



THE REPUBLIC OF UGANDA

**National Consultative Budget Conference**

**FY2014/2015**

**Strengthening Public Financial Management and  
Accountability**

**By**

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H.E. The Vice President  
Rt. Hon. Prime Minister,  
Rt. Hon. Deputy Prime Ministers,  
Hon. Ministers,  
Hon. Members of Parliament,  
Development Partners,  
Permanent Secretaries,  
Local Government Representatives,  
Ladies and Gentlemen,

## **Introduction**

1. Allow me to welcome all of you to this year's Budget Conference. This workshop is very important as it gives us an opportunity to appreciate current and emerging challenges and agree strategies to steer us forward towards achieving our national policy objectives in line with the Country's Vision 2040.
2. In this presentation, I will elaborate on the major reforms Government has undertaken to strengthen public financial management and improve public service delivery. I will also highlight the outstanding and emerging challenges in the management of public resources and conclude with the way forward, focusing on the planned interventions for the FY 2014/15 and the medium term.

## **Measures Undertaken to Improve Public Financial Management**

3. Ladies and Gentlemen, the magnitude of financial impropriety unearthed in various Government Agencies in 2012 were a clear eye opener. As a result, it has been necessary for us to review and strengthen controls in our Public Financial Management Systems. We have accordingly worked closely with different stakeholders and implemented a

number of measures aimed at strengthening the Financial Management and Accountability Systems. These include, among others, strengthening the security of the Integrated Financial Management System (IFMS) and improving the management of donor disbursements.

*i. Upgrading of the Integrated Financial Management System (IFMS)*

4. The Integrated Financial Management System (IFMS) has been upgraded with inbuilt additional security features and fixed potential areas of leakage. These include the commitment control which allows entities to commit Government only up to the level of the appropriated funds. This system will be extended to cover all donor funded projects and the remaining referral hospitals and Local Governments next Financial Year.
5. The upgrade of the IFMS has also streamlined the management of all donor disbursements and strengthened the process of reconciling Government transactions between Ministry of Finance, Planning and Economic Development (Accountant General's Office), Bank of Uganda (BoU) and Accounting Officers. This has been done through the introduction of additional measures for confirmation of all payments and monthly reconciliation of transactions by Accounting Officers.

*ii. Closure of all Redundant Bank Accounts*

6. One of the major loopholes in our Financial Management System has been the tendency by spending agencies to open and operate numerous Bank Accounts and the failure by some Accounting Officers to close redundant Bank Accounts as required by the Public Finance and Accountability Regulations.
7. These Bank Accounts would then be used to misappropriate public funds by fraudulent public officials and private parties as revealed in the Auditor General's Reports. We

therefore worked with Bank of Uganda and closed a total of 165 dormant Bank Accounts and transferred **Ushs 14.9bn** from these accounts to the Consolidated Fund. In addition, we have closed another 380 accounts from the Central Bank as a result of setting up the Treasury Single Account (TSA). I have instructed the Accountant General to close all unnecessary Government Accounts in Commercial Banks since most payments are being effected through the Treasury Single Account (TSA).

*iii. Setting up of the Treasury Single Account (TSA)*

8. This FY 2013/14, Government has introduced a concept of a Treasury Single Account in line with international best practice for Public Financial Management. The major objectives of this policy reform are;
  - a) to strengthen the institutional capacity both at the Ministry of Finance, Planning and Economic Development and votes for better day to day cash and debt management;
  - b) to eliminate the need for cash rationing which affects service delivery. This will also tackle the issue of low absorption of funds; and
  - c) limit the number of Bank Accounts operated by Government Agencies.
9. The first phase of implementation of the Treasury Single Account (TSA) involved linking expenditure accounts into a single account maintained at Bank of Uganda. This arrangement makes it easy for one to see and interpret the aggregate cash position for the whole of Government.
10. Subsequently, based on the IFMS functionality, coverage and infrastructure set up, the Treasury Single Account (Phase Two) concept will be extended to cover more public resources. For example, effective FY 2014/15, all Local Government Votes will be

required to open one single expenditure account in a Commercial Bank for all transactions.

