

REPORT ON THE UNITED NATIONS HARMONISED APPROACH TO CASH TRANSFERS (HACT).

**HACT ASSESSMENT FOR
MINISTRY OF WATER AND ENVIRONMENT
AN IMPLEMENTING PARTNER (IP) FOR THE UN**

September 2011

Prepared by:



Plot 47/49 Nkrumah Road, Uganda Co-operative Alliance Building
Ground Floor: Tel 0312 370429; 0414 231571; 0712 862931; Fax 0312261256
P.O.Box 26285 Kampala; Email: bvl@africaonline.co.ug

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GLOSSARY OF ABBREVIATIONS

AG	Auditor General
ATC	Accounting Technicians Certificate
AWP	Annual Work Plans
EFT	Electronic Funds Transfer
IA	Internal Auditor
IC	Internal Control
ICPAU	Institute of Certified Public Accountants
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
MoFPED	Ministry of Finance Planning and Economic Development
NGO	Non Governmental Organization
PPDA	Public Procurement and Disposal of Public Assets Act
UN	United Nations
UNDP	United Nations Development Programme
UNDP	United Nations International Children’s Education Fund
WFP	World Food Programme

INFORMATION ON THE MINISTRY OF WATER AND ENVIRONMENT, ADDRESS, PHONE NUMBER, WEB SITE, EMAIL, FAX NUMBER ETC.

Registration and legal status

The Ministry of Water and Environment is a government Ministry registered, empowered by the Constitution of Uganda and governed by the Water Act and National tree planting Act.

Governing Body

The Ministry of Water and Environment is governed politically by the Minister and administratively by the Permanent Secretary. Both of them direct and oversees the Activities of the ministry on behalf of the Government of Uganda

Registered Office, address and Location

The Ministry of Water and Environment headquarters is currently located in Luzira in Kampala District
Telephone: 0772-702-416, 0712-812-895, 0414-221-198,0414-505-945

Bankers

Bank of Uganda

Auditors

Auditor General.

Officials Interviewed

Under Secretary to Permanent Secretary	Mr. C. Esimu Okuraja- 0712-812-895
Senior Accountant	M/s.Hajati Aidat-0392-965-694
Accountant	Mr. Bob Ewange-0772-466-137

REPORT CONCLUSION TO THE UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP) AND UNITED NATIONS CHILDREN’S FUND (UNDP) – BOTH IN UGANDA

BVL & Co. Certified Public Accountants has carried out the accompanying micro assessments of the Ministry of Water and Environment (Implementing Partner – IP) that is presented in Annex I Checklist B to this report.

The micro assessment was carried out in accordance with the International Standards on Assurance Engagements (ISAE) that is provided by the International Federation of Accountants. The standards used in the assessment mainly comprised of planning our work and considerations of evidence provided to us by the IP’s answers, comments, and documents including books of account produced to us in accordance with the questionnaire and the checklist contained in Annex I Checklist B to this report.

Scope of assessment.

The Terms of Reference of the assessment contained in Annex I Checklist B to this report required us to provide an overall status of the Ministry of Water and Environment financial management capacity by carrying out reviews of the IP in the following areas: legal status and set up, funds flow, staffing, accounting policies and procedures, internal audit, external audit, reporting and monitoring and information systems.

Conclusion

We have in material respects obtained the evidence that we required in respect of the IP’s financial management capacity as required by the Terms of Reference; and we have assessed the overall risk associated with the financial management of Ministry of Water and Environment as Moderate.

BVL & Co.
Certified Public Accountants
Kampala

Date.....

EXECUTIVE SUMMARY

1.0 INTRODUCTION.

BVL & Co. Certified Public Accountants were contracted by the UNDP Uganda office, to carry out micro assessments of the Implementing Partner (IP), namely Ministry of Water and Environment. Micro assessment is one of the key elements of the Harmonized Approach to Cash Transfers to IPs. The assessment, that was carried out on behalf of UNDP, involved a review of the financial management capacity of Ministry of Water and Environment. This report therefore covers the assessment of the Ministry of Water and Environment.

1.1 OBJECTIVES OF THE ASSESSMENT.

The purpose of the assessment undertaken by us on behalf of UNDP using the harmonized procedures for cash transfers were:

- *Capacity development objective:* To review on behalf of UNDP and government and identify strengths and weaknesses in the Ministry of Water and Environment's capacity for financial management and areas for capacity development by government and others.
- *Financial management objectives:* The review was to assist in the establishment of appropriate cash transfer modalities, procedures, and assurance activities to be applied by UNDP in regard to funding Ministry of Water and Environment.

1.2 SCOPE OF ASSESSMENT.

The assessment aimed at covering the overall status of Ministry of Water and Environment 's financial management capacity through review of funds flow, staffing, accounting policies and procedures, internal audit, external audit, reporting and monitoring and information systems

1.3 METHODOLOGY OF ASSESSMENT.

As part of our key tools for the work, the UNDP supplied us with a financial management questionnaire to be used to assess the Ministry of Water and Environment's financial management capacity. We put forward the questions in the questionnaire to the management of Ministry of Water and Environment and evaluated their answers in order to determine the strengths and weaknesses of Ministry of Water and Environment's financial management capacity. The assessment and evaluation also included review of documents where found relevant to do so. The strengths and weaknesses have been expressed in the form of risks assessed (either High (H); Significant (S); Moderate (M); and Low (L) for each area of financial management covered by the questionnaire.

