

# **ASSESSMENT OF THE CAPACITY OF KALANGALA DISTRICT TO MANAGE DONOR FUNDS**

**With a special focus on KDDP project funded by ICEIDA**

**June to August 2011**



**The Republic of Uganda,  
Ministry of Local Government**



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# 1 ACRONYMS

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|        |   |
|--------|---|
| BMAU   | Budget Monitoring and Accountability Unit         |
| CAO    | Chart of Accounts                                 |
| CAO    | Chief Administrative Officer                      |
| CFO    | Chief Finance Officer                             |
| DDP    | District Development Plan                         |
| DEC    | District Planning Committee                       |
| DTM    | Data Tracking Mechanism                           |
| DTPC   | District Technical Planning Committee             |
| EAC    | East African Community                            |
| EATUC  | East African Trade Union Confederation            |
| EFMP   | Economic and Finance Management Project           |
| FINMAP | Financial Management and Accountability Programme |
| FY     | Financial Year                                    |
| GDP    | Gross Domestic Product                            |
| GFS    | Government Finance Statistics                     |
| GoU    | Government of Uganda                              |
| IAS    | International Accounting Standards                |
| ICEIDA | Icelandic International Development Agency        |
| ICPAU  | Institute of Certified Public Accountants         |
| ICT    | Information and Communication Technology          |
| IFAC   | International Federation of Accountants           |
| IFMS   | Integrated Financial Management System            |

|        |  |
|--------|--|
| IFRS   | International Financial Reporting Standards                |
| IMF    | International Monetary Fund                                |
| IPPS   | Integrated Personnel and Payroll System                    |
| IPSAS  | International Public Sector Accounting Standards           |
| KDDP   | Kalangala District Development Program                     |
| LG     | Local Government   |
| LGFAR  | Local Governments Financial and Accounting Regulations     |
| LLG    | Lower Local Governments                                    |
| LREP   | Local Revenue Enhancement Plan                             |
| M&E    | Monitoring and Evaluation                                  |
| MoFPED | Ministry of Finance Planning and Economic Development      |
| MoLG   | Ministry of Local Government                               |
| MoU    | Memorandum of Understanding                                |
| NDP    | National Development Plan (Republic of Uganda)             |
| OBT    | Output Budgeting Tool                                      |
| PC     | Project Coordinator  |
| PDU    | Procurement and Disposal Unit                              |
| PFM    | Public Financial Management                                |
| PIT    | Project Implementation Team                                |
| PPDA   | Public Procurement and Disposal of Public Assets Authority |
| PSC    | Project Supervisory Committee                              |
| SPO    | Senior Project Officer                                     |
| TI     | Transparency International                                 |

|     |                              |
|-----|------------------------------|
| TPC | Technical Planning Committee |
| UGX | Uganda Shilling              |
| URA | Uganda Revenue Authority     |

## 2 EXECUTIVE SUMMARY

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**To:** Icelandic International Development Agency (ICEIDA), Uganda Ministry of Local Government and Kalangala District Management

**From:** Huld Ingimarsdottir ICEIDA consultant with support from three consultants from Uganda Ministry of Local Government, Niwagaba Justinian from Planning and Administration Unit and Kasigwa Abdalla and Annah Abeho from Financial Management and Audit Unit.

**Issue:** To Review Existing Financial Structures in Kalangala District and its Capacity to Administer Direct Funding Availed by ICEIDA

### 2.1 BACKGROUND OF THE ASSESSMENT

The District development programme of Kalangala is supported by ICEIDA under the project, support to the implementation of Kalangala District development programme. The project is planned for ten years from 2006 to 2015.

The project supports four key sectors namely;

- Local Government Administration
- Water and Fisheries
- Education
- Health (up to 2010)
- Trade and tourism (starting 2011)

The development objective of the support to KDDP project is sustainable livelihoods and equitable social economic development.

Ministry of Local Government is responsible for supervising implementation of this project, and Kalangala District Local government is responsible for its implementation.

The second phase of the project will run from 2011 to 2015.

In this phase it is anticipated that the responsibility for administrative and financial aspects of project implementation will be transferred to a greater degree to District staff, in steps, agreed by the Ministry of Local Government, the Kalangala District and ICEIDA.

In the execution of its role, the Ministry and ICEIDA consultants have undertaken to assess and evaluate the capacity of Kalangala District Local Government to manage donor funds. The findings, recommendations and proposed framework will guide implementation during the second phase of the project.

## 2.2 RECOMMENDATION

ICEIDA should handover the responsibility for the administrative and financial aspect of the Kalangala District Development Program (KDDP) implementation to Kalangala District Management for the second phase of the project which is planned to run from 2011 to 2015.

- Handover to commence in start of the 2<sup>nd</sup> quarter of Uganda financial year, 1<sup>st</sup> October 2011. Transfer of fund from ICEIDA to the District to be on quarterly bases and restricted in line with project cycle recommendation in this report.
- If this system is working well and both parties agree after one year of implementation the project cycle can be prolonged to 6 months instead of one quarter.
- MoU between ICEIDA and Uganda Local Government and Kalangala District to be prepared and signed before 1<sup>st</sup> October 2011 stipulating the role and each responsibility as well as structure and implantation plan of the project up to 2015.
- District Chief Administration Officer (CAO) has to assign an officer among his staff to coordinate the project on his behalf. This has to be immediate in order for the project to have a safe landing (before 1<sup>st</sup> October 2011).
- ICEIDA to close its Kalangala office by end of year 2011
- ICEIDA staff to continue supporting KDDP project implementation as well as continue strengthening Kalangala capacity;
  - ICEIDA Senior Project Officer to work with Kalangala District Finance Unit, Administration Unit and Internal Audit Unit during first quarter of the second phase in order to make sure project handover and systems are in good compliance.
  - ICEIDA M&E Officer to continue supporting the District Planning Unit and Work Units in order to strengthening the overall District capacity in project structure, planning and monitoring.
  - ICEIDA Engineer Officer to continue advising and support District Departments of Works to oversee infrastructure under the project.
- After the closure of each financial year ICEIDA should in cooperation with the Ministry of Local Government conduct realization of the project activities progress. Evaluate productivity, efficiency, financial management and its meaningful achievement in order to ensure value for money through timely execution of the project. In addition, by request ICEIDA should be given access to KDDP documents to carry out “spot checks”.

## 2.3 KEY INSIGHTS OF THE ANALYSIS

- The District staffs have played a key role in the project implementation from the start of the project. During this time the project has supported wide range of training for the staff as well as direct capacity building through the activity planning and implementation. Hence the district staff should be well prepared taking over full responsibility of the project.



- Uganda Economic outlooks are not positive. High inflation, weak currency and rapid price increase of food and fuel are alarming. Hence close budget monitoring of the project is needed.
- Corruption in Uganda is still on worrying high level compare to other countries.
- Government of Uganda Finance, Accounting, Audit and Procurement laws and regulations are in a compliance with most of international standards. However weakness in service delivery and financial management and accountability and lack of supervision is still a major challenge
- District Staffing level is satisfactory in most areas except in Internal Audit Unit
- The District is currently using manual accounting system but has applied to Local Government for the IFMS computerized accounting system. According to information received from the MoLG in August'11, Kalangala district has now been scheduled for the smaller version of the IFMS in the next one year.
- The District has received a clean opinion on the financial statements for last three FY from both Internal Audit Unit as well as from the Local Government Audit

### **3 ACKNOWLEDGEMENT**

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The Ministry of Local Government in conjunction with the ICEIDA commissioned a team to Kalangala District to assess the capacity of the District to manage donor funds. The team comprised three Ministry officials and a consultant hired by ICEIDA. The team assessed the current system at Kalangala District and developed a framework that guides management of funds received from ICEIDA.

In light of the above, the Ministry wishes to recognize the financial support provided by ICEIDA to Kalangala District Local Government in particular, and to the Government of Uganda in general. Also thanks from the team to the political and technical leadership of Kalangala District Local Government for efficient implementation of the programme, Thank you all.

### **4 OBJECTIVES OF THE ASSESSMENT**

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The evaluation team was composed of three officials from Ministry of Local Government and a consultant from ICEIDA.

The objective is to assess the district that, the systems, planning, control procedures and financial management of Kalangala District are adequate to facilitate implementation of the development programme with funds provided by its development partner, ICEIDA, to provide a framework for mainstreaming project activities into the Government of Uganda framework and structure.

### **5 METHODOLOGY**

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The methodology used included interviewing the key staff implementing the Kalangala District Development Programme (KDDP); District key officers, Heads of Departments and ICEIDA project staff.

The team also reviewed documents.

At the end of the field exercise the team conducted a debriefing meeting where they highlighted the main findings in order to receive comments, clarification and additional information from the participants to incorporate in the report. The meeting was attended by Heads of Departments, District Executive Committee, the Resident District Commissioner and the District Chairperson and ICEIDA KDDP staff. The participants made comments which were incorporated in this report.

After working on the field part of the report the team held another meeting at Kalangala District to present the main a summary of this report. The meeting was attended by the same persons as above as well as Representative from the Ministry of Local Government (KDDP Project Supervisory Committee (PSC) Chairperson.

## **6 SCOPE AND FOCUS OF THE ASSESSMENT**

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The scope of work covered, but was not limited to, ensuring that the evaluation and assessment process is conducted in accordance with the Local Governments Act, CAP 243, the Local Government Financial and Accounting Regulations, 2007, and the approved project documents.