*iv. Limiting Cash Withdraw and Advances*

11. Another big loophole that has been exploited to mismanage public funds is that of cash advances and withdrawal of huge amounts of cash by public servants. We have therefore limited the cash withdrawals to the maximum of Ushs 20million per day and this must be enforced by all Accounting Officers. The advantage of this control is that it reduces the amount of public funds exposed to abuse.
12. These measures have significantly restored fiduciary assurance and confidence in our systems and processes.

*v. Improving Wage Bill and Payroll Management*

13. Management of the Government payroll remains one of the most challenging areas of our Public Financial Management System. Implementation of the budget continues to experience wage bill overruns, perpetual supplementary expenditures and delayed payment of salaries.
14. In addition, the various Budget Monitoring and Audit Reports continue to raise issues of existence of “ghost” staff, duplicate names, wrong bank accounts and other forms of payroll irregularities. There is also increased outcry by several Public Servants about delayed access to the payroll, non payment, under/over payment of Salaries and Pensions. We are therefore undertaking a number of measures to address these challenges.

15. *Interfacing the Integrated Personnel and Payroll System (IPPS) with the Integrated Financial Management System (IFMS):* We have rolled out the implementation of the Integrated Personnel and Payroll System (IPPS) and interfaced it with the Integrated Financial Management System (IFMS). The interface of the two systems will enable payment of all staff salaries through the IFMS as the sole Government payment system. As a result, we have transferred all payroll records from the old Legacy System under Uganda Computer Services (UCS) to the IPPS. Hence, effective January 2014, all payrolls will be processed under the IPPS. In addition, starting with the month of January 2014, all Pension payments will be done through the Integrated Financial Management System (IFMS).
  
16. *Decentralisation of Payroll Processing and Salary Payments:* In order to address the irregularities in payroll processing and salary payment I have highlighted above, we have decided to change the entire payroll management and salary payment processes. We are going to transfer the responsibility for processing of the payroll and approval of salary payments from the Ministry of Public Service and the Ministry of Finance, Planning and Economic Development respectively, to the respective Accounting Officers. We are piloting this new system in the month of January 2014 starting with selected Votes and then roll it out to other Votes in FY 2014/15. This reform will place the complete responsibility of managing the payroll in the hands of the Accounting Officers.
  
17. *Entering of Staff Lists in the Output Budgeting Tool (OBT):* One of the major causes of wage bill overruns and supplementaries is lack of a prudent criteria for allocation of wage estimates among various Government Agencies and failure to involve the Heads of Cost Centres like Schools, Health Centre, Sub-country and Police Post, among others in the budgeting for salaries.

18. We have therefore upgraded the Output Budgeting Tool (OBT) to enable the Heads of the Cost Centres to provide detailed staff information as summarised in **Annex 1 attached**. This new arrangement places the responsibility of budgeting for salaries directly under the Heads of Departments and Cost Centres like Head Teachers. All Civil Servants are required to individually sign-off the staff lists before data is entered into the Output Budgeting Tool (OBT) by the Heads of Department and submitted as an attachment to the Sector and Local Government Budget Framework Papers for the FY 2014/15.
19. While the format for providing staff details was communicated, I am however concerned about the failure by several Accounting Officers to provide this information to facilitate the budgeting for salaries. I am using this forum to request Accounting Officers to pick copies of the Circular and the Form from the Registration Desk which should be returned within two (2) weeks. Accounting Officers who fail to submit timely and accurate information will be held personally liable for any wage bill overruns and invalid staff records and will cease to be Accounting Officers.
20. *Audit of the Government Payroll:* In October 2013, we commissioned a comprehensive audit of the entire Government payroll (Salary and Pension). The major objective of this audit exercise is to establish the validity, authenticity and accuracy of all the current payroll records. This exercise will also involve conducting a systems audit of the Integrated Personnel and Payroll System (IPPS) to establish its effectiveness in the processing and management of the Government payroll. A final report of this exercise by the Auditor General is expected by end of March 2014.
21. *Printing and Display of Payrolls on Public Notice Boards:* In line with the Presidential directive, Accounting Officers and Heads of Cost Centres are required to print and display monthly payrolls on public notice boards for scrutiny. However, failure by most

Accounting Officers to enforce this directive continues to perpetuate the existence of “ghosts” and other payroll irregularities on the Government payroll. Accounting Officers are reminded to adhere to this directive.