1.4 CRITERIA FOR CLASSIFYING RISKS AS H, S, M, OR L.

The method we used involved defining what we consider as H, S, M and L risks and giving them appropriate weights. Questions that were 'Not Applicable' were not considered for risk categorisation. All other questions were given scores depending on risk category; for example H was given score 4; S was given score 3; M was given score 2; and L was given score 1. To find the risk category for each subject area, a weighted average score for the area was worked out. If for example the weighted average for an area was computed as 2.0, or rounded up to 2.0, the risk in that area was considered as Moderate and so on. The overall risk for all subject areas was worked out using the same method of weighted average.

2.0 OVERALL RISK RATING.

The risk rating of the individual subject areas were as follows: The Implementing Partner (M), funds flow (M), staffing (M), accounting policies and procedures (M), internal audit (M), external audit (S), reporting and monitoring (M) and information systems (M); Overall rating of all subject areas was found Moderate.

3.0 SUMMARY OF FINANCIAL MANAGEMENT ASSESSMENT OF THE IMPLEMENTING PARTNER.

Overall opinion

In general, the financial management structure, policies and procedures of the Ministry of Water and Environment were found satisfactory for the management of the IP. However, shortcomings were detected as follows:

3.1 Observation on Delay of use of code Stamp on some payment vouchers

We noted that some payment vouchers had not been stamped coded to acknowledge their posting into the system.

Implication

Such delays in use of code stamp may lead to double posting of vouchers into the system

Recommendation

The Ministry accounts management should ensure that code stamp is used once the vouchers are posted into the system.

3.2 Observation on external audit management letter and Audit Report

We noted that external auditors (Auditor General) had issued a Qualified Opinion for 2009/2010 financial year due to a number of issues, we could not ascertain the extent of their implementation in the subsequent year 2010/2011 (year ended 30 June, 2011) because the audit report for 2010/2011 was not yet completed.

Implications

Lack of evidence whether the IP has addressed the accountability issues that lead to the qualified opinion on the year 2009/2010 financial statements.

Recommendation

The IP should confirm the status of implementation of the prior year recommendations especially on the accountability issue presented in the audit report.

3.3 Observation on job descriptions

Despite requesting for them, the job descriptions of the Senior staff in finance and accounts department was not given to us for review and inclusion in this report.

Implication

Without knowledge of job descriptions, we have been unable to determine whether there are documented job descriptions that allows for proper segregation of duties and internal checks.

Recommendation

The IP should produce the job descriptions to us or the UNDP. If this is done before the final report is produced, this inclusion of this point in the report could be reconsidered.

MAIN REPORT

1.0 INTRODUCTION.

BVL & Co. Certified Public Accountants were contracted by the UNDP Uganda office to carry out micro assessments of an Implementing Partner (IP), namely Ministry of Water and Environment. Micro assessment is one of the key elements of the new Harmonized Approach to Cash Transfers to IPs. The assessment, that was carried out on behalf of UNDP, involved a review of the financial management capacity of Ministry of Water and Environment. This report therefore covers the assessment of the Ministry of Water and Environment.

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The purpose of the assessment undertaken by us on behalf of UNDP using the harmonized procedures for cash transfers were:

- *Capacity development objective:* To review on behalf of UNDP and government and identify strengths and weaknesses in the Ministry of Water and Environment's capacity for financial management and areas for capacity development by government and others.
- *Financial management objectives:* The review was to assist in the establishment of appropriate cash transfer modalities, procedures, and assurance activities to be applied by UNDP in regard to funding the Ministry of Water and Environment.

1.3 SCOPE OF ASSESSMENT.

The assessment aimed at covering the overall status of Ministry of Water and Environment's financial management capacity through review of funds flow, staffing, accounting policies and procedures, internal audit, external audit, reporting and monitoring and information systems.

1.4 METHODOLOGY OF ASSESSMENT.

As part of our key tools for the work, the UNDP supplied us with a financial management questionnaire to be used to assess the Ministry of Water and Environment's financial management capacity. We put forward the questions in the questionnaire to the management of the Ministry of Water and Environment and evaluated their answers in order to determine the strengths and weaknesses of the Ministry of Water and Environment's financial management capacity. The evaluation of answers also included review of documents where found relevant to do so. The strengths and weaknesses have been expressed in the form

of risks assessed (either High (H); Significant (S); Moderate (M); and Low (L) for each area of financial management covered by the questionnaire.

1.4.1 Criteria for categorising risks as H, S, M or L

High Risk:

At the individual item level within the subject areas in the Financial Management Questionnaire - Indicates an issue that may have a material impact on the IP's financial control, deviations from the relevant laws, regulations, and best practices. As such, the short coming should receive high management attention, because if not addressed it could contribute to total loss of UN Agency funds and affect implementation of the programme activities as well as financial reporting.