### **It was specifically envisaged to:**

- Assess the staffing levels, procurement and development planning capacities of Kalangala District.
- Review the financial management procedures, including internal and external audit process and reports.
- Review flow of funds from central government and development partners to Kalangala District.
- Analyse and review revenue and expenditure performance for Kalangala District for three financial years

### **The team focused on the following tasks:**

- Review the Human Resource Capacity including staffing levels, requisite qualifications and Human Resource Development
- Review the Development Planning Framework and its linkage to the budget and the National Development Plan.
- Review the Financial funds flow and Reporting Framework to the District and LLGs.
- Review the Procurement Capacity
- Review the control systems and procedures established by the management of Kalangala District and establish whether it is adequate, and it is being adhered to.
- Review progress reports, M&E reports and other statutory reports and establish the level of implementation of government programmes.
- Examination of the Quarterly Expenditures and Revenues for the previous three financial years and establish the Absorption Capacity of the District.
- Review the audited financial statements for the previous financial year and ascertain the quality of the opinion issued by the office of the auditor general
- Visit selected projects to ascertain value for money

- Review the financial management systems at the District and advise on management of funds from ICEIDA

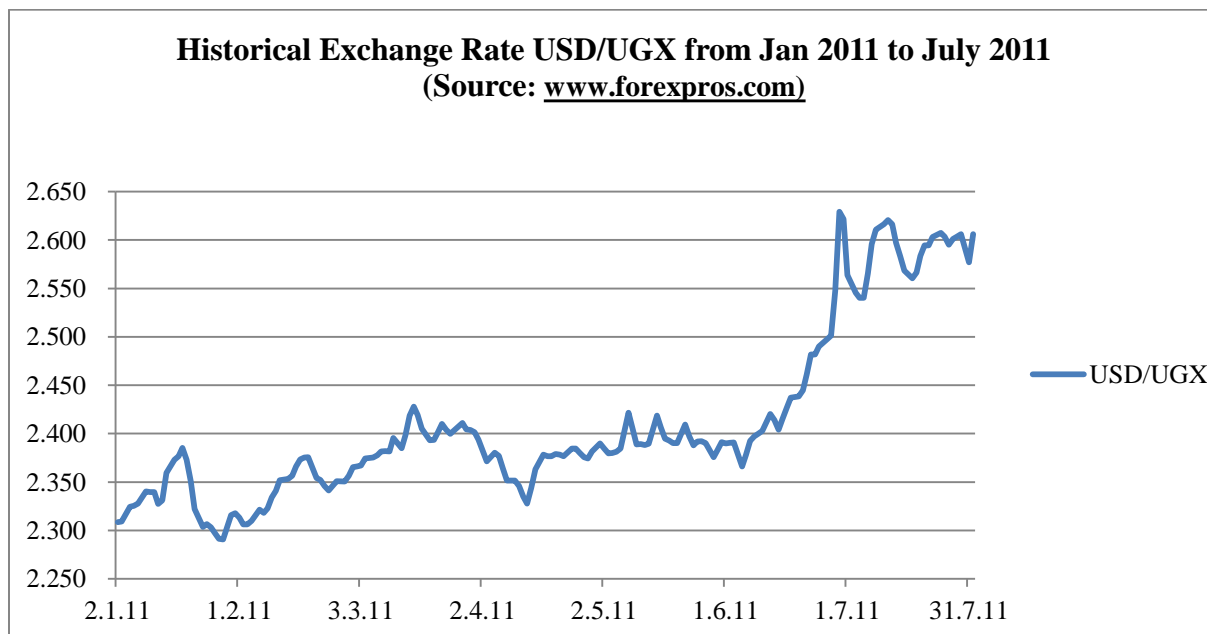
## 7 SNAPSHOT OF UGANDA ECONOMICS:

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### 7.1 EXCHANGE RATE USD/UGX

Uganda's shilling is Africa's worst-performing currency this year after weakening 12% against the dollar, according to data compiled by Bloomberg by end of July 2011 (Figure1).

FIGURE 1:



### 7.2 INFLATION:

According to Uganda Statistics Bureau the inflation rate climbed to 18.7% in July, the highest since February 1993, from a revised 15.7% in June. The 18.7% reading is considerably higher than the 12-14 per cent expected by the central bank in the third quarter. It is highly anticipated that Uganda annual inflation rate for 2011 which is now expected to average 14,3% which is well above anticipated 6,8% rate published by International Monetary Fund (IMF) Table 2

Food costs jumped 40.6 per cent in July'11 compared with a 33.4 per cent increase in June'11, as the cost of corn flour, sugar, bread and potatoes increased, according to Uganda statistics bureau. All the countries in the East African Trade Union are expected to be hit hard by raising food and fuel price and inflation is expected to increase well over 10% in all the countries. Near-term

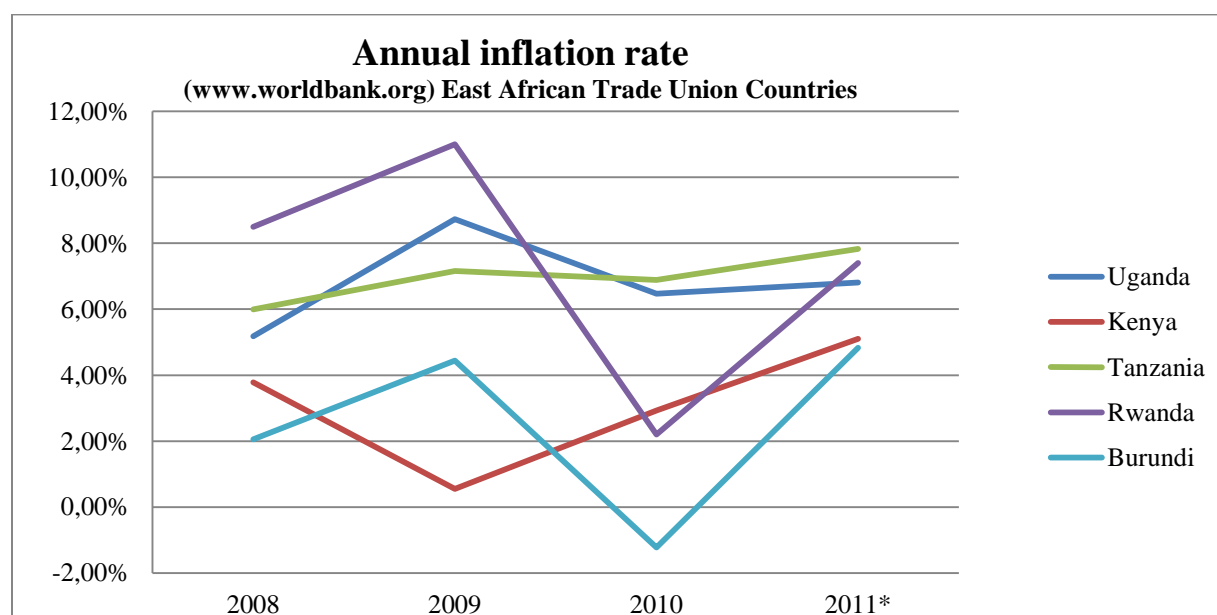
inflation outlook will continue to be determined by the food-supply situation, where Uganda has been considerably harder hit than neighbouring Rwanda and Tanzania.

Table 1: East African Trade Union Countries Annual Inflation Rate

| Country Name | 2008  | 2009   | 2010   | 2011*        |
|--------------|-------|--------|--------|--------------|
| Uganda       | 5,18% | 8,73%  | 6,47%  | <b>6,81%</b> |
| Kenya        | 3,78% | 0,55%  | 2,93%  | <b>5,10%</b> |
| Tanzania     | 6,00% | 7,16%  | 6,89%  | <b>7,83%</b> |
| Rwanda       | 8,50% | 11,00% | 2,20%  | <b>7,40%</b> |
| Burundi      | 2,06% | 4,45%  | -1,22% | <b>4,83%</b> |

(2011\* expected inflation rate [www.ifm.org](http://www.ifm.org))

FIGURE 2 Annual Inflation Rate



### 7.3 GDP:

According to the Republic of Uganda National Development Plan (NDP) for 2010/11-2014/15 the GDP is projected at an average of 7.2 per cent per annum. Since the NDP was published there has been a rapid decline and the GDP growth has dropped down to 5.18% in 2010 and according to IMF forecast the GDP rate is anticipated 6% for the year of 2011 (Figure 3).