***vi. Improving Budget Formulation***

22. In order to improve the formulation of the budget, we are upgrading the Output Budgeting Tool (OBT) to enhance its functionality and coverage. This will involve converting the OBT into an online system, making it comprehensive, more secure, and interfacing it with other Government systems like the Integrated Financial Management System (IFMS), the Integrated Personnel and Payroll System (IPPS) and Human Resources Information Management System (HMIS), among others.
23. The automated Output Budgeting Tool (OBT) will also allow proper alignment of the budgets, work-plans, procurement plans, monitoring and accountability. It will also facilitate the integration of budgeting and accounting systems for better budget execution and control as well as reconciliation of budget performance information.
24. To ensure comprehensiveness of the budget, we have this year extended the Performance Based Budgeting System and the use of the Output Budgeting (OBT) to all Government parastatals and Semi-Autonomous Agencies, which were previously not part of the Government. Therefore, effective FY 2014/15, these agencies will be required to submit detailed work-plans and budget estimates using the OBT, clearly indicating how the resources they generate are being utilised.

***vii. Improving Budget Implementation, Monitoring and Reporting***

25. In order for the budget to achieve the intended objectives, then it must be implemented as approved and appropriated by Parliament and that resources are spent to deliver the



outputs for which they were allocated. However, this is only possible if we eliminate budget cuts, ensure timely release of funds to the spending agencies and timely implementation of programmes/projects, adequate monitoring and supervision as well as regular reporting. We have therefore undertaken the following measures to strengthen the implementation of the budget:

26. *Quarterly Cash Limits and Release of Funds:* The Ministry of Finance, Planning and Economic Development remains committed to timely release of funds to all spending agencies to facilitate implementation of Government Programmes. This is being done through enforcing submission of clear work-plans as a basis for release of funds but with minor adjustments for performance of revenue. For example, so far we have already accelerated the releases and provided 77% of the total approved budget for the FY 2013/14 and 85% for the Local Government Development Grants to eliminate unspent balances at the end of the financial year. This is already beyond the 75% pro-rata provision for the same period.
27. However, there are still challenges of the failure by some spending agencies to properly align their budgets, work plans and procurement plans. This is in addition to the failure by some Accounting Officers to submit the work-plans and release requests in time. For example, for Quarter 3 of this financial year, Cash Limits were issued on 7<sup>th</sup> January 2014 but to date, most of the Ministries and Agencies have not submitted the details for release of funds.
28. This leads to the failure by some spending agencies to utilise the funds released which reflects clear lack of proper planning and continues to delay the implementation of critical Government projects. Therefore, going forward, Accounting Officers will be required to align their procurement plans with activity plans and advise us on the distribution of the funds by Programme and Project within three (3) days after my Ministry has issued the Cash Limits.

29. *Direct Transfer of Funds to Service Delivery Units:* This FY 2013/14, we started to transfer funds directly to Town Councils and Schools as well as aligning the quarterly releases with the school academic calendar for education and planting seasons for Agriculture. Next financial year, we shall extend the system of direct transfer of funds to Health Centres. However, we have noted that the misuse and abuse of public funds has now shifted to the lower units like schools. There are reports of Head Teachers creating and maintaining “ghost” Teachers on payroll and inflating pupil enrolment to squander funds for UPE and Capitation Grants.
30. For instance, the recent audit report on one district in South Western Uganda raised critical issues of mismanagement of funds under the education sector including diversion of funds for capitation grant, unaccounted for and irregular expenditure, irregular employment of teachers in Schools and maintaining of names of teachers who were transferred on the payrolls of their former schools. I am urging all sector Ministries and other watchdog institutions to follow up to ensure proper use of public funds and all the culprits are made to account.
31. *Performance Reporting:* As part of the requirement to track the implementation of Government programmes and also improve accountability in the use of public resources, all Accounting Officers are required to submit timely and quality performance reports indicating how the funds released to them have been utilised, the outputs delivered and location. However, some institutions have failed to adhere to this requirement.
32. For instance, date, a several Central Government and Local Government Votes have not submitted their First Quarter Performance Reports for the FY 2013/14 whose date of submission were 31<sup>st</sup> October 2013. The list of non-compliant Votes is attached in

**Annex 2.** I have accordingly requested the Accounting Officers of these institutions to explain why disciplinary measures should not be taken against them.

