is uploaded to the transaction. Accounting Officers should be held accountable for missing documentation or not reporting missing information. Spot checks of transactions should be done periodically by IAD. The formation of an internal control team that reviews random transactions for accuracy can ensure on-going compliance monitoring.	AG, IAD, MDAs	Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			generated Local Purchase Order before payment can be made.				
22	2.2.10	Loss of tax revenue	<p>The issue of domestic arrears is directly linked to shortages in Government revenue collections. The domestic arrears burden could be reduced in case tax collections were to increase. However, MDAs do not assist Government in the collection of revenues that are legally due as some Accounting Officers do not insist that suppliers raise tax invoices before payment can be made. For example, rental payments at the Ministry of Justice, the Ministry of Gender, Labour and Social Development, among other votes, are made before tax invoices are raised in the system. The payments are then made based on demand notes, that do not require the supplier to meet their tax obligations. Although, we could not investigate the books of the suppliers, whenever we requested for the tax invoices to be provided, the MDAs insisted that this would disadvantage the suppliers. The Government should investigate this leakage in VAT collections.</p>	IFMS should be modified to require tax invoices prior to allowing payments. Communication and a campaign should be developed to educate the ministries of their role and responsibilities in helping the Government collect its due revenue. Emphasis should be placed on the benefits of how an increase in revenue will benefit the ministry and support essential services.	Directorate of Economic Affairs (DEA), AGO, URA, MDAs	Process Improvement	Standardization
22	2.2.10	Loss of tax revenue	<p>While Court has previously ruled that Judges assigned work outside their judicial mandate, for example to serve on Commissions of enquiry should pay tax on their remuneration on such assignments (Lady Hon. Justice Sebutinde vs. the Attorney General), from our review of arrears at the Commission of Enquiry into Land Matters, Judges</p>	The tax should be paid. A reconciliation can be done at the end of the year to capture the tax due. This will also require a tracking of work judges do outside of their judicial mandate by a central entity.	MOFPED, URA	Management /Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			assigned to work at the Commission, do not pay as You Earn Tax on their emoluments.				
22	2.2.10	Loss of tax revenue	Court ruled in the Constitutional Appeal No. 7 of 2005 between Attorney General and Musalu Musene Wilson, Keitirima John Audes, Sekagya Ronald and Muhirwa Alaari K, that judicial officers of the rank of Registrar or Magistrate irregularly (unconstitutionally) enjoy the privilege of exemption from payment of taxes and should pay income tax on all their emoluments. However, from our review, Magistrates and Registrars do not pay tax on all their income.	The tax should be paid. A reconciliation can be done at the end of the year to capture the tax due. This will also require a tracking of work judges do outside of their judicial mandate by a central entity.	MOFPED, URA	Management/ Process Improvement	Standardization
23	2.2.11	Executive orders that are not budgeted for	During the review, we noted that some votes were accumulating domestic arrears following presidential directives and other Executive orders. A case in point was for public universities who received salary enhancements for all non-teaching staff beginning 2016/17. The Uganda Human Rights Commission also reported arrears that arose from a salary enhancement exercise that was not supported by a provision in the budget. Most of these amounts have remained arrears for over two years.	MOFPED should keep track of all presidential actions that could potentially have a budget impact. Leadership and direction should be provided by sector desk officers to ministries to include costs associated with presidential directives into the budget submissions. The sector desk officers should reconcile between the presidential direction tracker and the budget submissions.	MOFPED, Office of the President (OP)	Management/ Process Improvement	Budget Planning
23	2.2.11	Executive orders that are not budgeted for	There was also an exception with Uganda Coffee Development Authority where we were advised that the Authority had received a directive from the Executive arm to receive all supplies from the coffee nurseries up to a certain limit which was above the budget.	MOFPED should keep track of all presidential actions that could potentially have a budget impact. Leadership and direction should be provided by sector desk officers to ministries to include costs associated with presidential directives into the budget submissions. The sector desk officers should reconcile	MOFPED, OP, Other MDAs	Management/ Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			<p>More still, there was also an issue of payment of taxes on behalf of companies by Ministry of Finance, Planning and Economic Development. These taxes majorly related to Value Added Tax (VAT) and Income tax. For example, Government committed to pay tax on the business chargeable income of Cipla Quality Chemical Industries Limited, National Cement Company Limited, Guangzhou Dongsong Energy (U) Co. Ltd. among others. All these commitments were made following executive directives with no evidence of any budget. These directives have also impaired Uganda Revenue Authority collections targets, since these taxes could have been paid by these companies, however they now comprise an obligation for government instead.</p> <p>We have requested the Ministry of Finance to provide a value-for-money analysis as justification for the accrued arrears, however, this has not been provided. Therefore, it is uncertain as to whether Government can justify the benefit accrued from the obligations acquired.</p>	<p>between the presidential direction tracker and the budget submissions.</p> <p>To encourage objectivity, a criterion could be developed that justifies a tax exemption or warrants the Government to pay on a payer's behalf.</p>			