FIGURE 3: GDP growth

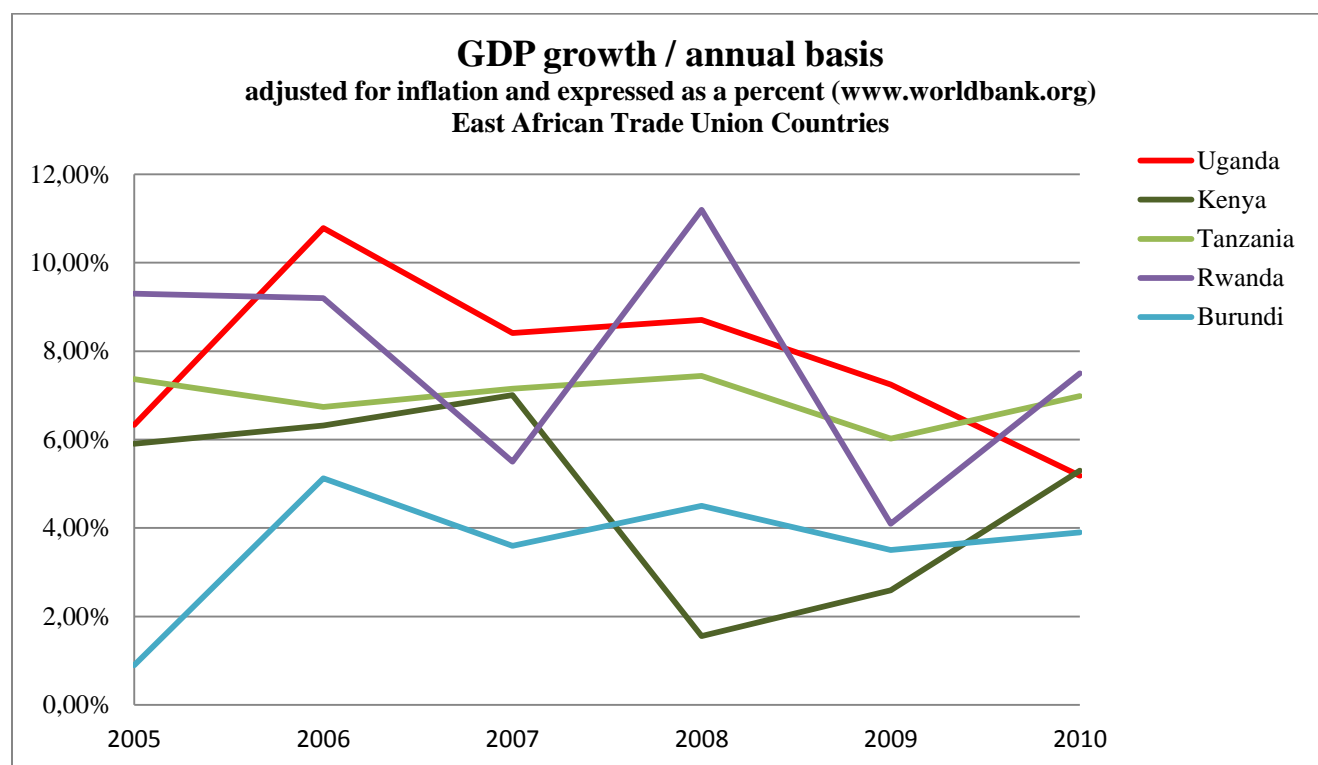


Table 2: GDP growth Uganda

| Country Name | 2001  | 2002  | 2003  | 2004  | 2005  | 2006   | 2007  | 2008  | 2009  | 2010  | 2011* |
|--------------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| Uganda       | 5,18% | 8,73% | 6,47% | 6,81% | 6,33% | 10,78% | 8,41% | 8,71% | 7,25% | 5,18% | 6,00% |

(2011\* = expected GDP rate as per [www.gfmag.com](http://www.gfmag.com) )

## 8 CORRUPTION IN UGANDA

Transparency International Corruption Perceptions Index 2010<sup>1</sup> the Corruption Perceptions Index shows that nearly three quarters of the 178 countries in the index score below five, on a scale from 10 (very clean) to 0 (highly corrupt). Overall these results indicate a serious corruption problem in the world.

<sup>1</sup> Transparency International (TI) is the global society organisation leading the fight against corruption

Following is a table with scores of the East Africa region as represented by the East African Community which is a political and trade bloc made up of five countries – Kenya, Tanzania, Rwanda, Uganda and Burundi;

Table 3:

| Rank | Country  | Score |
|------|----------|-------|
| 170  | Burundi  | 1.8   |
| 154  | Kenya    | 2,1   |
| 127  | Uganda   | 2.5   |
| 116  | Tanzania | 2,7   |
| 66   | Rwanda   | 4,0   |

Uganda has experienced economic growth over the last few years. In a drive to increase fiscal independence, the government has been attempting to increase tax revenues by boosting more revenue from small companies and by incorporating more of Uganda's large informal sector. The government declared a policy of 'zero-tolerance' towards corruption in 2006. However, although the law penalises official corruption and the government has increasingly begun to investigate offenders, officials continue to engage in corrupt practices with impunity, and corruption remains a serious problem in the country<sup>2</sup>.

## 8.1 POSITIVE DEVELOPMENTS IN RELATION TO CORRUPTION AND INVESTMENT:

- The Public Procurement and Disposal of Public Assets Authority (PPDA) was established in 2003, and has been playing an active role in assuring compliance with procurement guidelines, leading to fewer losses due to corruption in procurement processes.
- The government has developed a long line of anti-corruption strategies as well as the Inter Agency Forum (IAF) to coordinate the activities of governmental anti-corruption institutions.
- The Anti-Corruption Act 2009 is intended to support the Prevention of Corruption Act 1970 and to set strict punishments for both public and private sectors corruption, including imprisonment for up to ten years.
- The Data Tracking Mechanism (“DTM”) Initiative was launched in 2009 to address a growing concern about the lack of credible tools and methods to track corruption in Uganda. The initiative aimed to develop a tool, the DTM, to monitor corruption trends in Uganda on an annual basis.<sup>3</sup>
- The Whistle-blowers Protection Act was enacted into law in April 2010 providing high prison terms for people disclosing whistle-blowers’ identities, as well as including monetary incentives for reporting on corruption.

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<sup>2</sup> [www.business-anti-corruption.com](http://www.business-anti-corruption.com)

<sup>3</sup> Inspectorate of Government: First Annual Report on Corruption Trends in Uganda using the Data Tracking Mechanism Nov 2010

## 8.2 RISKS OF CORRUPTION:

- Corruption in Uganda is manifested by grand scale theft of public funds as well as petty corruption involving public officials at all levels of society, and widespread political patronage systems reaching into the private sector continue to be strong.
- Bribery is common in obtaining basic health care, in encounters with the traffic police and in large-scale procurement projects involving international companies.
- Uganda's implementation and enforcement of the existing legislation is weak, and several sources point to a lack of political will as the major obstacle in the fight against corruption.

## 9 FINANCIAL AND ACCOUNTABILITY SYSTEMS

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Implementation of the International Accounting Standards (IAS) was adopted by the Government of Uganda adopted in January 1999 and by the Government of Iceland in 2005.

Both Uganda and Iceland are members of IFAC (The International Federation of Accountants)

IFAC members and associates have provided self-assessment information about the regulatory and standard-setting framework in their countries (Part 1) and their organizations' activities in addressing IFAC's membership requirements (Part 2) as described in the Statements of Membership Obligations. Based on an analysis of this information, they are developing action plans (Part 3) for continuous development and improvement<sup>4</sup>.

Table 4: Information of Uganda & Iceland IFAC membership

| Country | Member body / Associate  | Part1 Responses           | Part2 Responses           | Part3Responses            |
|---------|--|---------------------------|---------------------------|---------------------------|
| Uganda  | Institute of Certified Public Accountants of Uganda, ICPAU (established in 1992 by Accountants Act, Cap 266) | <a href="#">May 2006</a>  | <a href="#">Jan. 2007</a> | <a href="#">Jun. 2010</a> |
| Iceland | Félag Löggiltra Endurskoðanda, FLE (established in 1935)   | <a href="#">Sep. 2005</a> | <a href="#">Sep. 2005</a> | <a href="#">Apr. 2011</a> |

International Financial Reporting Standards (IFRS) set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. Since 1998, the Council of

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<sup>4</sup> [www.ifac.org/ComplianceAssessment](http://www.ifac.org/ComplianceAssessment)



ICPAU has adopted International Financial Reporting Standards (IFRS). Listed companies in Iceland are required to use the International Financial Reporting Standards (IFRSs) in their consolidated accounts, as adopted by the European Union (EU), states the 2008 EC report on the implementation of the Regulation No. 1606/2002.

The Government of Uganda (GoU including LGU) is using chart of accounts in line with International Public Sector Accounting Standards (IPSAS). In April 2004 the GoU decided, in line with many other countries, to adopt systems Government Finance Statistics (GFS) that will enable it to conform to International Public Sector Accounting Standards. One of such systems is for the compilation and presentation of fiscal statistics, which will lead to greater accountability and transparency in Government finances, operations and oversight<sup>5</sup>.

In order to improve financial information processing and reporting systems, the Government of Uganda through (Economic and Finance management Project (EFMP) and Financial Management and Accountability programme (FINMAP)<sup>6</sup> has successfully implemented the Integrated Financial Management Systems (IFMS) in all major governments and local governments departments and has a plan to extend so-called “tier two” of IFMS which is a smaller version of IFMS to those Local Governments which are not computerized. (IFMS has not been implemented in Kalangala District but it has now been confirmed by LGoU to be on schedule in 2012).

- An IFMS is a fiscal and financial management information system for Government that bundles all financial management functions into one suite of applications. In simple terms, it is an IT-based budgeting and accounting system that will assist GoU entities to initiate, spend and monitor their budgets, initiate and process their payments, and manage and report on their financial activities.
- The IFMS can streamline all fiscal and financial management processes throughout Government and provide GoU with a modern budgeting and accounting system with state of the art functionality on which to undertake its national and public sector accounting and financial management.
- The IFMS will interface with other systems such as the Integrated Personnel and Payroll system (IPPS), URA Revenue systems and Bank of Uganda systems.

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<sup>5</sup> [www.finance.go.ug/docs/COA](http://www.finance.go.ug/docs/COA) (Chart of Accounts.pdf)

<sup>6</sup> The Government of Uganda has prepared a comprehensive program of PFM reforms, the Financial Management and Accountability programme (FINMAP). In recent years Uganda's PFM system has been rated above average. Still, significant challenges remain. The reform programme is based on a broad range of policy actions in the areas of fiscal management, budget and accounting systems, local Government finance and oversight functions. Norway, DFID, Ireland, World Bank, EC and Japan have supported FINMAP since its launch in 2006. [www.finance.go.ug/docs/FINMAP](http://www.finance.go.ug/docs/FINMAP)

- Implementation of the system has already led to remarkable improvements in the areas of budgeting, payments, bank reconciliations leading to transparency and is an essential and strategic factor for good governance as outlined in the Uganda Poverty Eradication Action Plan<sup>7</sup>.

