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

15 NOVEMBER 2012

SECTION 1: SCOPE AND BACKGROUND

Introduction

This report sets out the findings of the Technical Team that travelled to Uganda on 25 October 2012 following the release of the Auditor General's Special Investigation Report on the Allegations of Financial Impropriety in the Office of the Prime Minister of Uganda received on 19 October 2012. The report has been prepared by the Technical Team assigned from the Evaluation and Audit Unit of the Department of Foreign Affairs and Trade. This is an independent Unit that reports directly to the Secretary General of the Department. The Terms of Reference are attached at Annex 1.

Scope of Report

This report is confined to issues particular to the misappropriation of €11.6 million of donor funds, including €4 million of Irish Aid funds, intended for the Peace, Recovery and Development Plan (PRDP) but which was fraudulently diverted to previously dormant accounts within the Office of the Prime Minister and subsequently withdrawn by various fraudulent means. The report seeks to explain what happened, what systems weaknesses may have contributed to facilitating the fraud and whether the fraud could have been identified at an earlier stage. The report also seeks to assess any likelihood of such a fraud having occurred in other areas of the Irish Aid programme in Uganda or to reoccur.

Recommendations are mainly confined to issues around the misappropriation of the €4 million of Irish Aid funds and lessons to be learned from this.

Background

The Peace, Recovery and Development Plan is a complex three year (2009-2012 – Phase 1) multi-sector framework for the re-development of fifty five of the conflict affected districts of the North of Uganda. These areas are the poorest and most disadvantaged in the country. The programme is managed and coordinated through the Office of the Prime Minister and chiefly delivered by local governments at district level. It is primarily aimed at infrastructure development in health, education, water and sanitation and roads.

The total budget for Phase 1 of the PRDP from all sources, both government and donors, was c.€473 million of which Ireland contributed €7.25 million[1] over two years. Planning for a Phase 2 of the PRDP commenced in 2012. Ireland had indicated its willingness to contribute to this subject to satisfactory design, management and oversight. Funding was delivered primarily by topping up government grants to districts and was supported by a range of donor funding from Ireland, Norway, Sweden and Denmark.

The PRDP is part of the Irish Aid country strategy programme 2010-2014, which was approved by Irish Aid's external appraisal group (PAEG) in February 2010, following appraisal internally and externally using Irish Aid appraisal guidelines. Following approval by PAEG, a Memorandum of Understanding (MOU) governing the programme was signed between the Governments of Ireland and Uganda by the then Minister for Foreign Affairs on 30th June 2010. Final annual budget

[1] Originally approved 2 year budget for 2010-2011 was €7.5m (2010: €3.5m; €2011: €4m)

allocations are approved by the Inter-Department Committee in January each year.

SECTION 2: MISAPPROPRIATION OF FUNDS IN THE OFFICE OF THE PRIME MINISTER

In April 2011 the Office of the Auditor General (OAG) initiated a value-for-money study into special programmes managed by the Office of the Prime Minister (OPM) as part of its work programme for 2010/11 but the OAG's work was hampered by lack of access to records. In the 2011/12 year the OAG expressed his right of access to information under legislation, and eventually negative publicity in the media led to the OAG being formally requested in August 2012 by inter alia the Permanent Secretary of OPM and donors to carry out a special investigation. The audit commenced in late August 2012 and the report was received by Irish Aid on 19th October 2012.

Ireland disbursed its first contribution of €3.25 million to the PRDP on 21 October 2010, and a second disbursement of €4 million was made on 22 July 2011[2].

The first grant of €3.25 million was transferred into the designated holding account on 21 October 2010 and was subsequently properly credited to the Uganda Consolidated Fund (UCF) Account in Bank of Uganda (the central bank of Uganda) on 12 November 2010. This funding helped finance expenditure under PRDP in the Uganda financial year 2010/2011[3]. Expenditure was mainly through local government departments at district level and this expenditure was included in the Auditor General's 2010/2011 audit.

A second grant of €4 million was transferred into the designated holding account[4] on 22 July 2011. This should also have been transferred to the Consolidated Account[5] "promptly" as per the MOU. However, the funds remained in the holding account until 28 December 2011, a period of five months after the funds were paid in by Irish Aid.

The funds were then on 28 December 2011 fraudulently transferred to a previously dormant account maintained in the Bank of Uganda but under the control of the Office of the Prime Minister. This account was entitled "Crisis Management Account". Other funds in the holding account paid in by the Swedish and Danish Governments were also fraudulently diverted to this and another previously dormant account. In total €11.6 million was fraudulently diverted to these two accounts under the control of the OPM. This transfer required a high degree of collusion at a senior level and knowledge of internal controls including the IT controls and passwords.