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
23	2.2.11	Executive orders that are not budgeted for	In a letter dated July 2014 and addressed to all Accounting Officers of Government Ministries, Departments & Agencies, – the Executive Director Uganda Media Centre - requested for the provision of financial contributions from various MDAs for the production and publication of a handbook, “Uganda - Constitutional & Independent State. "We however note that no budget line was allocated from which the entities will obtain funds to support the request made in this executive order. Wall mark, the supplier/publishers proceeded to produce the book and were thereafter not able to receive full compensation for their services. The net impact is that the amount was in arrears as at 30 June 2019.	Validate this was an actual request and who it was directed to. Payment should be made to the vendor from a central account. If the MDAs did not agree to support this endeavor, then the future budget of Uganda Media Centre can be deducted until the amount is paid back. The payment can be provided through a line of credit or loan from the Treasury. The Treasury can be repaid from subsequent appropriations.	Budget Directorate, AGO, IAD	Management/ Process Improvement	Budget Planning
23	2.2.11	Executive orders that are not budgeted for	During the 2015/2016 financial year, University non-teaching staff performed a strike action. The Executive later wrote and asked University non-teaching staff to suspend their strike and directed MoFPED to enhance their salaries in the next financial year (2016/17). He stated that government did not have money for salary increment that financial year (2015/2016). Furthermore, that directive stated that the arrears arising out of non-payment of enhanced salaries due to the non-teaching staff for the financial year 2015/2016 be paid together with the enhanced salaries in financial year 2016/2017. However, when we reviewed the budgets for these periods, we noted that the budgets did not reflect the	MOFPED should keep track of all presidential actions that could potentially have a budget impact. Leadership and direction should be provided by sector desk officers to ministries to include costs associated with presidential directives into the budget requests. The sector desk officers should reconcile between the presidential direction tracker and the budget submissions.	MOFPED, OP, Other MDAs	Management/ Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			salary enhancements that were provided for in the presidential directive and that these enhanced.				
24	2.2.12	Delays in project implementation which led to arrears	During the review of domestic arrears as at 30 June 2017, the National Agricultural Advisory Services (NAADS) did not report any arrears. As at 30 June 2019, however, the vote has reported arrears of UGX 34,990,758,668. The arrears have not been accrued over one financial year, but over a number of years. The vote explained that it could not report the arrears until the completion of the deliveries, the review process, and certification by Operation Wealth Creation. The vote represented that although budgeted funds were provided in previous financial years, the funds were returned to the consolidated fund because the project activities had not been completed within the financial years to which the arrears related. Therefore, delays in project implementation have created an arrears problem that is avertible.	An encumbrance process for valid expenditures needing funding in the subsequent year should be developed. Encumbrances can only be done if they meet certain criteria, such as a contract, PO, or by exception by the Director Budget. A system of re-appropriation of monies in a subsequent budget can also be developed. The re-appropriation must meet established criteria and be approved by the Auditor General.	Budget Directorate, AGO, IAD	Management/ Process Improvement	Budget Planning
24	2.2.13	Amounts due to other government parastatals reported as arrears	In our review, we noted that there were some votes that had arrears relating to amounts due to other government agencies. The Ministry of Justice and Constitutional Affairs has for fifteen years maintained an arrear of UGX 3,478,235,140 that is due to the Companies in Liquidation account. The arrear was accrued irregularly in the financial years 2004/05 and 2005/06 when the Ministry of Justice borrowed	Aged accounts should be reviewed for debt write off. Policies and guidelines should be revised to assist MDAs achieve debt write off in uncollectable instances. Minister of Finance and Parliamentary approval should be considered for debt write off.	Budget Directorate, AGO, IAD	Management	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			funds from the Companies in Liquidation account without parliamentary approval, to pay for rent accrued on additional office space for the Official Receiver and the Administrator General. The Solicitor General, has indicated the rigors of the Government debt write-off process, however, the Ministry of Justice and Constitutional Affairs has not explored the option.				