Output Budgeting Tool (OBT) has been implemented by GoU through EFMP supported by FINMAP. (It has recently be implemented in Kalangala District)

- The underlying principle was for a module that could hold performance information to strengthen the link between the budget and policy objectives of the government.
- The aim was to link outputs to the line item classifications so that Parliament, Cabinet and Accounting Officers could make this linkage in all mandatory budget reports (Budget Framework Paper, Ministerial Policy Statement, Budget Estimates and Performance Contracts).
- Given the increased focus on accountability in Uganda a key design feature was to link line item budgets to work plans (annual and quarterly) and procurement plans. This subsequently assists in year cash flow management to avoid pro-rata release schedules.
- The Output Budgeting Tool (OBT) is an MS Access Database that allows these provisions to be undertaken.

In recent years Uganda's Public Financial Management (PFM) system has been rated above average. Still, significant challenges remain. Broad range of policy actions in the areas of fiscal management, budget and accounting systems, local Government finance and oversight functions have been put in place in recent years and/or are in implementation phase.

Local governments are still facing challenges which tend to limit their ability to deliver services in an effective and efficient manner. The major challenge relates to financing of local governments against a backdrop of low local revenue collections and increasing costs of delivering services.

Other challenges relate to weaknesses in financial management and accountability; institutional capacity gaps, conflicts in some local councils and inadequate supervision of local government institutions such as schools, health units and lower local governments<sup>8</sup>.

The Public Financial Management sector hopes to strengthen accountability of public resources through installation of the Integrated Financial Management System (IFMS) and training IFMS users to enhance transparency and enforce financial discipline. This will reduce resource diversion and over expenditure thereby reducing domestic arrears. To further reduce inefficiency

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<sup>7</sup> [www.ugpulse.com](http://www.ugpulse.com)

<sup>8</sup> <http://molg.go.ug/molgdocs> (PolicStatement09-10.pdf)

in use of public resources, the sector seeks to increase the number of Value for Money audits through the external audit vote function and sanctions against producers of shoddy work

In the area of compliance, regulations, service standards in service delivery and accountability in public service organizations, the Public Sector Management plans to improve service to further enhance compliance to the procurement act, the sector plans create Forensic and ICT audit department to conduct special audits, increase procurement audits; disseminate information to third party providers; and establishing a central repository for procurement documents of Uganda as well as enhancing of Out Oriented Budgeting for performance results and value for money.

To address the challenge of poor inspection, the Budget Monitoring and Accountability Unit (BMAU) under Ministry of Finance, Planning and Economic Development will be strengthened to track government expenditure and Budget Performance Reports will be produced periodically and accountability issues will be addresses accordingly. Aggressive monitoring by the sector institutions will greatly contribute to the awakening, nurturing and enforcement of the culture of accountability across the country to improve service delivery. The sector has also embarked on joint monitoring and evaluation with the objective of establishing its cost effectiveness<sup>9</sup>.

## **10 TASKS – KEY FINDINGS AND RECOMMENDATIONS**

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### **10.1 HUMAN RESOURCE CAPACITY INCLUDING STAFFING LEVELS**

#### **10.1.1 The strengths**

- a) The level of staffing for the positions relevant for the project is at 69%. This is satisfactory for the time being.
- b) Staff appraisal is done after 3 months for probationers. Permanent staff appraisal is done once per year by the supervisors.
- c) Clear job description is designed for each position.
- d) All staff is entitled to training according to resources available and priorities. Trainings are planned and targeted.
- e) The departments/units of Finance, Planning, Procurement, Production and Education are staffed above 50% at the District headquarters (see ANNEX 1)
- f) In response to ICEIDA's insistence that a functional District Planning Unit should be in place before the funding for the next 5 year period would be released, the District has recruited District Planner (through internal promotion of the senior economist), as well as

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<sup>9</sup> [www.finance.go.ug/docs \(National-Budget-Framework-Paper-FY2010-11-FY2014-15\)](http://www.finance.go.ug/docs/National-Budget-Framework-Paper-FY2010-11-FY2014-15)

new Senior Economist, Statistician and Population Officer hence raising the staffing level of the District Planning Unit from 25% to 100%;

### 10.1.2 The areas that require improvement

| Findings  | Recommendations  |
|---|--|
| Filling vacant positions is a problem as the area is not attractive for many people. Hardship allowance is only paid to staff at the other islands, not at District HQ level. | The District should develop a reward and recognition scheme for its employees. |
| All the strategic positions of the heads of departments relevant to the project are filled except the one of District Education Officer                                       | The position should be urgently filled.  |
| Internal Audit unit (including the requirements for Town Council) is at 25% staffing level.   | Expedite recruitment to fill the District Internal Audit Unit to 100%.         |

## 10.2 DEVELOPMENT PLANNING FRAMEWORK

### 10.2.1 The strengths

- a) The investments in the District Development Plan (DDP) for the year 2011/12 were consistent with the sub-national investment areas in the National Development Plan in force.
- b) The planning process was found out to be bottom-up. The consultative process culminated into the budget conference. This satisfies the LG planning requirements.
- c) KDDP outputs were reflected in both the work-plans and the development plan in the project profiles and revenue outturn for the previous development planning period of 2010/11 to 2112/13.
- d) The 2011/12 development plan projects for Education department and Tourism were clearly captured in the DDP.
- e) The District Planning Unit was fully staffed at the date of the assessment.

### 10.2.2 The areas that require improvement

| Findings  | Recommendations                                       |
|---|---|
| The District Development Plan for 2011/12 to 2015/16 was poorly linked with the budget and work plan. | The DDP should be linked to the budget and work plan. |
| The DDP did not reflect investment areas for  | The DDP should reflect investments for the            |

|   |  |
|---|--|
| the years 2012/13 to 2015/16  | next four years.   |
| The projects for the Fisheries Section were not explicitly captured in the DDP.   | The fisheries projects should be explicitly captured in the DDP.   |
| The Local Government Output Budgeting Tool (OBT) is currently managed by the Senior Finance Officer, even to generate progressive reports which are principally a function of the Planning Unit. The Planning Unit is currently undergoing training | The District Planning Unit should undergo comprehensive training to improve skills for them to competently handle the OBT. |
| The migratory population makes it difficult to make planning projections.   | Employ statistical techniques to even out seasonal variations in population projections.                                   |

### 10.3 FUNDS FLOW AND FINANCIAL REPORTING FRAMEWORK

#### 10.3.1 The strengths

##### **Government of Uganda (GoU) funding:**

- The funds for the District are released by MoFPED. All funds are first credited to the district general fund bank account; these funds are then transferred to the respective sector bank accounts for spending.
- The district prepares financial statements using the cash basis of accounting. The financial statements contain only revenues received and expenditures made.
- **Payment process;**
  - The process begins by raising a loose minute requisitioning for funds for a particular activity. The requisition is submitted to Head of Department for recommendation.
  - After the HoD recommendation, the requisition is then submitted to CAO for approval. The approval is based on approved work plan and budget and the availability of funds as per the vote book.
  - The CAO forwards the approved loose minute to CFO for processing the payment.
- Most payments are effective through the bank and signatories for the district general bank account are the CAO and CFO.
- The finance department is responsible for preparing and storing vouchers as well as effecting payments.

##### **ICEIDA funding:**

ICEIDA funds are currently received direct to the district project bank account. ICEIDA Project Manager or SPO, CAO and CFO are signatories

Disbursements processes thus:

- Project Implementation Team (PIT) initiates the request for funding of the activity based on approved work plan and budget. The HoD forwards the request to CAO for loose minute approval.
- CFO checks the request for completeness and passes it to the Internal Auditor post-audits who determines if policies and procedures have been properly followed (post audit). Then CFO forwards is to project office for processing,
- ICEIDA Project Manager approves the request and forwards it to ICEIDA Senior Project Officer for processing the payment. The payment is then sent to CFO / CAO for signing as they have to sign the cheques issued by ICEIDA Senior Project Officer.

### 10.3.2 The areas that require improvement

| Findings   | Recommendations  |
|--|--|
| In some cases, there are delays in processing of funds under the Government of Uganda (GoU) funding. | There is need for timely flow of funds in order to follow plans and timelines of project activities. |

## 10.4 PROCUREMENT CAPACITY

### 10.4.1 The strengths

- Procurement plan for 2010/11 was submitted to Public Procurement and Disposal of Public Assets Authority (PPDA) in time.
- The district was audited for 2010/11 in April by PPDA and the report was not yet issued.
- The contracts committee is fully constituted. (see ANNEX 2)
- Quarterly reports were submitted on 15th October 2010, 14th January 2011 and 18th April 2011 for 1st, 2nd, and 3rd quarters. These were timely apart for 3rd quarter which was only 3 days late.