Money was subsequently withdrawn from the Crisis Management Account under a number of guises, including transfers to personal accounts, use of fake vouchers and bogus suppliers, forging of signatures etc. As all of this occurred outside of the Government systems the funds are considered misappropriated and were not expended on "development activities".

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[2] The third disbursement of €4m was due to be made in 2012 but has been withheld
[3] The Ugandan Government Financial Year end is June 30th
[4] The Account name was "Support to PRDP-Basket" (003300098000060)
[5] This is the main operational account for government expenditure

The main persons involved in the fraud have been identified in the Auditor General's report. Some have been arrested while others have been suspended pending police enquiries. The ultimate beneficiaries of the misappropriated funds are unknown at this stage, and it would require a detailed police investigation to establish this.

In addition to the direct misappropriation of donor funds via fraudulent transfers to unauthorised accounts, the report of the OAG also identifies a number of transactions over the previous year within the OPM totalling approximately €5 million[6] that were considered as "fraudulently approved". The report identifies systematic bypassing of controls within the OPM including signature forgeries, and payments to companies and organisations of dubious status. The Auditor General confirmed that the funds involved were Government of Uganda (GOU) funds but since GOU funds include funds provided by a number of donors as direct budget support the nature and scale of the irregularities are of concern. The OAG will do further work in this area and a clearer picture of overall levels of irregularities and fraud within the OPM will then be available[7].

Conclusion

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

SECTION 3: GOVERNMENT OF UGANDA SYSTEMS INCLUDING BANK OF UGANDA

Overview of Systems

The public financial management systems of GOU have been assessed on a regular basis by various international agencies (including Public Expenditure and Financial Accountability (PEFA) Assessments in 2005, 2008 and 2012, and Fiduciary Risk Assessments (FRA) undertaken by UK Department for International Development). The systems have largely been found to be functional with appropriate internal controls in place. Internal controls are dependent upon having appropriate and trustworthy people at appropriate levels approving expenditure and payments, as well as systems of passwords, separation of duties, regular reconciliations etc.

In addition the main donors, including the World Bank and EU, monitor a number of indicators of Government performance including some particular to public financial management, through a joint annual assessment process. One of the conclusions of the process in December 2010 was that "The preparation and implementation of the budget, internal budget accountability and external budgetary control satisfies the basic conditions for good public financial management, including

[6] 16.23 billion Uganda shillings; current exchange rate €1 =3300 Uganda shillings

[7] Refer to Section 7 on page 13 below

transparency, accountability and effectiveness in the use of resources".
All Government accounts are maintained by the Bank of Uganda and normal systems applicable to any central bank are in place, including requirements for confirmation of payments, signature verification, cash withdrawal limits and systems for execution of electronic funds transfer (EFT) payment files.

Weaknesses Observed in Systems
It is clear that there were some weaknesses in the system. Bank reconciliations were not done on a timely basis and this escaped the attention of the Accountant General. As noted in the OAG's report, had bank reconciliations been conducted and reviewed regularly as required the fraud issue could have been picked up earlier. Dormant bank accounts were allowed to remain in place, despite the OAG regularly highlighting this weakness and recommending in his annual reports that they be closed.

The Auditor General's report describes how some of the key controls in the Bank of Uganda (BOU) were by-passed. These include confirmation of payments and signature verification as well as violation of cash withdrawal limits. In particular BOU systems around running of electronic funds transfer (EFT) payment files before receiving confirmation data from the Treasury were not observed and this facilitated the fraud.

Had Bank of Uganda controls been implemented properly it is most unlikely that the fraud would have been possible. The non-implementation is largely attributable to the involvement of key personnel at BOU in the fraud collusion rather than weaknesses in the systems themselves. However there were some systems weaknesses particularly those pertaining to internal BOU account-to-account transfers. We were informed by the Auditor General that BOU has since addressed these issues.

Conclusion
While public finance management (PFM) systems in Uganda are reasonably well developed with appropriate controls in place, there are still areas of weakness, in particular the fact that controls can be by-passed. The non-rotation of finance staff in line with GOU's own internal controls was also a significant failure. The management of PFM was not sufficiently rigorous or disciplined as evidenced by the failure to carry out regular and timely bank reconciliations. These weaknesses were exploited by those responsible for the fraud.