At the Overall level of all areas in the Financial Management Questionnaire - Indicates total weaknesses or deviations from relevant laws, regulations, and best practices that are highly material and therefore should receive immediate management attention. If they are not addressed, it could lead to total loss of UN Agency funds and affect materially, the IP's financial reporting.

Significant risk:

At the individual item level within the subject areas in the Financial Management Questionnaire - Indicates an issue that may still have a material impact on the IP's financial reporting or constitute material weaknesses in internal control, deviations from the relevant laws, regulations, and best practices. As such, the short coming should receive significant management attention, because if not addressed they could contribute to some loss of UN Agency funds and affect the implementation of some aspects of the UN programme.

At the Overall level of all areas in the Financial Management Questionnaire - Indicates total weaknesses or deviations from relevant laws, regulations, and best practices that are significantly material and therefore should receive immediate management attention. If they are not addressed, they could lead to some loss of UN Agency funds and affect, the IP's financial reporting.

Moderate risk:

At the individual item level within the subject areas in the Financial Management Questionnaire – Transparency International, the global institution that assesses the level of corruption around the world ranked Uganda's score on a Corruption Perception Index (CPI) as 2.5 out of 10 in 2010; and the ranking as number 127 out of 180 countries considered - which we consider as a very low score. This means that all institutions operating in Uganda are likely to be affected by the corrupt environment (i.e. Country risk). In our opinion, many of the items in the questionnaire are therefore likely to be affected by the Country risk; and end up with at least Moderate risk. Moderate risks is also an indication that the risks assessed for the item concerned is not high or significant, but they may still affect financial reporting and internal control best practices – though not materially.

At the Overall level of all areas in the Financial Management Questionnaire – Still indicates the Country risks for most Uganda institutions that meet satisfactory governance standards. Overall moderate risk also indicates that the risk assessed for the IP is not High or Significant, but the IP's management should be informed of all individual items that have been assessed as high or significant and address them. It is unlikely that UN Agency funds will be lost or the financial reporting immediately affected.

Low risk:

At the individual item level within the subject areas in the Financial Management Questionnaire - Indicates satisfactory compliance with the relevant laws regulations, and best practices in internal control. Financial reports produced will be reliable.

At the Overall level of all areas in the Financial Management Questionnaire - Indicates that the overall financial management capacity of the IP is satisfactory including constant risk monitoring, identification and addressing the risks. Management should however constantly monitor their financial management in order to maintain the low risk

1.5 Overall rating of the risks associated with the Subject Areas in the Terms of Reference:

We assigned weights in the form of scores to the level of risks assessed and attributable to each question in the Subject Areas in Checklist B: Financial Management Questionnaire (enclosed in annex to this report) as follows:

Assigning weights to levels of risk:

	WEIGHT IN NUMBERS
HIGH RISK	4
SIGNIFICANT RISK	3
MODERATE RISK	2
LOW RISK	1

Overall Risk Assessment:

The overall risk assessed was the arithmetical mean of the weighted risk levels in the subject area concerned. We then determined the overall risk assessed for a subject area basing on the following ranges for the mean scores:

OVERALL RISK ASSESSED	AVERAGE WEIGHT RANGE
HIGH	3.5-4
SIGNIFICANT	2.5-3.49
MODERATE	1.5-2.49
LOW	1-1.49

We illustrate below a typical example of how we applied the average weighted scores for the information systems subject Area:

Information systems	Subject Area Questions (N) Represented by codes	Risk Level	Risk Level Weight (W)
	8.1	Moderate	2
	8.2	Moderate	2
	8.3	Moderate	2
	8.4	Significant	3
	<u>N=4</u>		<u>W=9</u>

The arithmetical mean risk from the example above would be 9 divided by 4 -giving a result of 2.25 which if rounded up gives a score of 2 – which we consider moderate risk (as an example scores ranging from 1.5 to 2.49 are rounded up to 2).

2.0 OVERALL RISK RATING AND RISK RATING OF FUNDS FLOW, STAFFING, ACCOUNTING POLICIES AND PROCEDURES, INTERNAL AUDIT, EXTERNAL AUDIT, REPORTING AND MONITORING AND INFORMATION SYSTEMS

The table presented below gives our overall risk assessment for Ministry of Water and Environment and risks assessed in each area of financial management covered using the method of risk assignments given above in paragraphs 1.4 to 1.5. For further details of the risk attached to each question, please refer to the completed Checklist B financial management questionnaire enclosed in annex to this report.

	(a)	(b)	(b)/(a)
SUBJECT AREA	NUMNER OF QUESTIONS	RISK SCORE	OVERALL RISK
	ON WHICH RISKS ASSESSED		
Implementing Partner	5	9	1.8 (M)
Funds Flow	4	6	1.5(M)
Staffing	7	14	2.0 (M)
Accounting policies and procedures	37	74	2.0(M)
Internal Audit	5	10	2.0(M)
External audit	4	10	2.5(S)
Reporting and monitoring systems	7	14	2.0(M)
Information systems	4	8	2.0(M)
OVERALL RISK ASSESSED			1.98(M)

Overall risk is assessed at 1.98; which is rounded up to 2, and considered Moderate risk.