### 10.4.2 The areas that require improvement

| Findings  | Recommendations   |
|---|---|
| Procurement plan 2011/12 was yet to be presented to District Council for approval.  | Expediently present the procurement plan for consideration                    |
| The annual procurement plan was being implemented above 90%. However there were spill overs of the quarterly procurement plans to the subsequent quarter. | The contracts committee should always review procurement plan implementation. |
| Procurement and Disposal unit staff do not monitor  | The PDU staff should be part of the joint                                     |

|   |  |
|---|--|
| projects implementation as stipulated in the LG procurement regulations | monitoring team.   |
| Procurement unit is ill-equipped and works in a congested environment.  | Provide DPU with at least 1 computer and printer, photocopier, document binder and filing cabinet. |

## 10.5 INTERNAL CONTROL SYSTEMS AND PROCEDURES

### 10.5.1 The strengths

- a) Most payments are authorised by Authorised Officials and use of Vote books and reconciliations are in line with the Local Governments Financial and Accounting Regulations (LGFAR) 2007.
- b) Fixed Assets Register is controlled by CFO and done in cooperation with District Engineer. Fixed Assets purchased during financial year are treated as revenue expenditure and written off in the year of purchase. Internal Audit Unit follows up on the Fixed Assets Registers
- c) Storekeeping system is in place and working as per LGFAR 2007

### 10.5.2 The areas that require improvement

| Findings  | Recommendations   |
|---|---|
| Kalangala District accounting system is not computerised. The other Local Governments whose accounting system is computerized are using Integrated Financial Management System (IFMS) The Ministry of Local Government (MoLG) is scheduling to roll out so-called “tier two” of IFMS which is a smaller version to LGs that are not yet computerized. According to new information from MoLG Kalangala district has now been scheduled for the system in the next one year. | The District should be considered for computerized accounting system to minimize the workload and to maximize the accuracy. |
| Some payments are made to the district cashier instead of payees which is not a good financial practice as per 3rd quarter report for FY 2009/10  | Payments should strictly be made to the payees as per regulations.  |
| It was noted that old type of vote books and payment vouchers are in use.   | Old type of payment vouchers should be replaced by EXP 22 provided in the book keeping and Financial Manual 2007.           |

|   |   |
|---|---|
| <p>The Contracts Committee authorise procurements on user departments' requests.</p>  | <p>ICEIDA Engineer Officer to work in conjunction with the user departments and Contracts Committee up to the end of the KDDP project in order to enhance good quality of all constructions activities under the project. He should guide the preparation and planning, advice on the tender process, procurements and contracts as well as follow up on the progress of the construction activities.</p> |
| <p>The banking is at times not timely owing to the costs and challenges associated with transport system from some islands to the main island.</p>                                |   |
| <p>Some of donor funded operations run on a calendar year as opposed to financial year by the district. This was emphasised by the 1st quarter Internal Audit report 2009/10.</p> | <p>District Management to emphasize to their donors the importance of following the country financial system and procedure in order not to create extra work and/or parallel system.</p>  |

## 10.6 PROGRESS REPORTS AND M&E

### 10.6.1 The strengths

- a) The Local Government has adopted the KDDP Monitoring and Evaluation (M&E) tool for use in monitoring all projects whether funded by ICEIDA or not.
- b) The technical staff and political leaders are involved in the monitoring of projects.
- c) Progress reports generated by the Output Budgeting Tool (OBT) are submitted to the MoFPED and line Ministries in time.
- d) Progress reports for the three quarters of the financial year 2010/2011 generated by the OBT reflected KDDP activities.
- e) The progress report captures the budgeted revenues by source and expenditure by items, budget performance, targeted outputs, schedules of implementation, actual outputs, locations of outputs, level of outputs implementation and implementation challenges.
- f) The OBT links the work plan and project actual costs to the progress report to establish Value for Money.
- g) The set targets for Fisheries section were achieved for 2009 and 2010
- h) The set targets for Education department were achieved for 2009 and 2010
- i) Under infrastructure development, two landing sites at Namisoke and Kachungwa have been completed within the first five year phase of the project. The next targeted three landing sites at Kyagalanyi, Kisaba and Tubi are to be completed within the remaining five years.
- j) At the time of the assessment, the KDDP Monitoring and Evaluation Plan had been prepared. It will guide the District to come up with the overall District M&E Plan. The



M&E function will be coordinated by the District Planning Unit and the Statistician will play an active role as Data Manager.

- k) A comprehensive training plan for the District Planning Unit staff supported through KDDP funding has been prepared and is in implementation.
- l) In July'11 KDDP sponsored ICEIDA M&E Project officer for a Post-graduate Certificate Course in Monitoring and Evaluation at the School of Statistics and Applied Economics at Makerere University, Kampala.

### 10.6.2 The areas that require improvement

| Findings  | Recommendations  |
|---|--|
| <p>M&amp;E Tracking Matrix for the sectors of Administration and Education has been developed and the baseline data is available from existing government statistics.</p> <p>M&amp;E Tracking Matrix for the Tourism Sector has not be done as log-frames have not been completed</p> <p>M&amp;E Tracking Matrix for the Fisheries sector has not be completed as indicators needs to be refined to track progress in outcome and impacts of some of the project interventions.</p> | <p>District Planning Unit, ICEIDA M&amp;E project officer in cooperation with both Tourism Sector and the Fishery sector to focus on finalising the M&amp;E Tracking Matrixes.</p> |
| <p>Challenge associated with acquisition of land for the landing site infrastructure as was the case for Kachungwa and Namusoke.</p>  | <p>Land ownership should be revisited for the remaining landing sites to be constructed in order to avoid any further delays since project implementation has set time frame.</p>  |

## 10.7 QUARTERLY EXPENDITURES AND REVENUES

### 10.7.1 The strengths

- a) Monthly and quarterly financial statements are prepared and submitted to MoFPED in line with the reporting requirements. Funds are released upon submission of these financial statements.
- b) In the financial year 2007/2008 the District received 5,144,253,730/= by the end of the FY, amounting totalling to 5,074,835,487/=, was spent representing 98% absorption capacity.
- c) In the financial year 2008/2009, the District received 7,536,074,677/= by the end of the FY, amount totalling to 7,516,530,962/= was spent representing 99% absorption capacity.

- d) In the financial year 2009/2010, the District received 8,201,930,856/= by the end of the FY, amount totalling to 8,437,017,376/= was spent representing over 100%

### 10.7.2 The areas that require improvement

| Findings  | Recommendations  |
|---|--|
| <p>Local revenue contributes a very small percentage of the total budget. In the FY 2007/08 the District collected UGX 166,199,116 /= representing 3.2%, while it was 1.4% in 2008/09 and about 1.5% in 2009/10</p> <p>Local Revenue Strategic Enhancement Plan is already in place catered for by ICEIDA funding. In the second phase of the project ICEIDA is putting UGX 118.100.000 towards implementing that strategy.</p> | <p>The MoLG should support the District in implementation of its Local Revenue Enhancement Plan (LREP) in order to sustain the investments already put in place.</p> |
| <p>No data base is available at the District level for tax payers' information. The District has requested for support from the Ministry of Local Government.</p>   | <p>District Authorities should put in place computerized data base system to assist them maximizing the District revenue collection.</p>                             |

## 10.8 OPINION OF THE AUDITOR GENERAL ON FINANCIAL STATEMENTS

The Chief Administrative/Accountant Officer (CAO) is responsible for the preparation and fair presentation of the financial statements, in accordance with section 64 and 86 of the Local Governments Act 1997 Cap 243 of the laws of Uganda, and for maintenance of such internal controls that are necessary for the preparation of financial statements that are free from material misstatements weather due to fraud or error. Kalangala District Local Government annual Audit reports are prepared by the Office of the Auditor General and are conducted in accordance with International Standards on Auditing (ISA) and Government of Uganda

### 10.8.1 The strengths

- a) The District prepares good quality financial statements.
- b) The office of the Auditor general issued a clean opinion on the financial statements for Kalangala District for the period that ended 30th June 2009 and same with the financial year end of June 2010.
- c) In the last three financial years, the OAG did not issue a disclaimer or an adverse opinion on the financial statements of the District.

- d) KDD has up to now not been part of Local Government annual Audit Reports. After implementation of full financial and administration responsibility of the program to the District the programme will become part of the Local Government annual Audit.

## 10.9 VALUE FOR MONEY – PROJECT VISIT KIBANGA PRIMARY SCHOOL

### 10.9.1 The strengths

- a) The overall goal of the KDDP’s education sector support is to promote quality education in the district through improving the learning environment. The project has had very positive impact in the society, resulting good “value for money”
- b) Two dormitories (one for girls and one for boys) were constructed through KDDP including kitchen and sanitation facilities. The project was completed on time and is being used by pupils hence meeting its intended objective.
- c) KDDP funded retooling and equipment for the school, gave support in games, sports, music, dance and drama, capacity building training and workshops as well as assessment of learners.

### 10.9.2 The areas that require improvement

| Findings   | Recommendations   |
|--|---|
| Focus has been set on parents and guardians to finance the running cost of the dormitories and kitchens as GoU is not supporting boarding schools. The district has been signalled out by MoE as a district that needs special intervention due to its unique geographical structure. A policy paper has been tabled at the council. | The district should push hard for explicit dispatch from the MoE. At the same time district leadership management should endeavour to fund education from internally generated resources. |