In the case of Bank of Uganda it was a case of failure to implement controls that facilitated the fraud rather than their absence. The failure by BOU to receive written confirmation of EFT transfers from Treasury before effecting payments was a significant factor in the execution of the fraud.

In relation to inter-account transfers, and the BOU's responsibility in relation to the closing of dormant accounts, it would appear that BOU systems were not sufficiently strong. We understand that these issues have been addressed since the publication of the OAG's report.

SECTION 4: IRISH AID INTERNAL FINANCIAL CONTROL SYSTEMS

This Section describes Irish Aid internal controls in relation to disbursements and post-disbursement follow-up. This is followed in Section 5 by a description of the programme monitoring and management arrangements in place.

a) Irish Aid Internal Control Systems over Payments to Partners

Irish Aid has a range of internal controls governing payments to partner organisations, including Governments. These are set out in the Financial Policies, Guidelines and Procedures Manual of Irish Aid. The controls include:

1. Appropriate separation of duties
2. Appraisal of partners' systems, which in the case of government partners involves utilising PEFAs, FRAs and other assessments, as well as Irish Aid's own recently introduced public financial management assessment procedure
3. A comprehensive disbursement checklist setting out all of the main issues that must be satisfied prior to approval of payment. This is approved by the Sub-Accounting Officer (Head of Mission)
4. Processes and requirements for financial monitoring and reporting.

In addition, a memorandum of understanding (MOU) governing Irish Aid's contribution to a partner sets out the appropriate terms and conditions for proper management of the programme.

Process for Disbursement of Funds

The process to be followed before funds can be disbursed to a partner is set out in the Irish Aid Financial Policies, Guidelines and Procedures Manual and provisions specific to the particular programme are set out in the relevant memorandum of understanding. All of the various stages in approving the payment are captured in a disbursement checklist with appropriate sign-off for each stage. The Head of Mission as Sub-Accounting Officer ultimately approves the payment.

Once the disbursement checklist is approved payment is made by direct transfer from the Embassy's bank account (held at Standard Chartered Bank) to the designated bank account set out in the MOU. Confirmation of the transfer including details of the account to which the funds are transferred is received from the Embassy's own bank. Irish Aid financial regulations require that a receipt is obtained but are not adequately specific on the level of detail required. Ideally a receipt should detail any subsequent transfer of funds to specific accounts as set out in the MOU, and should include either copies of bank statements or copies of any transfer documents.

Payment Approval Process for PRDP payments

Before the disbursement process for PRDP can start in the Embassy the following steps must be met by the programme:

1. Overall positive assessment by the joint donor group of government performance discussed and agreed at the Joint Budget Support Framework (Irish Aid has a condition that the

assessment must be that when 70% of the indicators are met a full disbursement will be made. Other levels of disbursement are pro-rata on percentage achievement).

2. The key trigger for requests of payment is that the PRDP monitoring committee meeting is held, after which Ireland requests a requisition of funds from MOFPED. A key report supporting the payment is the Auditor General's report for the pre-previous year.

In respect of the transfer of funds for the PRDP we are satisfied that all of the pre-disbursement conditions were complied with and that appropriate authorisation for disbursement was in place. The funds were properly transferred to the holding account set out in the MOU and the subsequent fraud was carried out from bank accounts under the control of the MOFPED.

As regards receipts, it is not the practice of MOFPED to always automatically issue receipts for funds transferred into their accounts, sometimes they need to be requested. Receipts are generally in the form of a letter acknowledging receipt of funds and confirming the bank account into which they were deposited. A complete receipt should detail the subsequent transfer of funds to the Consolidated Fund and include either copies of Bank of Uganda statements or copies of any transfer documents, and such receipts were received for some grants

In respect of the €4 million grant to PRDP in 2011, a receipt was on file but it had no supporting documentation and did not confirm the transfer of funds to the Consolidated Account. Thus it was of limited assurance.

Other Payments to Government by Irish Aid

Other payments to Government made in 2010 and 2011 were checked and we are satisfied that these were correctly received by Government and are reflected in the accounts appropriately. However it was noted that in some instances receipts were not on file.

Conclusion

We are satisfied that correct procedures were followed by Embassy Kampala in relation to the disbursement of the funds for PRDP and that confirmation was available from Standard Chartered Bank that the transfer was made to the correct MOFPED bank account in the Bank of Uganda as stipulated in the MOU.