33. *Budget Monitoring:* The Budget Monitoring and Accountability Unit (BMAU) has intensified the monitoring of implementation of various Government programmes with emphasis on the major sectors of Works and Transport, Energy, Health, Education, Agriculture, Water and Trade and Industry.
34. However, the monitoring and Auditor General's reports continue to point out numerous cases of mismanaged projects as well as misreporting by some sectors. For instance, we have established that while the Works and Transport sector received and spent funds and also reported that construction of roads like Ishaka-Kagamba was on-going but the level of work was not commensurate with the funds so far disbursed. This is a clear example of misreporting and cannot be tolerated. We are currently working with various Government institutions to follow up these cases.

**viii. Strengthening Budget Transparency**

35. As part of the Ministry's Budget Transparency Strategy, we are implementing the following innovations and measures to enhance transparency and accountability in the use of public funds.
36. *Publication of Quarterly Releases:* Details of quarterly releases by Vote, Program and Project for Central Government institutions and by Vote and Grant for Local Governments are published in the major newspapers. We have also started convening quarterly media briefings on the release of Government funds. The objective is to provide this information to the stakeholders and the public for purposes of monitoring Government expenditure.

37. *Budget Information Website:* A budget website, [www.budget.go.ug](http://www.budget.go.ug) was also developed to provide all Ugandans with access to detailed and easy to understand information on how public funds are being spent. The website also provides a mechanism of mobilising the public to better monitor the quality of service delivery and provide feedback, through the different local intermediaries, thereby contributing to better service delivery. This website makes all budget information publicly available online.
38. For local governments, the website enables the user to access disaggregated information data by location up to Parish level. For example, for any specific policy area like Education, the user can access detailed information like detailed work-plans and performance reports, expenditures and other financial data. I therefore want to appeal to the general public to make use of this important innovation to monitor implementation of Government programmes and provide us with feedback on how we can improve service delivery.

### ***Conclusion***

39. Ladies and Gentlemen, building on the progress and taking into account the outstanding challenges I have highlighted above, we shall in the FY 2014/15 continue to undertake measures to enhance Public Financial Management, Accountability and service delivery.
40. We shall enhance the capacity of the Output Budgeting Tool (OBT) to strengthen the link between the budget and performance results. This will involve tracking the trend and changes in the level and quality of service delivery. Sectors will be required to demonstrate that the resources spent translate into better service delivery.
41. As part of institutional strengthening, we shall strengthen compliance, inspection, monitoring and audit function through strengthening the Internal Audit function. The

Internal Audit Department will be upgraded to a level of a Directorate reporting directly to the Permanent Secretary/Secretary to the Treasury.

42. The Budget Monitoring and Accountability Unit will be facilitated to cover other sectors of the economy. We shall also enhance the institutional capacity for project cycle management to identify, appraise and implement credible projects, as well as ensure that sufficient complimentary recurrent costs are allocated to capital projects to avoid wastage of development expenditure.
43. We shall continue to rollout the Integrated Financial Management System (IFMS) to cover all Government institutions including all donor projects and local Governments and interfacing it with the Integrated Personnel and Payroll System (IPPS) to facilitate conducting of all Government transactions including payment of salaries and pensions through the IFMS. Our objective is to have all Votes on the IFMS by the year 2015/2016.
44. The above strategies are possible and only require a change in mindset and focus on achieving results in the most efficient and effective manner. It is our role to translate the resources entrusted to us to improved service delivery to speed up the process of economic transformation.

Thank you for your attention.