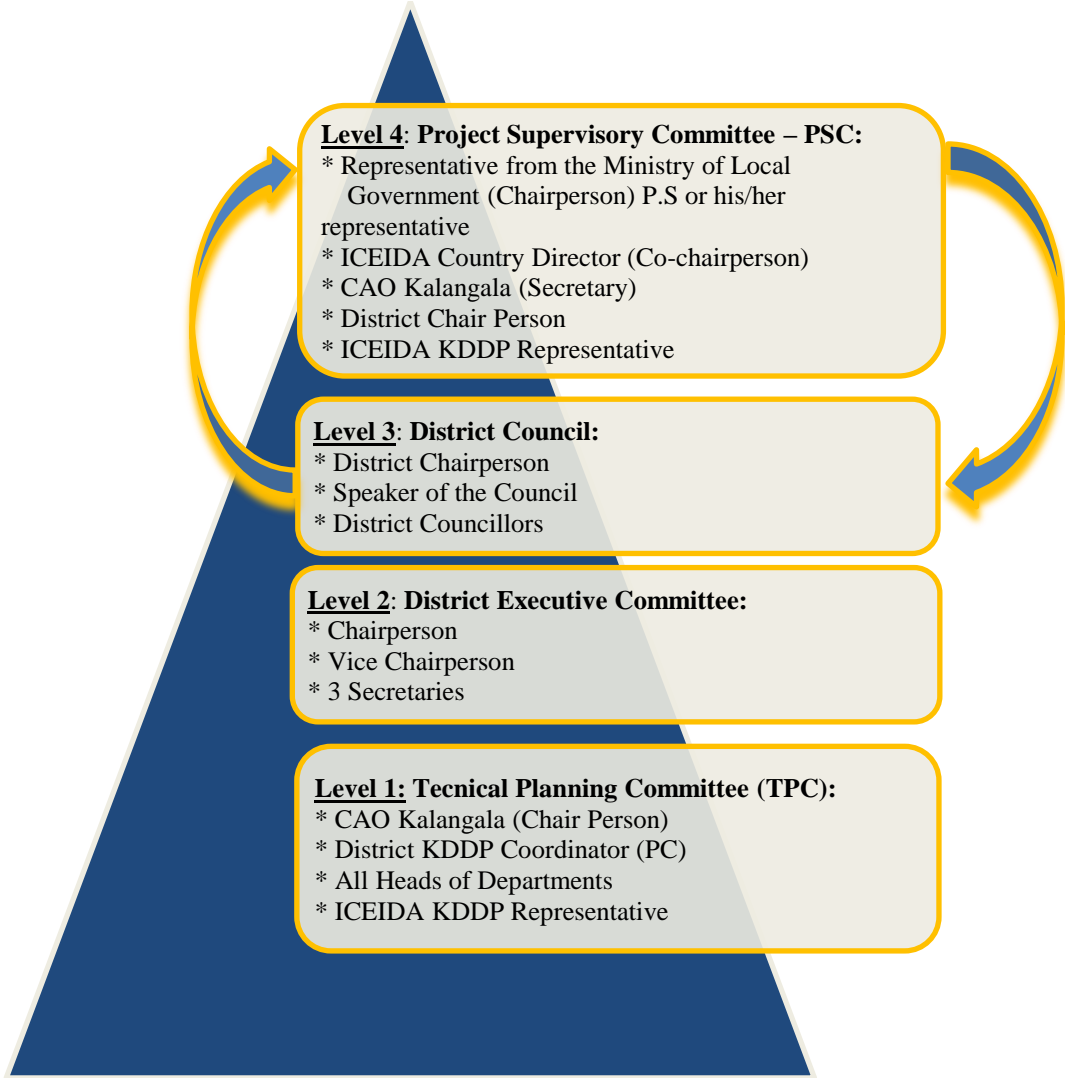
## 11 MANAGEMENT OF DIRECT FUNDING AVAILED BY ICEIDA

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This chapter includes proposed structure bodies during the second phase of the KDDP implementation. Proposed management of funds, financial procedures, control and responsibility of administering direct funding availed by ICEIDA and lastly recommended project cycle – flow of funds.

11.1 PROPOSED COORDINATION STRUCTURE

**FIGURE 4: Structure Bodies of the second phase of the KDDP implementation**



**The Project Supervisory Committee Role:**

- The PSC should meet at least twice a year
- Monitor the progress of the KDDP implementation
- Review financial reporting
- Approve annual work plan
- Approve all major change in course of project implementation
- Analyse and approve proposals/request for supplementary project budget received from the Executive Committee (Minimum amount to be proclaimed in the MoU)
- The PSC can decide to halt funding if reports are delayed, not satisfactory or annual evaluation is not according to expected outcome.

### **The District Councils Role**

A council is the highest political authority within the area of jurisdiction of a local government and has legislative and executive powers to be exercised in accordance with the Constitution and the Local Governments Act Cap 243.

In particular, the District council shall:

- Consider for approval all work plans, budgets and Development Plan of the District
- Consider for approval the performance reports submitted by the standing committees and District Executive Committee
- Approve policies that relate to KDDP

### **The District Executive Committee shall:**

- Initiate and formulate policy (as it relates to KDDP) for approval of the council
- Oversee the implementation of the Government and the council's policies
- Consider and recommend to council KDDP work plan and budget for approval
- Oversee and monitor the implementation of council programmes and take remedial action where necessary
- Forward to PSC proposals/requests for supplementary project budget for consideration and approval before forwarding to the District Council.
- At the end of each financial year consider and evaluate the performance of the council against the approved work plans and programmes and report to the District Council

### **Technical Planning Committee (TPC) shall:**

- Meet at least once per month
- Ensure the project cycle provides systematic identification, selection, implementation, monitoring, review and evaluation processes.
- Prepare annual work-plans and budget for consideration by the District Executive Committee and Standing Committees
- Implement KDDP activities
- Monitor KDDP implementation to ensure it is in line with approved plan and budget
- Coordinate the KDDP implementation and planned activities for the period
- Discuss quarterly KDDP progress reports and activity plans and budget for the next period and forward to District Executive Committee for approval
- Announce any major changes in the project implementation and plans and prepare adjusted requests to the District Executive Committee for approval. (Minimum amount to be proclaimed in the MoU)

## **11.2 MANAGEMENT OF DIRECT FUNDING AVAILED BY ICEIDA**

Below are guidance from the team, on how best to transfer funds for KDDP project, financial procedures, control and responsibilities of administering direct funding availed by ICEIDA.

**Proposed Management of funds of Kalangala District Development Programme funded by ICEIDA in the second phase of the KDDP.**

|   |  |
|---|--|
| 1 | <p><b>Flow of funds</b></p> <ul style="list-style-type: none"> <li>• Funds from ICEIDA should be wired from ICEIDA bank account to the District general bank account on quarterly basis. This is a collection bank account where the entire district funds are initially deposited for control purposes. Operational expenditures are not allowed on this account. The CAO and CFO are the signatories to this account.</li> <li>• These funds will then be transferred intact to the District project bank account (KDDP) within maximum of two working days.</li> <li>• Expenditures of all project activities will be executed from the District KDDP bank account.</li> </ul>  |
| 2 | <p><b>Financial Procedures</b></p> <ul style="list-style-type: none"> <li>• The payment process will follow the procedures as laid down in the Local Government Financial and Accounting Regulations, 2007 and the Local Governments Accounting manual, 2007. See details in task no 3</li> </ul>  |
| 3 | <p><b>Management of the KDDP project</b></p> <ul style="list-style-type: none"> <li>• KDDP should have a District Project Coordinator who will report to CAO.</li> <li>• The CAO will select from among his staff, an officer who will act as KDDP Project Coordinator on his behalf until Deputy CAO position has been filled.</li> <li>• The KDDP Project Coordinator will oversee implementation of activities of the project on behalf of CAO.</li> <li>• The KDDP Project Coordinator will be a co-signatory to the project account and will ensure that, project funds are utilized on approved activities and budget. The other signatories for the KDDP expenditure bank account are CAO and CFO.</li> <li>• The PC is responsible for compiling progress reports for project activities as well as supervising other reports required for the project.</li> <li>• The PC shall also ensure that all departments make timely accountability for submission to CAO.</li> <li>• The PC shall on behalf of CAO submit monthly progress report on KDDP project to the DEC</li> </ul> |
| 4 | <p><b>Control procedures</b></p> <ul style="list-style-type: none"> <li>• The CFO will strictly follow control procedures stipulated in the LGFAR 2007 when utilizing ICEIDA funds.</li> <li>• Funds for the subsequent quarter will be released up on satisfactory submission accountability of the released funds to ICEIDA and MoFPED.</li> <li>• Internal audit unit will carry out quarterly reviews of the project activities and submit a report to council and ICEIDA.</li> </ul>  |
| 5 | <p><b>Monitoring and Inspection</b></p> <ul style="list-style-type: none"> <li>• Monitoring and inspection will be carried out on quarterly basis, the monitoring will</li> </ul>  |

|          |  |
|----------|--|
|          | <p>be carried out by District Executive Committee (DEC), Ministry of Local Government (MoLG- Inspectorate directorate), implementing members of the Technical Planning Committee and ICEIDA.</p> <ul style="list-style-type: none"> <li>• Monitoring and inspection reports will be regularly reviewed and discussed by Council and Project Supervisory Committee (PSC)</li> </ul> |
| <b>6</b> | <p><b>Memorandum of Understanding</b></p> <ul style="list-style-type: none"> <li>• Details of roles and responsibilities for the second phase of the KDDP implementation set up and outcome to be agreed in a special MoU between Ministry of Local Government, the Kalangala District and ICEIDA.</li> </ul>  |

### 11.3 KDDP BUDGETING

Kalangala District Chief Finance Officer and KDDP Programme Coordinator shall organise and structure all KDDP budget lines in accordance with GoU chart of accounts structure, revenue and expenditure codes. The document shall also include the existing ICEIDA chart of accounts structure. This updated document shall be circulated to CAO, Head of Departments and Accountants as well as ICEIDA office.

KDDP budget projection is prepared in Uganda Shillings (UGX) ICEIDA has predicted the exchange rate in favour of more lower than higher rate in order not to underestimate projected USD cash flow needs.

As per shown in this report Uganda Shilling value and exchange rate towards USD (see Figure1) the value of UGX has dropped by close to 12% during 2011 (Jan to July 2011). The result is significant change of projected budget amount in USD for 2011 up to 2015.

As per below Table 5 the exchange rate used for the KDDP budget projection for Uganda FY 2011/12 to 2014/15 was 2.200 giving total expected amount for ICEIDA funding support to the programme USD 2.700.501. By using USD/UGX exchange rate as per 01.08.2011 which was 2.606 the total amount for this period in USD would be USD 2.279.778 giving a difference of budget projected amount of USD 420.723. (Table 5).