24	2.2.14	Financial loss caused by mismanagement of ministry of health project	In 2010/11, the Ministry of Health, while implementing a donor-fund project, acquired over 70,000 bicycles for the implementation of the project, for which the donor had contributed over US\$ 400,000. The bicycles were kept in storage for over two years because Ministry of Health did not provide the distribution list to the supplier to deliver them to the respective locations determined by the Project Manager. As a result, the supplier incurred demurrage and storage costs of US\$ 3 million that even exceeded the donor grant of US\$ 400,000 provided for the activity. The project manager therefore caused irredeemable financial loss of US\$ 3 million that had not been budgeted for and is now recorded under arrears.	This issue seems to have been resolved, but processes should be modified so it does not happen again. Detailed planning prior to receiving goods such as bicycles should have a dissemination plan prior to the order being placed.	UPF, UPS, IAD, AGO, Budget Directorate	Management	Accountability

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	The UPF and the UPS procure large amounts of food under framework contract arrangements, as guided by the PPDA Act. At Uganda Police, framework contracts with successful providers of foodstuffs are non-existent and there was no evidence of bidding and procurement evaluation/approval process for procurements from Exodus SACCO and Mirembe Millers Ltd. In addition, call-off orders were not issued when procuring hot meals from Exodus SACCO and procuring meals and refreshments from Mirembe Millers Ltd. This is contrary to the requirements of the framework contract entered into between Uganda Police Force with Exodus SACCO and Mirembe Millers Ltd.	Review policies and procedures of how procurements are done at UPF and UPS. The review of required documentation and adherence of random procurement should be undertaken. From this review, areas of improvement and pain points should be identified, and a corrective plan developed. Procurements made without adhering to procurement guidelines may need to be redone.	UPF, UPS, IAD, AGO, Budget Directorate	Management/ Process Improvement	Standardization
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	We also noted deliveries of foodstuffs to UPF before the issuance of call-off orders. This implies that deliveries were made without any binding contract. There is no evidence that such items were urgently needed or justified, since there were instances where call-off orders were issued after a period of one year after the delivery.	Websites can be modified to notify vendors doing business with government entities, that unless documentation such as a PO, LPO, or contract is received, they risk nonpayment, since such a procurement may not have been valid. Accounting officers should develop standard operating procedures and notifying staff that without going through the proper procurement, the vendor will not be paid and risk disciplinary action.	MOFPED (IAD), PPDA	Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	On other occasions, deliveries were made after the expiry of call-off order validity periods. Although suppliers were required to make deliveries within sixty days, there were occasions when deliveries were made after 182 days from the call-off order issue date.	Websites can be modified to notify vendors doing business with government entities, that unless documentation such as a PO, LPO, or contract is received, they risk nonpayment, since such a procurement may not have been valid. Accounting officers should develop standard operating procedures and notifying staff that without going through the proper procurement, the vendor will not be paid and risk disciplinary action.	MOFPED (IAD), PPDA	Process Improvement	Standardization
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	UPS procured food items and firewood under classified/restricted procurements using direct procurement with vetted shortlisted providers instead of using open domestic bidding with framework contracts as per Sec.6 of PPDA guidelines 10/2014.	Accounting officers should develop standard operating procedures and notifying staff that without going through the proper procurement, the vendor will not be paid and risk disciplinary action.	MOFPED (IAD), PPDA	Management/ Process Improvement	Standardization
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	There was no evidence of framework contracts upon which call-off orders were issued for foodstuffs and firewood in line with Sec.1 of PPDA guidelines 10/2014, which requires call-off orders to be issued only under a framework contract following open domestic bidding. Similarly, no approval was sought from the Solicitor General.	Accounting officers should develop standard operating procedures and notifying staff that without going through the proper procurement, the vendor will not be paid and risk disciplinary action.	IAD, AGO	Management/ Process Improvement	Standardization
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	The use of restricted procurement method to procure food and firewood was unreasonable and inappropriately applied in line with Sec.82 of PPDA Act 2003 and Sec.3-4 of the Fourth Schedule under PPDA Act 2003. These sections require use of restricted method when supplies/works/services are available	Accounting officers should develop standard operating procedures and notify staff that without going through the proper procurement, the vendor will not be paid and risk disciplinary action. Additional training should be provided to staff who are responsible for procurement to reinforce appropriate	MOFPED	Management/ Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			only from limited number of providers. This is not the case with procurement of foodstuffs and firewood as justified by the fact UPS contracted over 600 suppliers as per the general list of vetted suppliers.	processes. Training should be mandatory for any staff involved in the procurement of products or services for the MDAs. A designated trained staff person should be responsible for sign off vendor requests.			