There was not a proactive system within the Ministry whereby transfer of funds into the consolidated account was confirmed to donors. This in itself is not critical. However, in conjunction with the other weaknesses in the Government of Uganda internal controls and in overall management of this programme, had there been a proper process in place to obtain this confirmation, it is possible that the fact that the funds were still in the holding account would have been detected sooner. It must also be said though that a fraud of this nature involving such a high level of collusion would not normally be considered as a risk requiring special mitigation measures.

b) Irish Aid's Systems in Relation to Post-Disbursement Follow up

As outlined in the preceding paragraph there are a number of key controls in place prior to disbursement of funds to partners. Once the funds are transferred to partners, including Government, they are no longer under the direct control of Irish Aid and thus there are systems to ensure there is accountability around the subsequent disbursement and use of funds. In the case of funds provided to Government the main controls are:

- In-year expenditure reports of the particular programme, based on information received from MOFPED and further analysed by donors where necessary
- Annual financial statements of the particular programme funded
- Annual audit by the Office of the Auditor General, and in many cases specific audits of individual programmes

These general controls have to be considered in the context of the nature of the programme, the specifics of the MOU and the donors involved. While a programme can rely on partner government financial reporting, it is usually necessary to further collate and analyse information to obtain a clear financial overview of a programme, which typically would be done by a "secretariat" or "project implementation unit". While there is such a body in place to support donors in their overall interactions with Government it is not specifically focussed on PRDP reporting.

Specific Financial Management Arrangements for PRDP

The MOU governing Irish Aid's contribution to the PRDP stipulates that MOFPED will provide financial statements showing all sources of funding, with sufficient detail to identify all sources of funding including Government of Uganda's contribution, and semi-annual and annual budget performance, including expenditure by district and by major function.

Most of these pieces of financial information are individually available in various documents, although the specific Government contribution to the programme was less clear. Government produces a detailed account of its expenditure across all government entities every six months. Funds received from donors are set out separately in this document and it is possible to reconcile the figures in this account with disbursements made by an individual donor.

However, the various elements of financial information were not brought together in one clear report for the PRDP, so donors did not have a clear financial overview. This is essential in order to properly manage the programme. Indeed, the overall PRDP is not a coherent programme as it is comprised of a number of separate projects brought together in a conceptual programme but not an actual defined programme. This was a significant factor in the non-identification by the four donors of the fact that the funds provided had not been transferred into the Consolidated Fund by Bank of Uganda.

Conclusion

There were weaknesses around the financial management of the PRDP and the provisions regarding financial management as set out in the MOU were not sufficiently followed up by the donors in terms of making sure they had a clear proper overview of both funding and expenditure in the programme. As part of annual and mid-year donor-government reviews, financial reporting on funding flows needs to follow the measures outlined in the MOU. Donors also need to ensure that they have full information on funding flows in and out of consolidated and holding accounts.

Had there been the required proper financial reporting on a six-monthly basis, it is likely that the failure of funds to be transferred into the Consolidated Fund would have become apparent sooner.

c) Annual Audit by Office of the Auditor General

A significant control and source of assurance for Irish Aid around Government programmes is the annual audit and other pieces of work carried out by the OAG. On receipt of the OAG report donors conduct an analysis of the sections of the report relevant to the development programme and issues arising are followed up. In many cases the annual statutory report is complemented by other audit work specific to a particular programme.

For the Uganda country programme, the audit requirements are set out in paragraph seven of the Memorandum of Understanding between Ireland and Uganda[8]. The MOU specifies that "The financial audit of the programme activities under this MOU shall be done by the Auditor General of Uganda". The OAG of Uganda commences his annual audit after the year end (June 30th) and the report is available nine months later (April of the following year).

The latest annual report from the OAG covering the financial year 2010/11 highlighted a number of issues though there were no specific issues relating to the PRDP. This is not entirely surprising because, as noted above, he was unable to conduct the planned value-for-money work on special programmes in the Office of the Prime Minister.

Conclusion

While we are satisfied with the OAG's audit of programmes like the PRDP, given that it was a new and ambitious programme, a plan for a specific annual audit and/or other in-year audit work by the OAG should have been considered by the donors. While the OAG's overall annual audit cannot cover all programmes of government every year in detail, any substantial new programmes or funding arrangements require particular audit focus.

SECTION 5: PROGRAMME MONITORING AND MANAGEMENT ARRANGEMENTS

The previous section set out the arrangements around disbursement and post-disbursement. This section sets out the arrangements for monitoring and management post-disbursement. The section first describes the overall management and monitoring arrangements, then goes on to describe those specific to the PRDP.