Table 5: Source from ICEIDA KDDP Budget projection 2011-15.xlsx

| <b>EXPECETED ICEIDA SUPPORT TO THE IMPLEMENTATION OF KALANGALA DISTRICT DEVELOPMENT PROGRAMME (KDDP)</b> |                      |                      |                    |                    |                      |
|--|----------------------|----------------------|--------------------|--------------------|----------------------|
| <b>Budget Projections for FY2011/12-2014/15 in UGX</b>   |                      |                      |                    |                    |                      |
| <b>SECTOR</b>  | <b>FY 2011/12</b>    | <b>FY 2012/13</b>    | <b>FY 2013/14</b>  | <b>FY 2014/15</b>  | <b>TOTAL</b>         |
| Administration   | 1.321.600.000        | 856.600.000          | 206.800.000        | 95.800.000         | 2.480.800.000        |
| Fisheries  | 594.102.000          | 493.800.000          | 141.800.000        | 40.000.000         | 1.269.702.000        |
| Education  | 261.900.000          | 679.300.000          | 198.300.000        | 116.100.000        | 1.255.600.000        |
| Tourism  | 280.000.000          | 233.500.000          | 218.000.000        | 203.500.000        | 935.000.000          |
| <b>TOTAL in UGX</b>  | <b>2.457.602.000</b> | <b>2.263.200.000</b> | <b>764.900.000</b> | <b>455.400.000</b> | <b>5.941.102.000</b> |
| <b>Total USD (2.200 exchange rate)</b>   | <b>1.117.092</b>     | <b>1.028.727</b>     | <b>347.682</b>     | <b>207.000</b>     | <b>2.700.501</b>     |
| <b>Total USD (2.606 exchange rate)</b>   | <b>943.055</b>       | <b>868.457</b>       | <b>293.515</b>     | <b>174.751</b>     | <b>2.279.778</b>     |
| <b>Difference in USD</b>   | <b>174.037</b>       | <b>160.270</b>       | <b>54.167</b>      | <b>32.249</b>      | <b>420.723</b>       |

Uganda financial year is from July to June and monthly and quarterly financial statements are prepared in line with reporting requirements. The KDDP budget for 2011/2012 has been split into monthly work plan and cash-flow estimate has been prepared up to end of Dec'11. Table 6 shows the 2<sup>nd</sup> quarter of 2011/2012 cash flow estimate for the program. Again if we use the USD/UGX exchange rate as per 01.08.2011 of 2.606 the total amount for the 2<sup>nd</sup> quarter in USD would be USD 201.099 instead of USD 238.211 giving a difference in USD terms 37.112 cash flow projected amount.

Table 6: Source from ICEIDA KDDP APA Jan2011 to Dec2011 Final.xlsx

| <b>KDDP CASH FLOW ESTIMATES (JAN - DEC 2011) in UGX</b> |                    |                          |                   |                    |
|---|--------------------|--------------------------|-------------------|--------------------|
| <b>SECTOR</b>   | <b>Oct'11</b>      | <b>Nov'11</b>            | <b>Dec'11</b>     | <b>Total UGX</b>   |
| Administration  | 87.483.333         | 226.233.333              | 16.333.333        | 330.050.000        |
| Fisheries   | 103.465.000        | 21.500.000               | 7.000.000         | 131.965.000        |
| Education   | 19.425.000         | 13.125.000               | 11.500.000        | 44.050.000         |
| Tourism   | 16.000.000         | 1.000.000                | 1.000.000         | 18.000.000         |
| <b>TOTAL in UGX</b>                                     | <b>226.373.333</b> | <b>261.858.333</b>       | <b>35.833.333</b> | <b>524.065.000</b> |
| Exchange rate used in plan is:                          | 2.200              | <b>Total in USD</b>      | <b>238.211</b>    |                    |
| Exchange rate as per 01.08.11                           | 2.606              | <b>Total in USD</b>      | <b>201.099</b>    |                    |
|   |                    | <b>Difference in USD</b> | <b>37.112</b>     |                    |



In an environment like Uganda where both local currency is relatively weak and highly fluctuates against other currencies as well as rapid increase in inflation which can affect anticipated budgeted unit cost, it is extremely important to frequently update and adjust budgets in order to maximise value for money. In addition quarter budget has to be updated if activity during the previous quarter was not implemented for some reason and is then moved to another quarter.

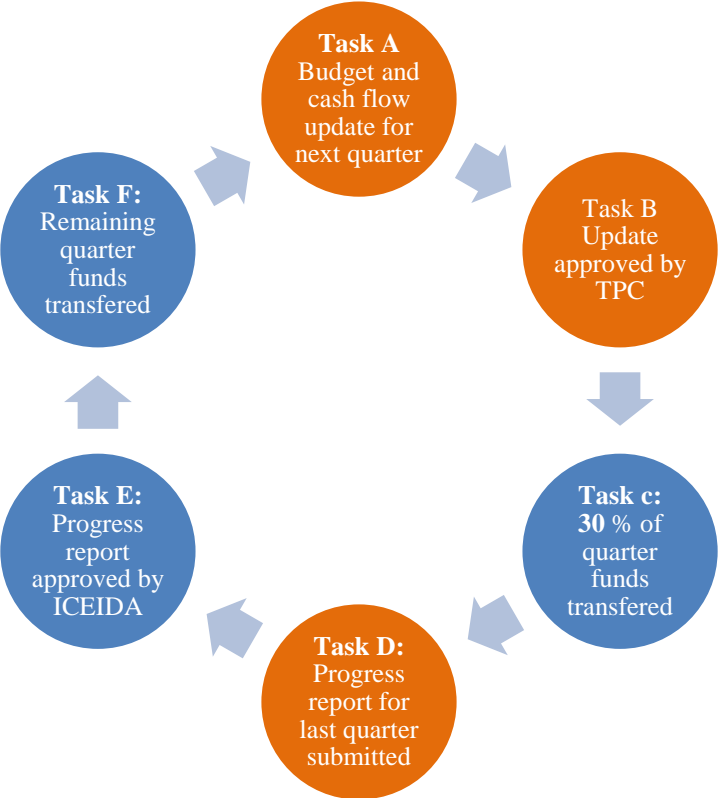
ICEIDA funding commitment towards KDDP is rated in USD. Program budgeted activities and expenditures are accounted for in UGX. As per tables 6 and 7 the difference in USD can be very high depending on the exchange rate used and therefore quarterly budget and cash flow updates are necessary as well as activity adjustments (decrease or increase) in accordance with yearly ICEIDA commitment in USD.

11.4 PROJECT CYCLE AND FLOW OF FUNDS

As previously recommended in this report transfer of fund from ICEIDA to the District should be at quarterly basis. In order not to delay implementation of project activities below project cycle is recommended. If this system is working well and both parties agree after one year of implementation the project cycle can be prolonged to 6 months instead of one quarter.

ICEIDA first quarter transfer for Oct'11 to Dec'11 under the approved KDDP second phase programme agreement 2011 – 2015 to be paid in full by ICEIDA in UXG in the last week of Sep'11 after both parties have agreed and signed MoU on KDDP implementation of the second phase of the project.

**Project Cycle:**



| One Quarter |             |        |        |         |              |        |        |         |              |         |         |        |
|-------------|-------------|--------|--------|---------|--------------|--------|--------|---------|--------------|---------|---------|--------|
| Month 1     |             |        |        | Month 2 |              |        |        | Month 3 |              |         |         |        |
| Week 1      | Week 2      | Week 3 | Week 4 | Week 5  | Week 6       | Week 7 | Week 8 | Week 9  | Week 10      | Week 11 | Week 12 |        |
| Tasks       | Day 1 to 30 |        |        |         | Day 31 to 60 |        |        |         | Day 61 to 90 |         |         |        |
| Task A      |             |        |        |         |              | Day 45 |        |         |              |         |         |        |
| Task B      |             |        |        |         |              |        |        | Day 60  |              |         |         |        |
| Task C      |             |        |        |         |              |        |        |         |              |         |         | Day 90 |
| Task D      |             |        |        | Day 30  |              |        |        |         |              |         |         |        |
| Task E      |             |        |        |         |              | Day 45 |        |         |              |         |         |        |
| Task F      |             |        |        |         |              |        | Day 50 |         |              |         |         |        |

**Task A:**

**Responsibility:** District PC to supervise and prepare budget cash flow estimate for next quarter.

**Deadline:** Submit budget cash flow estimates to DTPC (District Technical Planning Committee) in middle of current quarter (day 45 latest)

**Task B:**

**Responsibility:** DTPC to go over, approve and send to DEC for approval

**Deadline:** PIT to submit the DEC approved next quarter budget cash flow estimates to ICEIDA Country Director by the end of the second month of current quarter (day 60 latest)

**Task C:**

**Responsibility:** ICEIDA Country Director to instruct bank transfer to Kalangala District bank account. Transfer 30% of the amount stated in the quarter budget cash flow estimate. (This method is in accordance with the District concerning grants, the first release of the quarter is 30% with the rest coming if the accountability for the previous quarter is satisfactory).

**Deadline:** Bank transfer for the next quarter to be done no later than last banking day of the previous quarter.

**Task D:**

**Responsibility:** In cooperation with PTC, District Project Coordinator shall supervise and compile progress report including financial statement budget vs. expenditure for the last quarter as well as project bank balance. PTC shall submit the document to District Internal Auditor for approval who then submits the approved document CAO. CAO then submits the report to ICEIDA Uganda office with a copy to the MoLG.

**Deadline:** Latest 30 days after end of the quarter.

**Task E:**

**Responsibility:** ICEIDA project representative should approve the progress report or send it back for amendments.

**Deadline:** Latest 45 days after end of the quarter

**Task F:**

**Responsibility:** ICEIDA Country Director to instruct bank transfer to Kalangala District bank account for the remaining balance amount of the quarter after taking into consideration end of last quarter KDDP bank balance and approved progress report.

**Deadline:** Latest 10 days after receiving the progress report (day 50)

## 12 CONCLUSIONS

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Arising from the team assessment and other interpretations, it has been noted that the District has developed some good capacity that enables the District to implement donor funds smoothly. However regular support supervision will be required to ensure smooth transition from project mode of operation to GoU procedures and systems.