25	2.2.15	Irregularities of the procurement procedures of Uganda police force and Uganda prisons services	Furthermore, several issued call-off orders had no validity period stated. This made them valid for an infinite period, enabling suppliers to make deliveries as and when they please. This is against the basic principles of framework contracts and the associated call-orders. We propose an investigation into the procurement procedures at Uganda Police and Uganda Prisons since these procedures expose themselves to the possibility of fraudulent practice that should be addressed in a forensic review.	Accounting officers should develop standard operating procedures and notify staff that without going through the proper procurement, the vendor will not be paid and risk disciplinary action. Additional training should be provided to staff who are responsible for procurement to reinforce appropriate activities. Training should be mandatory for any staff involved in the procurement of products or services for the MDAs. A designated trained staff person should be responsible for sign off vendor requests.	MOFPED	Management/ Process Improvement	Standardization
25	2.2.16	Inadequate budgeting for long-term government commissions of enquiry	We have noted that arrears have arisen out of lapses in budgeting for long-term commissions of enquiry. During the financial year 2016/17, Government instituted a commission of inquiry into land matters. The Minister of Finance then requested for a supplementary budget for a period of three months to cater for salaries accrued by members of the commission and other recurrent supplies. However, we have noted that after the three-months period ended, the commission of enquiry continued its activities for an additional fifteen months (until November 2019) with no budget in place and the commission had accrued	Desk officers at MOFPED should track these commissions and alert leadership of additional funding needs. A timeline of deliverables should be approved prior to the beginning of the commission work. All members should be aware of the timeline and have no expectation they will be paid following the initial agreement terms. This may encourage commission members to complete the work timely, allow MOFPED to forecast the budget appropriately. Setting a standard number of meetings and developing templates of acceptable delivers may help achieve the commission's goals. Prior planning of the	Budget Directorate, DEA, IAD	Management	Budget Planning

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			arrears of UGX 6 billion as at 30 June 2019.	work and the budget of such commissions will help prevent overages.			
26	2.2.17	Reconciliation of releases against payments made	<p>A review of reconciliations prepared by Accounting Officers to account for releases made by Ministry of Finance to the respective MDAs for purposes of settlement of expenditure arrears, over the last five financial years, and the first quarter of the financial year 2019/20 was done. The Accounting Officers were expected to maintain a record of the suppliers paid, with each release. It is expected that if Accounting Officers, maintained an accurate record of domestic arrears, and applied the releases specifically to settle arrears declared to the Accountant General, that this information would be available for our review, without undue effort.</p> <p>To our dismay, most Accounting Officers were unable to provide a reconciliation to account for the items paid for with the releases made, while the few Accounting Officers that were able to provide the reconciliation, did not prepare an accurate report, or the report provided only provided amounts, with no specifics/listings to detail the suppliers paid. Some Ministries could not prepare a reconciliation for more than two financial years, on the basis that the current administration did not have institutional memory for arrears that existed before. For example, despite</p>	<p>Records should be maintained electronically in IFMS. The system should be modified to capture backup documentation. Validity checks can be programmed to not allow payments unless an attachment is uploaded to the transaction. Accounting Officers should be held accountable for missing documentation or not reporting missing information. Spot checks of transactions should be done periodically by IAD. The formation of an internal control team that reviews random transactions for accuracy can help in on-going monitoring of compliance.</p> <p>Accounting Officers should appoint one individual to develop the report on a monthly basis and sign off on its validity. This will make the year-end report easy to compile.