Irish Aid Systems

Irish Aid has a comprehensive, rigorous system for the design, appraisal and approval of its development programmes at country level. This is accompanied by regular and detailed monitoring and reporting of the key outputs at both national and sectoral level, complemented by strong engagement and tracking at local level to assess the quality and delivery of the programme. Irish Aid also commissions key tracking studies or research, independent to national systems, to look at key thematic issues.

[8] Memorandum of Understanding governing the programme was signed between the Governments of Ireland and Uganda by the then Minister for Foreign Affairs of Ireland and the then Minister of Finance of Uganda on 30th June 2010.

Irish Aid has independent systems of audit and evaluation carried out by the Evaluation and Audit Unit of the Department of Foreign Affairs and Trade to ensure the programme and financial support reach their intended targets and that lessons are learnt from implementation that feed into policy change and design of new programmes.

Headquarters Level
A programme country Desk exists at headquarters level to provide overall coordination and support to the programme countries. The role of the Desk is primarily support and link to headquarters senior management. The main decisions around the day to day implementation of the programme take place at Embassy level.

Embassy Level
At country office level there are systems for the management and monitoring of the each of our programmes. These are summarised as follows:

- The Head of Mission, as sub-accounting officer, has overall responsibility for the country programme. The Head of Mission is supported by the Head of Development, Development Specialists and a wider programme team, made up of local sector experts and programme executives. The programme is supported by the general administration, finance, internal audit and other support staff.

- The responsibility for the delivery of the Irish Aid country programme lies with the Head of Development and supported by the Development Specialist and senior advisors. In Uganda there are three programme teams working in the areas of governance, social services and economic opportunities. There are regular monthly programme meetings to review progress and discuss issues affecting the implementation of the programme.

- A senior management team provides coordination, direction and oversight of the programme implementation, financial and internal audit issues, annual business planning, managing risk, and other strategic issues.

Peace Recovery and Development Plan (PRDP)
The PRDP is part of the Irish Aid country strategy paper for 2010-14, which was approved by Irish Aid's external Programme Appraisal and Evaluation Group (PAEG) on the 18^{th} of February 2010, following appraisal internally and externally using Irish Aid appraisal guidelines.

Monitoring and management arrangements of the overall PRDP are outlined in the MOU signed between the Government and the donors. The MOU outlines the reporting requirements, including physical and financial reporting, roles and responsibilities, overall contributions by partners, procurement, audit, corruption and dispute settlement, and coordination and dialogue arrangements.

Overall progress on programme outputs is monitored by Ireland and other contributing donors, through:

- High level assessment and dialogue with Government of Uganda on PRDP as part of the overall performance by government during the annual and mid-year joint donor-government reviews
- Six-monthly formal steering committee meetings chaired by the Prime Minister
- Regular monthly PRDP official and technical meetings with the Office of Prime Minister

Irish Aid also has a Liaison Office based in Karamoja region which monitors the work and outputs of the programme in the region and has a close working relationship with the local government. The office submits regular monthly reports on progress and challenges. There are also regular monitoring visits by senior management and sector advisors from the Embassy in Kampala.

Irish Aid has also commissioned the office of the Budget Monitoring and Audit Unit of the Ministry of Finance, Planning and Economic Development to carry out detailed monitoring on a quarterly basis and provides reports every six months on the delivery of the outputs of the PRDP in Karamoja. These are detailed reports that highlight key issues and challenges and make recommendations for follow up.

Irish Aid has also commissioned a number of additional studies to look at thematic areas such as the added benefit of the additional donor funds in the region, changes in customary law, exploring the potential of mining and tourism. The study on additional funds highlighted the extra funds that were available to PRDP districts through the programme, however it also showed a reduction in overall funding available to PRDP districts from normal central government transfers.

Conclusion

The design and appraisal process was rigorous and included a risk assessment process. The monitoring and management arrangements as set out in the MOU were adequate and appropriate to a programme of this nature. However, these arrangements should have been further elaborated into an action plan within the donor group responsible for managing the programme. This would have required clarity around allocation of responsibilities, the nature of reports, including financial reports, some linking of activity reports to budgets and expenditure reports, and also clear processes for following up on issues identified in monitoring reports. A comprehensive risk analysis should also have been carried out and informed ongoing monitoring of the programme.

In summary, a stronger systematic methodology by Irish Aid and the donor group in dealing with the recommendations and findings of these monitoring systems in dialogue at national and local level could have assisted in ensuring that some of the weakness were addressed. This is essential for the proper management of the programme and also had it been in place, could have assisted in identification of the non-transfer of the donor funds into the programme at an earlier stage.