The team recommends the second phase KDDP implementation with full responsibility of the Kalangala District administration and financial responsibility to take effect in the start of the second quarter of the financial year (2011/2012) beginning 1<sup>st</sup> October 2011. District Chief Administration Officer (CAO) has to assign an officer among his staff to coordinate the project on his behalf. This has to be immediate in order for the project to have a safe landing (before 1<sup>st</sup> October 2011).

During the first quarter of the District's administration and financial responsibility of the project from 01.10.11 to 31.12.11 ICEIDA should retain its Senior Project Officer at the District office to further support and guide the District management, the new Programme Coordinator and staff during this transition period. After this period ICEIDA should close the District Project office.

It is highly recommend the internal audit department to be staffed with 100% capacity, endorsing good quality implementation.

ICEIDA has already established M&E function at District level to support the District Planning Unit in its M&E structure to strengthening activity implementation. ICEIDA Engineer will continue liaising with the District Departments of Works to oversee infrastructure under the program.

After the closure of each financial year ICEIDA should in cooperation with the Ministry of Local Government conduct realization of the project activities progress. Evaluate productivity, efficiency, financial management and its meaningful achievement in order to ensure value for money through timely execution of the project. In addition, by request ICEIDA should be given access to KDDP documents to carry out “spot checks”.

ICEIDA will continue support the implementation of the program as per agreed funding and according to the program plan up to the end of the program 2015. The funding should be transferred on quarterly basis in line with the proposed project cycle and flow of funds to the District Collection bank account after receiving financial statement and project progress report for the last quarter permitted by the District Audit department and approved by the Project Supervisory Committee (PSC).

ICEIDA, the Ministry of Local Government and Kalangala District Management should create MoU for the second phase of the program implementation, detailing roles, responsibilities and duties of each party up to the end of the program.

District local revenue collection is alarmingly low, showing average about 3% of the total budget for the last 3 years. It is clear that the District is very contingent up on ICEIDA funding. No real instrument has been put in place in order to prepare for the funding gap after ICEIDA closure of the project at 2015. This is of great concerns and all effort should be made with immediate effect by the District Authority to put in place strategy for local revenue enhancement in order to sustain investments.

The team was pleased to find both political support and positive attitude by district staff towards the KDDP project. The district takes pride in the project which is a very critical success factor.

## 13 REFERENCES

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### 13.1 ANNEX 1:

#### Staffing position for selected relevant departments/units in the District as at June 21, 2011

| Department/Unit          | Title                                   | Filed | Vacant | % Filled |
|--------------------------|---|-------|--------|----------|
| Administration           | Chief Administrative Officer            | 1     | 0      | 100%     |
|                          | Deputy Chief Administrative Officer     | 0     | 1      | 0%       |
|                          | Principal Assistant Secretary           | 1     | 0      | 100%     |
| Finance                  | Chief Finance Officer                   | 1     | 0      | 100%     |
|                          | Senior Finance Officer                  | 1     | 0      | 100%     |
|                          | Senior Accountant                       | 0     | 1      | 0%       |
|                          | Accountant                              | 1     | 0      | 100%     |
|                          | Senior Accounts Assistant               | 6     | 0      | 100%     |
|                          | Accounts Assistant                      | 1     | 0      | 100%     |
| Production and Marketing | District Production & Marketing Officer | 1     | 0      | 100%     |
|                          | Senior Fisheries Officer                | 1     | 0      | 100%     |
|                          | Fisheries Officer                       | 4     | 3      | 57%      |
|                          | Senior Fisheries Assistant              | 1     | 0      | 100%     |
|                          | Fisheries Assistant                     | 5     | 0      | 100%     |
|                          | Senior Commercial Officer               | 1     | 0      | 100%     |
| Education                | District Education Officer              | 0     | 1      | 0%       |
|                          | Senior Education Officer                | 1     | 0      | 100%     |
|                          | Senior Inspector of Schools             | 0     | 1      | 0%       |
|                          | Education Officer                       | 0     | 1      | 0%       |
|                          | Inspector of Schools                    | 1     | 1      | 50%      |
|                          | Sports Officer                          | 1     | 0      | 100%     |
| Works                    | District Engineer                       | 1     | 0      | 100%     |

|                |                               |           |           |            |
|----------------|-------------------------------|-----------|-----------|------------|
|                | District Water Officer        | 1         | 0         | 100%       |
|                | Supervisor of Works           | 0         | 1         | 0%         |
|                | Assistant Engineering Officer | 1         | 0         | 100%       |
|                | Road Inspector                | 0         | 1         | 0%         |
|                | Engineering Assistant         | 1         | 1         | 50%        |
| Planning       | District Planner              | 1         | 0         | 100%       |
|                | Senior Economist              | 1         | 0         | 100%       |
|                | Population Officer            | 1         | 0         | 100%       |
|                | Statistician                  | 1         | 0         | 100%       |
| Procurement    | Senior Procurement Officer    | 1         | 0         | 100%       |
|                | Procurement Officer           | 1         | 0         | 100%       |
|                | Assistant Procurement Officer | 1         | 0         | 100%       |
| Internal Audit | District Internal Auditor     | 1         | 0         | 100%       |
|                | Internal Auditor              | 0         | 1         | 0%         |
|                | Audit Assistant               | 1         | 1         | 50%        |
|                | Town Council Internal Audit   | 0         | 3         | 0%         |
| <b>Totals</b>  |                               | <b>41</b> | <b>18</b> | <b>69%</b> |

## 13.2 ANNEX 2:

### Constitution of the Contracts Committee as at June 21, 2011

| Name               | Title                                   | Position on CC                     |
|--------------------|---|------------------------------------|
| Balironda David    | District Production & Marketing Officer | Chairperson                        |
| Ssemakula Jeremiah | Assistant Engineering Officer           | Member (representing Town Council) |
| Saawo Harriet      | District Natural Resources Officer      | Member                             |
| Baguma Jackson     | Senior Fisheries Officer                | Member                             |
| Nseko Emmanuel     | Senior Inspector of Schools             | Member                             |



## 14 LIST OF DOCUMENTS

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With the purpose of getting better understanding and overview of the KDDP, Uganda systems and regulations as well as economical indication following documents were reviewed:

### **KDDP Documents:**

ICEIDA – Support to the Implementation of Kalangala District Development Programme – KDDP, Project Document, September 2006

ICEIDA – KDDP Mid-Term (Five Year) Report 2006-2010

ICEIDA – Mid-Term Review ICEIDA’s Support to the KDDP October 2010 WC Ltd

ICEIDA – KDDP Progress Report July to Dec 2010 and APA Jan 2011 – June 2012

ICEIDA – Monitoring and Evaluation Plan for ICEIDA’s Support to the KDDP 2010-2015

ICEIDA – Monitoring and Evaluation Plan for Kalangala District Local Government, Final M&E Strategy, February 2011

### **Audit, Final Accounts and Assessment Documents - Kalangala District:**

Annual Assessment of Minimum Condition and performance Measures for Local Governments, Kalangala District by Ministry of Local Government for the years 2007, 2008 and 2010

Final Accounts for period ending 30<sup>th</sup> June 2010 Kalangala District Local Government

Kalangala District Local Government, 2<sup>nd</sup> and 3<sup>rd</sup> quarter District Audit Report 2010/11

Kalangala District Local Government, Internal Audit, 1<sup>st</sup> 2<sup>nd</sup> and 3<sup>rd</sup> quarter FY 2010/11

Report and Opinion of the Auditor general on the Financial Statements of Kalangala District Administration for the year ended 30<sup>th</sup> June 2009 and 2010

### **Uganda Auditor General Documents:**

Annual Report of the Auditor General for the year Ended 30th June 2010 - Volume 3 - Local Authorities

Annual Report of The Auditor General for the year ended 30th June 2010 - Volume 5 - Value for Money Audit

### **Republic of Uganda Act’s and Regulations:**

Chart of Accounts

The Local Governments (Public Procurement and Disposal of Public Assets) Regulations, 2006

The Local Governments Financial and Accounting Regulations 2007 and 2007 Manual

The Local Governments Internal Audit Regulations and 2007 Manual

The Public Finance and Accountability Act, 2003

**Various documents issued by the Republic of Uganda**

Code of Ethics for Government of Uganda Internal Auditors: Issued by Ministry of Finance, Planning and Economic Development in May 2009

First Annual Report on Corruption Trends in Uganda: Using the Data Tracking Mechanism: Issued by Inspector of Government / EPRC (Economic Policy Research Centre in Uganda) in November 2010

International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs), Implementation Guidelines: Issued by the Institute of Certified Public Accountants of Uganda in 11 December 2009

Ministerial Policy Statement for the Financial Year 2010/11: Issued by the Ministry of Local Government in June 2010

National Budget Framework Paper FY 2010/11 – FY 2014/2015 - *Incorporating* the Medium Term Macroeconomic Plan, Programmes for Social and Economic Development, and the Indicative Revenue and Expenditure Framework: Issued by the Republic of Uganda, Ministry of Finance, Planning and Economic Development

National Development Plan (2010/11 – 2014/15): Issued by the Republic of Uganda

PEFA “LITE” Public Expenditure and Financial Accountability, Appraisal of the Financial Management Performance on Uganda, March 2008: Issued by the Office of the Auditor General

Public Financial Management Performance Report 2008: Issued by the Republic of Uganda in June 2009

The Financial Management and Accountability Programme (FINMAP) Financial Years 2006/07 to 2010/11: Issued by the Republic of Uganda

**Other documents:**

East Africa Budget, Economic Outlook 2011: Issued by Deloitte

Global Corruption Barometer 2010: Issued by Transparency International

IPSAS Adoption by Governments September 2007: Issued by IPSAS

Ríkisendurskoðun – Report 27.02.2007