</p>	AGO, IAD, Budget Directorate, MDAs	Management	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			<p>receiving amounts of over UGX 68 billion since 2013/14, the Office of the President, did not provide a record of the arrears settled with these releases.</p> <p>Other notable MDAs that could not provide a reconciliation for releases against payments include the following: State House, Office of the Prime Minister, Ministry of Public Service, Ministry of Foreign Affairs, Ministry of Justice, Ministry of Finance, Ministry of Internal Affairs, Ministry of Agriculture, Ministry of Lands, Ministry of Education and Sports, Ministry of Health, Ministry of Trade, Industry and Co-operatives, Ministry of Works and Transport, Ministry and Communications Technology and National Guidance, Ministry of East African Community Affairs, Ministry of Tourism, Courts of Judicature, Electoral Commission, among others. Although the Ministry of Defence and Veteran Affairs provided a reconciliation, the releases report in the reconciliation provided did not agree to the records provided by Ministry of Finance. The reconciliations provided by a number of votes included manual adjustments made to prior-period arrears positions, and these adjustments were not supported.</p>				


Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
26	2.2.17	Reconciliation of releases against payments made	For a number of accounting periods, payments were not made, despite a release being made available. This is exemplified at the Ministry of Gender, where releases were made in 2015/16, but no payment was made. At Uganda Human Rights Commission, there was no listing of payments made to account for releases made in 2018/19.	Research where the funds released went. MDAs should be responsible for the funds appropriated to them and be able to explain how the funds are spent. Develop a system of unallocating the appropriation until the payment actions can be validated by MOFPED. Meaning, hold these funds aside until payment is ready to be made and MOFPED can have final sign off and release then funds.	IAD, AGO	Management/ Process Improvement	Budget Planning
26	2.2.17	Reconciliation of releases against payments made	For a number of votes, for which the reconciliation was provided, the settlements made for most of the financial years for which releases were made by Ministry of Finance, far exceed the release made. This implies that Accounting Officers were able to settle arrears regardless of whether funds were released, or not. The payments were made from the current-period budgets in those respective financial years, and therefore expenses that should have been paid for with the budgets for those years, would form part of the arrears stock in that accounting period. These MDAs include Ministry of Defence and Gulu University.	Self-perpetuating system of arrear creation. MDAs should be held accountable to staying within the budget. MOFPED can review the expenditure needs of ministries and right size budgets as appropriate. An encumbrance of needed funds can be implemented for valid expenditures that cross fiscal years. These encumbrances can only be done if they meet certain criteria, such as a contract, PO, or by exception by the Director Budget. Or a system of re-appropriation of monies in a subsequent budget can be developed. The re-appropriation must meet established criteria and can be approved by the Auditor General.	MOFPED, MDAs	Management/ Process Improvement	Standardization
26	2.2.17	Reconciliation of releases against payments made	Accounting Officers have not put in a place a robust, universal and fool-proof methodology for the accumulation and monitoring of domestic arrears. This situation is not helped by Government's reluctance to fully adopt an accrual-based methodology of accounting. From our observation, Accounting Officers	Move toward an accrual-based accounting method or at the very least a modified accrual basis. The handling of accruals across government should be standardized and Accounting officers be required to adhere.	MOFPED/AGO	Process Improvement	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			compile the record of domestic arrears at the end of the financial year, and during the financial year, all records in IFMS, are based on cash-based accounting principles. Therefore, domestic arrears, and their accounting do not form part of the day to-day KPIs of accounting personnel. If Government were to adopt an accrual method of accounting, arrears would be monitored on perpetual basis, and records of which arrears have been settled from period to period would be easily obtained from the IFMS data records. We commend Lira and Arua Regional Referral Hospitals for being two of the votes that provided accurate reconciliations.				