3.0 SUMMARY OF FINANCIAL MANAGEMENT ASSESSMENT OF THE IMPLEMENTING PARTNER.

Overall opinion

In general, the financial management structure, policies and procedures of Ministry of Water and Environment were found satisfactory for the management of the IP. Comments about all areas reviewed are as follows:

3.1 Implementing Partner.

Generally satisfactory

3.2 Funds Flow.

Generally Satisfactory

3.3 Staffing

Generally satisfactory as per ministry guidelines; except that job descriptions for accounts and finance staff were not availed to us.

3.4 Accounting policies and procedures

Generally satisfactory except delayed use of coding stamp on some payment vouchers

3.5 Internal Audit

Generally satisfactory except

3.6 External Audit

Generally satisfactory, except we could not ascertain the extent of their implementation on a number of issues raised in 2009/2010 financial year audit Report,

3.7 Reporting and Monitoring System

Generally satisfactory;

3.8 Information System

Generally satisfactory

4.0 THE ACCOUNTING STANDARD APPLIED IN PREPARATION OF FINANCIAL STATEMENTS.

The financial Statements reviewed were prepared using the Generally Accepted Accounting Practices – (Cash basis accounting)

5.0 INTERNAL CONTROL WEAKNESSES IN FINANCIAL MANAGEMENT AND RECOMMENDATIONS TO ADDRESS OR COMPENSATE FOR THE WEAKNESSES- BOTH IN SHORT TERM AND MEDIUM TERM

We have already noted and described the internal control weaknesses in paragraphs 3.1 to 3.3 above. We now present recommendations for monitoring and assurance activities to address them including recommended short term and medium term capacity development measures

	INTERNAL CONTROL (IC) WEAKNESS DESCRIBED IN PARAGRAPHS 3.1 TO 3.3.	Recommended Short Term Monitoring and Assurance Activities to Resolve/Eliminate the IC Weakness	Recommended Medium Term Monitoring and Assurance Activities to Resolve/Eliminate the IC Weakness
5.1	On delays to Use the code stamp on some payment vouchers (refer paragraph to 3.1 above).	Ministry accounts staff should ensure that once posted the vouchers are stamped coded	The ministry should put in place a quality control mechanism to monitor and ensure that vouchers are properly processed
5.2	On ascertainment of the extent of implementation of a number of issues raised in 2009/2010 financial year audit Report (refer paragraph to 3.2 above).	The Permanent Secretary should avail the report for 2010/2011 or write a signed statement on the status of implementation of the accountability issue that was presented in the financial report for the year 2009/2010.	Not applicable.
5.3	On job descriptions that were not availed to us (refer paragraph to 3.3 above).	The job descriptions should be availed to us or UNDP immediately.	Not applicable

ANNEX I
COMPLETED FINANCIAL
QUESTIONNAIRE
(CHECKLIST B)

ANNEX I - Checklist B: Financial Management Questionnaire¹

Implementing Partner: MINISTRY OF WATER AND ENVIRONMENT

Date: 7th September 2011

Summary of Risks related to the Financial Management Capacity of Implementing Partner					
Tested Subject Area (see subsequent pages for questions for each area that should be completed and summarized in the sections below)					
	Risk Assessment				Comments
	<i>H</i>	<i>S</i>	<i>M</i>	<i>L</i>	
1. Implementing Partner			X		Generally satisfactory
2. Funds Flow			X		Generally satisfactory
3. Staffing			X		Generally Satisfactory; except that job descriptions were not availed to us.
4. Accounting Policies and Procedures			X		Generally Satisfactory except delayed use of coding stamp on some payment vouchers
5. Internal Audit			X		Generally Satisfactory
6. External Audit			X		Generally satisfactory; except we could not ascertain the extent of their implementation on a number of issues raised in 2009/2010 financial year audit Report,
7. Reporting and Monitoring			X		Generally satisfactory

¹ This questionnaire was developed from a questionnaire used by the World Bank.

8. Information Systems			X		Generally satisfactory	
Inherent Risk						
List major specific issues identified in the assessment of the country's public financial management system (macro-assessment), or specific risks related to the nature or operation of the Implementing Partner.			<ol style="list-style-type: none"> 1) Delays in cancellation of a few paid documents. 2) Ascertainment of the extent of implementation on a number of issues raised in 2009/2010 financial year audit Report. 3) Job descriptions should be made available. 			
Overall Risk Assessment			<i>H</i>	<i>S</i>	<i>M</i>	<i>L</i>