SECTION 6: ROLE OF EVALUATION AND AUDIT

The Irish Aid programme is audited in a number of ways including:

- Audits directly undertaken by the Evaluation and Audit Unit of the Department of Foreign Affairs and Trade
- Irish Aid Missions in the programme countries and selected partners are audited annually by commissioned internationally reputable audit firms
- Audit reports from the national auditors general in partner countries, where Public Expenditure Financial Accountability or other assessments have given satisfactory ratings to these bodies
- Audits commissioned with other donors of jointly funded programmes.

There is an internal auditor in place in the Embassy in each of the programme countries. This is a locally recruited individual with international qualifications.

Annual Embassy Audit

In each programme country an annual audit of the Embassy's systems is carried out by an international[9] firm covering both programme and administration expenditure. While the audit is mainly directed at ensuring that the accounts of the Embassy show a true and fair view, the audit also focuses on systems around managing programmes, compliance with MOUs and the adequacy of internal controls

Public Financial Management Assessments

Recognising that an increasing amount of money is going through government systems across the Irish Aid programme, Irish Aid has in the past two years introduced a process of Public Financial Management (PFM) Assessment, whereby the systems including audit systems in each country are assessed with regard to their comprehensiveness and reliability. These are to be carried out twice in each five year country strategy paper cycle, as part of the planning for the strategy and again mid-way through the strategy. A first round of assessments has been undertaken over the past eighteen months, with the field visit for the Uganda assessment process having been undertaken in early October 2012. While the report is under preparation it had noted a deterioration in the PFM environment in Uganda, in particular the bypassing of key internal financial controls across government, especially procurement and payroll.

Work of Internal Auditor

The internal auditor at Embassy level is responsible for all internal audit functions and for the design and implementation of a risk based internal audit programme appropriate to the perceived risks in the particular country. The internal auditor is also the person who normally tracks developments in PFM in the programme countries, assesses reports from the national audit office (NAO) and provides advice to the Head of Mission on areas of risk, adequacy of internal controls and any specific instances of non-compliance with agreed procedures. The internal auditor also maintains regular contact with the NAO to ensure that areas of risk around programmes are included in audit

[9] Or internationally affiliated in some countries

programmes of the NAO. The internal auditor reports to the Head of Mission and the Evaluation and Audit Unit.

The internal audit work tends to focus outwards to the partner rather than more internally as to how Irish Aid is managing the partnership and ensuring that requirements in a given MOU are met. In Uganda the internal auditor participates in the Public Financial Management working group through which donors interact with Government around the strengthening of the Public financial management system. The internal auditor focuses in particular on work with the Office of the Auditor General. The economist in the Embassy participates in a working group around analysing the budget and strengthening budget processes.

Conclusion

The audit and oversight arrangements at programme country level are reasonably comprehensive and regularly reviewed but in the case of the Uganda programme there was not adequate risk identification in respect of individual components of the country programmes. Also while there is a formal reporting system whereby the internal auditor submits reports to the Evaluation and Audit Unit, and discusses these with the Head of Mission and the Head of Development before submission, other necessary structures whereby Embassy level senior management keep abreast of internal audit issues arising were less structured.

SECTION 7: OTHER RELEVANT ISSUES

a) Role of the Auditor General in Uganda

We are satisfied with the quality of work by the OAG and that it remains central to the audit of all government programmes. This has been confirmed through a number of independent assessments. Irish Aid has provided support to the Office of the Auditor General for more than ten years and has developed a close working relationship.

As a follow up to this Special Investigation the OAG is planning a series of assignments to further review and audit the OPM, the PRDP and Government of Uganda PFM systems. These include:

- a wider audit of the whole of the OPM and all funding it received in the past two years, including GOU funds
- some more in-depth work following up on the Special Investigation into the OPM
- an audit of the whole of the PRDP “programme” though as this covers some 55 districts in Northern Uganda it will necessarily be on a sample basis
- a detailed audit of the Treasury and IFMS system, the EFT system and the link to BOU
- a review to verify whether the problems identified in the OPM may have spread across the system, are they widespread and systemic or confined to OPM and some other ministries
- completion of the originally planned Value for Money study on Special Programmes in OPM to the extent possible

The OAG plans to do as many as possible of the above by April 2013; they will also complete the annual statutory audit by 31 March 2013[10].