27	2.2.18	Valuation of compensation to ranchers	The Ministry of Lands, Housing and Urban Development has arrears constituting of amounts that are due to ranchers. We noted that substantial payments had been made over the last two financial years to clear the outstanding obligations, however, the outstanding amounts are not reducing. On further analysis, we noted that Government has paid a total of over Ushs 17 billion to only five ranchers, and these ranchers were paid, at amounts that have been revalued upwards by the Government Valuer, over the last two financial years. Therefore, even for these ranchers who have been paid, the outstanding amount as at 30 June 2019 is higher than the amounts that were outstanding as at 30 June 2017. In our estimation, in case the current trend	Right size the budget to include all valid costs. Pay ranchers based on the initial agreement. Review and analyze the process, by which MOPFED can validate the costs during budget development.	MOPFED	Management	Budget Planning

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			continues, government has to consider the revision of the amounts due to over 30 other ranchers. This is unsustainable, and government should instead consider a fastidious and persnickety negotiation process with the ranchers to offer the book amounts to the ranchers that remained unpaid. The payment of revised amounts to the five ranchers will only embolden the unpaid ranchers to seek for the same in Courts of law.				
27	2.2.19	Management of payments to co-operative unions	The Ministry of Trade, Industry and Cooperatives has set up initiatives to support and rejuvenate the activities of Cooperatives in Uganda. One such initiative is the compensation for losses incurred by Cooperatives due to war. A verification committee was set up comprising of Technical Officers from a number of Government Ministries, Departments and Agencies to analyze and study the details of the claims and thereafter determine a modest package for compensation as per the claim made. The verification committee received claims from a total of 22 cooperative societies of which they verified amounts due to 7 Cooperatives. The Government has paid out a total sum amounting to approximately UGX 30.8 billion to the Cooperatives to date, with payments of approximately UGX 17.6 Billion having been made to Cooperatives who were not verified by the Committee. Therefore, the process has lent itself to the possibility of fraudulent payments.	Committees such as these should report to MOFPED and AG prior to the disbursement of funds. The findings of the committees should be agreed to by MOFPED and IAD. The tracking of issues and potential payments should be maintained by MOFPED for validation.	MOFPED (IAD, AGO, Budget Directorate), Committees	Management/ Process Improvement	Accountability

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
27	2.2.20	Creation of new administrative centres with limited budget increments	We noted that the creation of new administrative centres is often not supplemented by the revision of the period budgets to incorporate the new centres created. For example, due to the rapid expansion of Kampala's population, and as part of government efforts to improve service delivery to its citizens, the number of public hospitals planned for the city were increased. Two such newly created hospitals are Kiruddu and Kawempe Referral Hospitals which commenced operations in 2016. However, the creation of Kiruddu and Kawempe Referral Hospitals was not accompanied by increase in the utilities budget for the national referral hospital to cater for the new respective centres, such as to combat the inevitable consequence that electricity and water arrears for the accounting entity (Mulago Hospital) were due to increase.	MOFPED should keep track of newly created entities which will have a future budget impact. Leadership and direction can be provided by sector desk officers to ministries to include costs associated with new facilities or approved entities. The sector desk officers can reconcile between the presidential direction tracker and the budget submissions. During budget development, an operational and maintenance (O&M) exercise should be undertaken which should account for all new facilities coming online or new entities that will need O&M funds. This list should be tracked from year to year and budgets adjusted to accommodate the new costs.	MOFPED, MOPS	Management	Budget Planning
28	2.2.21	Hand-over process in government	Ministries, Government Agencies and Local Governments like any other entity are prone to departure of staff in the form of resignation or other. However, often people leave without handing over all responsibilities. As such, the institutional memory for many votes does not exist, since after the departure of the previous Office Holder, the new Office Holder does not have the required information to account for the arrears in the manner required. over. At Ministry of Internal Officers, the Internal Audit Department and the Accountants could not provide an explanation for the	Records should be maintained electronically in IFMS. The system should be modified to capture backup documentation. Validity checks can be programmed to not allow payments unless an attachment is uploaded to the transaction. The management of staff should include working in teams and storing a file centrally that a team can access. Rotating staff assignments in a year can also prevent the lack of knowledge transfer. Maintaining a central file of all purchases and payments that is accessible by others will assist in information sharing. Written SOPs and	MOFPED, MOPS	Management/ Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
			arrears accrued because the previous office holders did not leave any information to guide the new team.	regular documents of workflow will also help prevent knowledge loss.			