H – High S – Significant M – Moderate L –Low

Financial Management Questionnaire

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
1. Implementing partner						
1.1 Is the implementing partner legally registered? Please note the legal status/registration of the entity.	X				1(Low)	The IP is a government ministry, empowered and set up under the Constitution of Uganda
1.2 Has the implementing partner received UN resources in the past?	X				2(Moderate)	The IP has ever received funds from UNICEF in the past.
1.3 Does the IP have statutory reporting requirements? Please describe.	X				2(Moderate)	Quarterly and annual financial reports are prepared and submitted to the Ministry of Finance and Prime Minister's office for periodic reporting and for statutory audits.
1.4 Is the governing body for the implementing partner independent?	X				2(Moderate)	The Governing Body is twofold-Politically by the Minister and Administratively by Permanent Secretary, their independence could at times be affected by political interference (i.e. political risks)
1.5 Is the organizational structure appropriate for the work to be carried out under UN cooperation?	X				2(Moderate)	The IP's organisation structure is attached and we consider it generally appropriate for the work under UN cooperation.
<i>Risk Assessment (Implementing Partner)</i>	H	S	M	L	M	Circle assessed risk for Subject Area 1
2. Funds Flow						
2.1 Can the entity receive and transfer funds?	X				1(Low)	The Ministry receives funds on its bank account in Bank of Uganda and transfers funds from the bank account
2.2 Are the arrangements to transfer the funds to the entity satisfactory?	X				1(Low)	Funds are normally transferred by EFT – and this arrangement is considered satisfactory
2.3 Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from the Government/Ministry of Finance?		X			2(Moderate)	So far no major problem in regard to receipt of funds.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
2.4 In the past, has the entity had any problems in the management of disbursements from a member of the UN country team? Please describe.		X				No problem was disclosed to us or came to our attention during review.
2.5 Does the entity have/need a capacity to manage foreign exchange risks? (if it is expected that the entity will be using funds outside the country.)	X					Bank of Uganda by mandate does handle foreign currency transactions on behalf of the Ministry. We consider bank of Uganda to have capacity to manage foreign exchange risks.
2.6 How is the counterpart funds accessed?			X			No current counterpart funding so far.
2.7 How are payments made from the counterpart funds?			X			Not applicable as there is no current counterpart funding so far.
2.8 If some activities will be implemented by communities or NGOs, does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?	X				2(Moderate)	If some activities are to be implemented by communities or NGO's; then agreements/Memorandum of Understanding are entered/signed between the Ministry and communities or NGOs covering the management of funds provided.
<i>Risk Assessment (Funds Flow)</i>	<i>H</i>	<i>S</i>	<i>M</i>	<i>L</i>	M	Circle assessed risk for Subject Area 2
3. Staffing						

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
3.1 Is the organizational structure of the accounting department appropriate for the level of financial volume? Attach an organization chart.	X				2(Moderate)	There are fourteen staff in Accounts section that is the Principal Accountant, Senior Accountant, two Accountants, four Senior Accounts Assistants and six Accounts Assistants. This is considered appropriate for the level of financial volume and the organisation chart is attached.
3.2 Is the level and competency of staff appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	X				2(Moderate)	<p>From the CV's of the Key Accounts staff – they generally have adequate competence and experience in accounting and finance systems therefore considered appropriate for the level of financial volume</p> <p>The Principal Accountant- Mr. Opio George holds ACCA –UK and a Bachelor of Commerce second class lower from Makerere University</p> <p>The Senior Accountant holds ACCA-UK, a Bachelor of Commerce and completed first year of MSc of Accounting and Finance from Makerere University. The CV's of the key accounts staff is attached.</p>
3.3 Is the implementing partner finance and accounts function staffed adequately?	X				2(Moderate)	With fourteen staff and all positions filled in finance and accounts section. This is considered adequate for accounts function in accordance with ministry guidelines
3.4 Are finance and accounts staff adequately qualified and experienced?	X				2(Moderate)	The Principal and Senior Accountant who are key are considered adequately qualified and experienced to handle the level of financial volume (Refer to 3.2 above).