Conclusion

This workplan is welcome though ambitious. If there are any requests from OAG for support these should be favourably considered.

b) Capacity and Skills within Irish Aid

It is noted that the specific issue around the misappropriation of funds occurred at a time when there was a simultaneous change in the two key senior management posts at the Embassy level, both the Head of Mission and Head of Development. While there is an established process for written handover, and this was properly complied with, the organisation policy does not allow for sufficient face-to-face handover in the changeover of each post. In addition the internal auditor was on maternity leave during this time, and while a replacement was engaged on a part-time basis during her leave this person did not have sufficiently detailed knowledge around the complexities of the programme. It is also noted that the Embassy currently has a vacancy of a development specialist in its approved establishment.

Increasingly, the nature of Irish Aid's programmes, including at country level, require a combination of more specific technical and financial skills. Sometimes when working with other donors these are available within the larger donor group and it may not be as critical for all the skills to be available within Irish Aid. It is necessary that Irish Aid understand what skills are needed to manage and oversee a particular programme and where any gaps are identified that steps are taken to fill these.

Stronger business continuity planning is a key part of dealing with risks around human resource gaps and ensuring that there are no critical gaps in understanding of the programme and its environment.

SECTION 8: SUMMARY OF CONCLUSIONS

1. This was a very sophisticated well thought out fraud involving a high level of collusion at a senior level. The fraud was conceived and carried out by personnel in collusion who had an intimate knowledge of systems within Ministry of Finance, Planning and Economic Development, Office of the Prime Minister and Bank of Uganda. It is considered that the level of collusion was exceptional and could not have been normally anticipated.

2. All of the €4 million of Irish Aid funds involved and the funds of the other three donors (a total of €11.6m)[11] were fraudulently transferred from the legitimate bank accounts into which the donors had properly deposited the money to fraudulent dormant accounts outside of the government system. The funds were subsequently fraudulently withdrawn from these accounts. There is no possibility "that some of the funds might have been used for development purposes". All of the €4 million of Irish Aid funds are considered as misappropriated.

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[10] It is noted that DfID is also currently carrying out a separate audit of funding provided by them to the OPM

[11] Demark, Norway and Sweden

3. The main players involved in the perpetration of the fraud are identifiable and most have been suspended. It is impossible to know who the ultimate beneficiaries of the funds were and the possibility that there may have been beneficiaries other than the direct perpetrators cannot be ruled out. This is a matter for police and other investigative bodies to pursue.

4. Some weaknesses in systems facilitated the fraud, both in Treasury and Bank of Uganda. These weaknesses were not clearly identified in the various external assessments of public financial management systems carried out by international bodies and donors.

5. The PRDP support was appropriately analysed, appraised and approved in accordance with Irish Aid guidelines and the management, monitoring and oversight arrangements set out in the MOU were comprehensive. The implementation of the provisions of the MOU and how these would work in practice were deficient in some areas, especially in relation to the financial management of the PRDP.

6. Within Irish Aid systems, specific weaknesses and the failure to fully comply with certain controls designed into the PRDP lessened the likelihood of earlier detection of this fraud. In particular was the failure to ensure that adequate financial data as set out in the MOU governing the PRDP was available in a single overview document.

7. In addition to this particular fraud involving Irish Aid and other donor funds, the findings in the Auditor General's report strongly indicate the existence of extensive malpractice around financial management in the Office of the Prime Minister. Further information on this will become available when the Auditor General completes his planned follow up work in 2013. We are satisfied with the work programme outlined by the Auditor General to follow up on this issue. We believe that this is the most appropriate and efficient manner to identify any other weaknesses in the systems and any other possible irregularities.

8. We are satisfied with the work of the OAG, not just on this particular case but with the overall independence and capacity of the office. Issues are clearly brought to light and recommendations made but the problem is with meaningful follow up and implementation of recommendations across government.

9. While there is no direct link between donor management of the PRDP and the fraud the failure by donors to adequately monitor all the requirements of the MOU, especially in relation to proper financial information, was a significant absence and may have contributed to the failure to identify the fraud at an earlier date.

10. The complexity of aid programmes demands that a high level of attention is given to ensuring that the correct skills mix is in place for management of programmes. A more pro-active approach is required in ensuring that programmes are adequately staffed in terms of numbers and skills, and that this is maintained as staff change through the normal rotation system that pertains in the Department of Foreign Affairs and Trade.

SECTION 9: RECOMMENDATIONS

1. Full recovery of the €4 million should be sought and funds should be returned to an account under the control of the Department of Foreign Affairs and Trade.