28	2.2.22	Management of salary changes in IPPS	Integrated Personnel and Payroll System (IPPS) is a computerized Human Resource Management Information System that is being implemented in Ministries, Departments, Agencies and Local Governments (MDAs & LGs) to perform various human resource functions. Implementation of IPPS was part of the Public Service Reform programmes aimed at strengthening accountability and improved service delivery through automation of Human Resource functions and provision of reliable and timely information for decision making. There were however delays in the adjustments of staff salaries onto the system. This arose on occasions where there was a staff promotion or a change in the pay scale of an employer to a higher one. The acceptance letters of affected employees were put on file, but their salary took months before being changed in IPPS. These unadjusted amounts led to increases in the arrears 'amounts. During the review of Lira Hospital, the Personnel officer intimated that he had made a communication about changes made to individual salary status, but Ministry of Public Service didn't affect the changes immediately.	Document the workflow process and identify the pain points. These delays should be rectified, and system modifications made. Develop written procedures for implementing salary/personnel changes in the system and identify the number of days it should take for a step to be completed. Automate the entire process.	IAD, MoPS	Management/ Process Improvement	Standardization

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
30	2.2.23	The directorate of government analytical laboratories – case study in the management of domestic arrears	<p>DGAL, however, has achieved its objectives of having no arrears at the expense of meeting its mandate. Since reagents are not purchased when funds are not available, a number of forensic analyses remain outstanding for long periods of time, thus interfering with the effectiveness of the Ugandan justice system. The insufficient allocations made, also imply that ability of the Directorate to earn funds from the private market through such services as DNA tests, computer fraud investigation, documentary fraud investigation, etc. is also curtailed. The Directorate, therefore, appeals to Government to review its plan for those Directorates that could be self-sufficient, and support them where needed, to assist their ability to increase their non-tax collections. This appeal extends to the management of the private wings of regional referral hospitals. We observed from our visits to up-country referral hospitals that the collections from the private wings of hospitals such as Mubende Regional Referral Hospital were below budget because the private wing did not have the medicinal needs required to meet the needs of high-end clients. With better facilitation, receipts from the private wings from such hospitals could assist in addressing the funding requirements of the facilities.</p>	<p>Find the balance between meeting the need for arrears. MDAs should be held accountable for their approved budgets. However, if an MDA develops arrears, MOFPED should review the situation and several solutions can be implemented: 1) to meet the needs, 2) reprioritize the activities within the identified priorities, 3) reprogram/services by classification according to performance (high cost/low performance, low cost/high performance, medium cost/low performance, medium cost/high performance). Eliminate high cost/low impact programs. Consider eliminating high cost/low impact programs.</p> 	MOFPED, MDAs	Management	Budget Planning
31	2.2.24	Financial statements closure process	a) Incomplete information: Some transactions based on availed support documents had not been recorded in the	Accountability seems to be the key to resolving these issues. MOFPED and IAD	MOFPED (IAD, AGO, Budget Directorate)	Management	Accountability

Pg.	Sec.	Title	Issue (as stated in the E&Y report)	Action	Responsibility	Classification	Category
		for most of the votes	<p>submitted financial reports; for example, a number of transactions at Ministry of Local Government had not been recorded in the submitted financial reports resulting in the reported amounts being understated.</p> <p>b) Errors in amounts reported: Some of the amounts reported in the submitted financial reports were erroneously stated.</p> <p>c) Double recorded transactions: Some of the reviewed transactions were recorded twice in the submitted financial reports.</p> <p>d) Arrears being reported by more than one vote: This was common with arrears arising from obligatory contributions to international organisations which were reported by the Ministry of Finance as well as the implementing votes.</p> <p>e) Unreported arrears that the votes claim to be valid.</p> <p>f) Reported arrears relating to the subsequent period: we noted that some arrears reported posted related to the subsequent period.</p> <p>g) Amounts earlier paid before year end booked as payables:</p> <p>h) Advances made by Ministry of Finance to respective votes net of settlements made to the consolidated fund from internal revenue collections were booked as arrears by some votes like Makerere University, Kyambogo University, Ministry of Public Service, among others.</p>	should take a more active and proactive role in managing and preventing arrears.			

End