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Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
3.5 Are accounts and finance staff familiar with UN procedures related to cash transfers?	X				2(Moderate)	The Accounts and Finance staff have ever received funds from UNICEF; therefore considered familiar with UN procedures related to cash transfers.
3.6 What is the duration of the contract of finance and accounts staff?						Permanent and pensionable basis under public service procedures.
3.7 Indicate in the remarks/comments section key positions not contracted yet, and the estimated date of appointment.						All the key positions in Accounts and Finance section are filled.
3.8 Are staff frequently transferred? At what frequency?	X				2(Moderate)	Staff are transferred after five-eight years for normal transfer as per ministry guidelines
3.9 Is there a training policy for the finance and accounting staff? Please describe.	X				2(Moderate)	The Ministry of Finance has a training policy for all staff including Accounts staff and also the Ministry encourages personal initiative of staff to upgrade.
<i>Risk Assessment (Staffing)</i>	H	S	M	L	M	Circle assessed risk for Subject Area 3
4. Accounting Policies and Procedures						
4.1 Does the entity have an accounting system that allows for the proper recording of financial transactions from UN Agencies, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?	X				2(Moderate)	The IP has an Oracle based integrated financial system that records financial transactions satisfactorily in accordance with source and budget lines. However some project funds financial transactions are recorded and processed into reports using Micro Soft Excel software spreadsheets.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	X				2(Moderate)	Payment vouchers are prepared by accounts, Checked/verified by audit unit both internal and external and authorised/approved by Permanent Secretary. This process ensures adequate explanation and approval of transactions and their correctness.
4.3 Is the chart of accounts adequate to properly account for and report on activities and disbursement categories?	X				2(Moderate)	The IP chart of accounts is as per the Ministry chart of accounts. However, for Donor funds it uses the budget line agreed with the donor. The chart of accounts is generally adequate for proper accounting and reporting on the funded activities.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	X				2(Moderate)	The cost allocations are allocated in accordance with the agreed work plans and budget lines.
4.5 Are the general ledger and subsidiary ledgers reconciled and in balance?	X				2(Moderate)	There is system of general and subsidiary ledgers that are reconciled by the Oracle based integrated financial system periodically that is weekly or Monthly.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	X				2(Moderate)	The documents are retained in accordance with Government regulations for at least 7 years before disposal; and during the period of retention, they are accessible to authorised users on request.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
<i>Segregation of Duties</i>						
4.7 Are the following functional responsibilities performed by different units or persons: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?	X				2(Moderate)	<p>Authorisation and approval is done by the Permanent Secretary.</p> <p>Recording of transactions is done by the Principal Accountant</p> <p>Custody of assets is by the Users/Stores</p> <p>This is considered adequate segregation of duties in the area however benefits of segregation could be compromised by staff collusion</p>
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	X				2(Moderate)	<p>-Requisitions and ordering is by the User dept</p> <p>-Receiving is by the Stores</p> <p>-Accounting for and paying for the goods and services is by the Permanent Secretary</p> <p>We consider the segregation of duties adequate.</p>
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	X				2(Moderate)	<p>Reconciliations are done by the Accounts staff-Accountant in liaison with Bank of Uganda The Accountant does not approve payments; It is the Permanent Secretary who authorises/approves payments.</p>
<i>Budgeting System</i>						
4.10 Do the budgets lay down physical and financial targets?	X				2(Moderate)	<p>They specify the amounts of funds involved, physical quantified outputs expected where possible, expected implementers, indicators for achievement of the expected outputs etc .</p> <p>However budgets are always best estimates; and could be prone to errors.</p>

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	X				2(Moderate)	- The budgets present the programmes and a breakdown of the activities under each programme with the budgeted amounts involved. The details enable monitoring of subsequent performance. However, the budgeting process may not reduce the risks of omission of some budget details to a complete low level.
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	X				2(Moderate)	Actual are compared to budget and budget performance reports are prepared and submitted to the Ministry of Finance, Prime Minister's office and Donors for accountability.
4.13 Are approvals from variations from the budget required in advance or after the fact?					2(Moderate)	Approvals of variations are sought and approved by the Donors in advance before spending is carried out.
4.14 Who is responsible for preparation and approval of budgets?	X					Data for budgets are collected by Heads of departments coordinated by Accounts and planning and policy departments submitted to Ministry of Finance for consolidation. Approval is by Parliament of Uganda or Donors.
4.15 Are procedures in place to plan activities, collect information from the units in charge of the different components, and prepare the budgets?	X				2(Moderate)	Budgets are made after collecting information from the user departments. However, The process may not be able to reduce the extent of risk of irrelevant information to a low level.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.16 Are the plans and budgets of activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	X				2(Moderate)	The user departments collect data for Budget input work in departments/locations where activities are carried out. Therefore, they know the needs to be addressed and can therefore make more realistic budgets.
<i>Payments</i>						
4.17 Do invoice processing procedures provide for: <ul style="list-style-type: none"> • Copies of purchase orders and receiving reports to be obtained directly from issuing departments? • Comparison of invoice quantities, prices, and terms with those indicated on the purchase order and with records of goods actually received? • Comparison of invoice quantities with those indicated on the receiving reports? • Checking the accuracy of calculations? 	X				2(Moderate)	<p>All purchases of goods and services are governed by the Public Finance and Accountabilities Act and Regulation 2003.</p> <p>Local purchases orders are used on purchase of stationery and other office supplies.</p> <p>Invoices are paid after going through the normal government processes of checking for validity and arithmetical accuracy</p>
4.18 Are all invoices stamped <i>PAID</i> , dated, reviewed and approved, and clearly marked for account code assignment?	X				3(Significant)	In general, the invoices and their supporting Documents are coded to acknowledge cancellation of documents after payment has been made except for the sample taken D/165/04/11 and D/166/04/11 had not been coded by the time of our review.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	X					For computerised staff (permanent and pensionable) their payrolls are prepared in Ministry of the Public Service who approves all changes after receiving information from the Ministry. Locally paid staff/project staff their payrolls are prepared by the Accounts , approved by the Permanent Secretary and changes in the payrolls is authorised by Permanent Secretary
<i>Policies And Procedures</i>						
4.20 Describe the basis of accounting (e.g., cash, accrual)?						Cash basis of accounting is used.
4.21 Are internationally accepted accounting standards followed? If so, which standard?						The cash basis of accounting, which is followed, is a more comprehensive basis of accounting; and is used mainly in Government accounting.
4.22 Does the entity have an adequate policies and procedures manual to guide activities and ensure staff accountability?	X				2(Moderate)	The Public Finance and Accountability Act and Regulation 2003 contain adequate policies and procedures to guide activities and ensure ministry staff accountabilities.
4.23 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?	X				2(Moderate)	Procedures that ensure that authorised persons can alter accounting principles do exist and are covered in the Public Finance and Accountability Act 2003.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.24 Are there written policies and procedures covering all routine financial management and related administrative activities? Are these accessible?	X				2(Moderate)	Written policies in the form of manuals are in place i.e. Public Finance and Accountability Act and Regulations 2003, Budget Act 2003, Revised Treasury Accounting Instructions on Stores and Finance cover most routine financial management and related administrative issues. These manuals are available and accessible to all accounts staff.
4.25 Do policies and procedures clearly define <i>conflict of interest</i> and <i>related party transactions</i> (real and apparent) and provide safeguards to protect the organization from them?	X				2(Moderate)	Conflict of interest and related party transactions safeguards are covered in the PPDA Part V Section 78 which prohibits Public officers from participating in supply of goods and services to a government entity.
4.26 Are manuals distributed to appropriate personnel?	X				2(Moderate)	Personnel and financial manuals are available to all accounts staff and Departmental heads.
<i>Cash and Bank</i>						
4.27 Indicate in remarks/comments section the names and positions of authorized signatories on the bank accounts.					1(Low)	Authorised bank signatories are; Mr. David .O.Obong – Permanent Secretary Mr. C. Esimu Okuraja – Under Secretary Mr. George Opio- Principal Accountant Ms. Aidati Nandudu-Senior Accountant And Various Heads of Projects and active signatories are that of Permanent Secretary and Principal Accountant.
4.28 Does the implementing partner maintain an adequate, up-to-date cashbook, recording receipts and payments?	X				2(Moderate)	The cash books maintained are adequate, up to date; checked and verified by the internal audit unit