2. No further disbursements should be made to the Government of Uganda until all the follow up audits planned by the OAG are completed, Government's response to the findings has been assessed and there is credible evidence of sustained improvement in internal controls over the PFM system. This is likely to be late second half of 2013 at the earliest.

3. It would be inadvisable to proceed with any programmes managed or under the supervision of the OPM for the foreseeable future and at least until the further reports are received from the OAG and substantively addressed.

4. Any further audit work relating to PRDP, OPM and MOFPED controls should be left to the office of the OAG. Donors, including Irish Aid, should establish a mechanism for communication with the OAG to ensure that areas of concern are included in future audits.

5. If so requested, support should be considered for the OAG to ensure that the work programme outlined is completed in the shortest possible timeframe.

6. In implementing programmes, in particular new programmes, consideration should be given as to whether additional audit work over and above the annual statutory audit by the OAG is necessary. This should be discussed with the OAG and could include internal audit, specific programme audit, or some form of ongoing audit of internal controls at various levels of the programme.

7. Provisions of MOUs must be translated into specific systems, processes and actions at operational level. This applies in particular to the requirement that proper financial information is available. All programme managers should understand the financial flows and key obligations agreed to in programme MOUs and have the tools to assess risks in the programme they are managing. A basic understanding of the system of national accounts is essential in this.

8. Embassy Kampala should review and strengthen where necessary its implementation of the requirements of the Irish Aid Financial Policies, Guidelines and Procedures Manual and also ensure that roles and responsibilities in this area are clearly defined and properly understood.

9. Embassy Kampala must ensure procedures are in place to track clearly that funds disbursed to Government are properly received into and transferred to the agreed accounts on a timely basis and reflected in published government accounts.

10. The required structures for regular interaction and communication between internal audit and senior management at the Embassy should be fully activated and utilised and relevant issues arising should be brought to the attention of headquarters promptly in accordance with existing

policies.

11. The Evaluation and Audit Unit should review its workplan and consider ways to further strengthen its focus on risk areas. Linkages and communications between internal auditors at headquarters and field level should be strengthened including increasing frequency of visits.

12. The adequacy of the Department's policy around handover processes should be reviewed to ensure that there is adequate continuity between changing staff in managing complex programmes of this nature. This should include provision for substantive face-to-face handover in the Embassy.

13. Regular risk assessments should be carried out across all programmes including risk assessments of specific programmes or projects. This would take account of the changing risk profile which is characteristic of many developing countries.

14. In light of issues raised in this report a review should be undertaken of the management arrangements, including risk and financial management, in all programme countries to ensure that all procedures and protocols are being properly implemented and risks appropriately identified and managed.

Annex 1

Terms of Reference

Evaluation & Audit Unit Technical Team Mission to

Irish Embassy Kampala on 25th October, 2012

Overall purpose

The overall purpose of the mission is ***"to establish as best possible the whereabouts of the Irish funds lodged to the Peace Recovery and Development Programme (PRDP) Basket Account."***

Methodology

1) Conduct a detailed analysis of the Auditor General's Special Investigation into the Office of the Prime Minister, with the Embassy-based Internal Auditor, to establish as far as possible the likely levels of funds unaccounted for and funds misappropriated, and by whom.

2) Review the flow of funds from disbursement by the Embassy through to district level project implementation, both intended and actual.

3) Meet personally with the office of the Auditor General to discuss the specifics of the Special Investigation Report, and seek assessment of the wider implications across the Government of Uganda public financial management system and weaknesses therein.

4) Assess the overall management arrangements in respect of the Peace, Recovery and Development Plan for Northern Uganda (PRDP) programme, including in particular the Embassy's internal arrangements for monitoring and oversight of the programme.

5) An assessment of the actual programme activities and outputs to date.

6) The mission will also include meetings with other donors involved and any other relevant parties as considered necessary by the technical team.

Reporting

On return the technical team will present a report for the Secretary General.

Annex 2: List of Acronyms

BOU	Bank of Uganda
DfID	Department for International Development (UK)
EFT	Electronic Funds Transfer
FRA	Fiduciary Risk Assessment
GOU	Government of Uganda
IFMS	Integrated Financial Management System
MOFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of Understanding
NAO	National Audit Office
OAG	Office of the Auditor General
OPM	Office of the Prime Minister
PAEG	Programme Appraisal and Evaluation Group
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
PRDP	Peace, Recovery and Development Plan
UCF	Uganda Consolidated Fund