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.29 Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?	X				2(Moderate)	The IP do issue Bank Payment Advice Form and collections made through bank accounts.
4.30 Are bank and cash reconciled on a monthly basis?	X				2(Moderate)	The cash book and bank statement are reconciled monthly, checked and reviewed by responsible officers
4.31 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	X				2(Moderate)	Unusual items on the bank reconciliations, if any, are reviewed by the Senior Accountant and approved by the Permanent Secretary
4.32 Are receipts deposited on a timely basis?	X				2(Moderate)	The IP makes collections (receipting of funds by issuing Bank Payment Advice Form) and only receive a monthly statement from Uganda Revenue Authority.
<i>Safeguard Over Assets</i>						
4.33 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	X				2(Moderate)	Day and night security staff are employed, the ministry headquarters is fenced, Metallic safe is used to store any valuables such as cash and access for use to certain assets is restricted to authorised person(s).
4.34 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	X				2(Moderate)	Fixed Assets Register is in existence as well as a stock register.
4.35 Are there periodic physical inventories of fixed assets and stocks?	X				2(Moderate)	Board of survey is conducted annually by a team selected by the Ministry of Water and Environment.

HACT ASSESSMENT FOR MINISTRY OF WATER AND ENVIRONMENT – SEPTEMBER 2011

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
4.36 Are assets sufficiently covered by insurance policies?		X			2(Moderate)	All assets are not insured. . Government does not insure its assets comprehensively.
<i>Other Offices or entities*²</i>						
4.37 Are there any other regional offices participating in implementation?	X				2(Moderate)	There are field technical support units in Soroti, Gulu, Mbarara, Mukono and Fortportal that do participate in implementation.
4.38 Has the Implementing Partners established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities? Please describe approval process.	X				2(Moderate)	The normal Government accounting controls and procedures are applied in regard to flow of funds, financial information, accountability and audit for the other offices.
4.39 Does information among the different offices/Agencies flow in an accurate and timely fashion?	X				2(Moderate)	Flow of information among the different offices does flow in an accurate and timely fashion like any other government department.
4.40 Are periodic reconciliations performed among the different offices/Agencies?	X				2(Moderate)	Periodic reconciliations are performed among the different offices.
<i>Other</i>						
4.41 Has the implementing partner advised employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of Agency resources or property?					2(Moderate)	Misuse of funds, waste and fraud is reported to the Police or the IGG.
<i>Risk Assessment (Accounting Policies and Procedures)</i>	H	S	M	L	M	Circle assessed risk for Subject Area 4

² Other offices or entities refers to sub-offices of the implementing partners and/or respective parties.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
5. Internal Audit						
5.1 Is there an internal audit department in the entity?	X				2(Moderate)	There is an internal audit unit within the entity. Headed by Principal Internal Auditor to assess whether the entity has complied with Ministry guidelines and the Public Finance and Accountabilities Act 2003.
5.2 What are the qualifications and experience of audit department staff?				X	2(Moderate)	The qualification of the internal auditors of the entity could not be established as their CVs were not provided but like any other civil servants' we considered them qualified and experienced to carry out duties of internal auditor
5.3 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?	X				2(Moderate)	They are independent and report direct to the Audit Committee of the Ministry and they are appointed by Ministry of Finance
5.4 Will the internal audit department include the activities financed by the Agencies in its work program?	X				2(Moderate)	Yes, include activities financed by the Agencies in its work program.
5.5 Are actions taken on the internal audit findings?	X				2(Moderate)	The Permanent Secretary takes action on the findings of internal auditors
<i>Risk Assessment (Internal Audit)</i>	H	S	M	L	M	Circle assessed risk for Subject Area 5
6. External Audit						
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	X				2(Moderate)	Auditor General-Kampala office.

HACT ASSESSMENT FOR MINISTRY OF WATER AND ENVIRONMENT – SEPTEMBER 2011

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
6.2 Are there any delays in audit of the entity? When are the audit reports issued?		X				Financial year audit ended 30 June 2010) was available and that of 30 th June 2011 was on schedule at the time of our review on 07/09/2011 – so no delays.
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	X					Yes, ISAs are followed/applied
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	X				3(Significant)	For the year 2009/2010 there was number of accountability issues raised leading to a Qualified Opinion.2010/2011 audit report was not available – so we could not tell the extent to which accountability issues existed.
6.5 Will the entity auditor audit the AWP accounts or will a separate auditor be appointed to audit the AWP financial statements?	X				2(Moderate)	Yes, Auditor General has the mandate to audit all the Ministry funds including funds received from donors.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?		X			3(Significant)	There was number of accountability issues raised in prior years. Since the 2010/2011 audit report was not available, we could not ascertain the extent of implementation of prior year's recommendations
6.7 Has the implementing partner prepared audit plans?	X					The A.G. plan for the audits from year to year.
<i>Risk Assessment (External Audit)</i>	H	S	M		S	Circle assessed risk for Subject Area 6
7. Reporting and Monitoring						
7.1 Are financial statements prepared for the entity?	X				2(Moderate)	Financial statements are prepared for the Ministry annually and quarterly.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
7.2 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	X				2(Moderate)	Reports are prepared on a quarterly basis in accordance with funding agreements.
7.3 Does the reporting system need to be adapted to report on the AWP related expenditure?		X				There is no need to adopt the system of reporting when reporting on the AWP related expenditure – since projects off the Integrated Financial system are accounted for separately.
7.4 Does the reporting system have the capacity to link the financial information with the AWP's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	X				2(Moderate)	Accountabilities for donor Funds comprises of a financial report and the activity report. Presenting the progress of the activity and breakdown of how the funds were spent. It is possible to link the two reports if necessary.
7.5 Does the Implementing Partner have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	X				2(Moderate)	The specific report format and details are in various donor agreements. However, most cases the agreements are silent on what the reports should be used for.
7.6 Are financial management reports used by management?	X				2(Moderate)	Financial reports are used by the management to monitor and evaluate progress of activities and for budgetary control.
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	X				2(Moderate)	Donors provide formats in which the reports should be produced. The reports normally compare actual and budgeted expenses.

Subject Area	Yes	No	N/A	Review	Risk Category	Remarks/Comments
7.8 Are financial reports prepared directly by the automated accounting system or are they or are they prepared by spreadsheets or some other means?					2(Moderate) M	Some reports are produced using Excel Spreadsheets particularly for those projects off the Integrated Financial System otherwise most reports are produced by the Integrated Financial System and both systems are less susceptible to errors.
<i>Risk Assessment (Monitoring and Reporting)</i>	H	S	M	L		Circle assessed risk for Subject Area 7
. Information Systems	Yes	No	N/A	Review	Risk category	
8.1 Is the financial management system computerized?	X				2(Moderate)	The accounting system is partly manual, use of Excel spreadsheets and Integrated Financial System
8.2 Can the system produce the necessary financial reports?	X				2(Moderate)	The system produces the necessary reports though for manual system there could be increased risk of slow production of reports.
8.3 Are the staff adequately trained to maintain the system?	X				2(Moderate)	The Ministry accounts staff have been trained adequately to run the Integrated Financial System and Excel spreadsheets
8.4 Does the management organization and processing system safeguard the confidentiality, integrity, and availability of the data?				X	2(Moderate)	The system of accounting safe guards confidentiality, integrity and availability of data through restriction on access levels and use of codes. Also there is a system of data back up in place
<i>Risk Assessment (Information Systems)</i>	H	S	M	L	M	Circle assessed risk for Subject Area 8

ANNEX II
COMMENTS OF PTC MANAGEMENT

COMMENTS OF MINISTRY OF WATER AND ENVIRONMENT MANAGEMENT

ANNEX III

**ORGANISATION CHART;
CVs; AND JOB
DESCRIPTION**

