

FINANCIAL ADMINISTRATION

E.R. Richardson

Financial administration receives separate and particular attention in our Report because proper financial management is indispensable to good government everywhere, and because there seems to have been such deliberate and consistent deviation from its principles and practice during the period of the military regime.

Accountability and Parliamentary Control

2. This paper is not a legal examination of the situation in Uganda at the present time. It takes as given the provisions to the 1967 Constitution and the laws which have not been amended, subject to the proclamation made by ex-President Lule in the name of UNLF. Neither is it a report on a financial investigation, but merely an attempt to assist the new Government to assess its priorities.

3. The Public Finance Act, Cap. 149 of the laws of Uganda, enacted on the 9th October, 1962, provides for the control and management of the public finances of Uganda, for the audit of public accounts and of the accounts of statutory bodies and other matters.

4. Part II of that Act requires the Minister of Finance so to supervise the finances of the country as to ensure that full account is made to the National Assembly and that its financial control is maintained. The Minister is authorised to make regulations and issue instructions and directions, as he deems necessary, for the proper carrying out of the intent of the law. Such financial and accounting regulations, including instructions in regard to the custody of stores, have been issued - Accounting Regulations in 1963, Financial Regulations in 1968 and Regulations on the keeping of Stores in 1970. They are complete and detailed, and show little difference from those in regular use in the majority of former British colonies.

5. Part III of the Act lays down the duties and powers of the Controller and Auditor General (or Auditor General as he has been named since 1968), who acts on behalf of the National Assembly. All public accounts should be submitted to him for audit.

6. Whilst the Auditor General's Department appears to have operated under some indirect pressure throughout the period of the military regime, this official was not actually prevented from discharging the duties of his office, as they applied to the audit of the Government accounts. The result is that his successive annual reports on the public accounts of Uganda are a faithful chronicle of the conduct of public financial affairs during the eight years of the military regime. One need not delve deeper than his reports, therefore, (both on the accounts that were presented for his examination and those that were not) to find consistent evidence of gross mismanagement in the public finances of Uganda.

7. Now an indispensable element in the system of financial control laid down in laws like the Ugandan Finance Act is that the National Assembly should stand at the end of the chain of reporting, and that officials responsible for public revenue and expenditure should be always liable to be called to account before a standing Committee of Parliament for their management of public funds. In the case of Uganda the National Assembly was suspended as soon as the military regime took power, and the Public Accounts Committee followed the Assembly into suspension.

8. The regime prepared and published every year a budget with revenue and expenditure proposals. As this budget could not be presented to a National Assembly for approval, it represented no more than a statement of intentions of the President and his Cabinet. The Executive Authority was under no commitment to abide by the intentions stated in the budget. The President and Cabinet could freely change their minds.

9. Once or twice since 1972, proposals were advanced for setting up a new Public Accounts Committee apart from the National Assembly, but none of these proposals was followed through. No one in authority, least of all the President, appears to have shown any interest in the content of the reports by the Auditor General, and unfortunately nothing was done about the deficiencies in practice which he brought to attention.

10. Examples of the deficiencies exposed in these reports may be seen by the following extracts from the reports for the years indicated below:-

<u>Year 1972/73</u>	<u>Shs.m.</u>
Unvouched or incompletely vouched expenditure	93.7
Expenditure in excess of approved votes	0.1
Unauthorised expenditure (in 8 ministries)	0.02
Returns of arrears of revenue received: 1 out of 21 due	
Revenue uncollected	7.5
No books of account being kept by The Abandoned Property Custodian Board	
<u>Year 1974/75</u>	
Bank reconciliation statements at the end of the year not rendered by 24 ministries	
Accounts of special funds not received - 31 (This compares with 18 in 1872/73, and 26 in 1973/74)	
Unvouched or improperly vouched expenditure	27.0
Expenditure in excess of approved votes	20.0
Losses of stores valued at	0.6
In overseas missions, misappropriation of funds; posting of abstracts and vote control books and deposits and advances ledgers 10 months in arrears	
In the Ministry of Agriculture, 29 dishonoured cheques valued at Shs.40,864, the majority being cheques drawn by public officers	
Purchases of tyres and tubes outside of Tender Board procedures	0.1
14 apparently fraudulent cash payments	0.9
<u>Year 1975/76</u>	
Boards of Surveys on stores: 10 received out of 277 due	
Improperly vouched expenditure in 15 ministries	45.0
Balance on the purchase of an Embassy not accounted for and returned	0.9
Payments to private firms for repairs to government vehicles without authority or certificates	0.7
Subsidy payments to farmers who are ministry employees	0.06
<u>Year 1976/77</u>	
Boards of Survey on cash and bank balances at the end of the year: Due: 337; received: 46, Number accompanied by bank reconciliation statements: none	
Overpayments of salary	0.3
Potentially fraudulent expenditure with mission or incomplete vouchers	15.1
Expenditure in excess of authority:-	
Office of the President	0.7
Ministry of Culture and Community Development	0.9

<u>Year 1976/77 (contd/...)</u>	<u>Shs.m.</u>
Arrears of revenue - Office of the President	3.4
Rice bought for schools and unaccounted for - 300 bags valued at	0.4
Purchase by the Ministry of Defence of commodities from two suppliers with neither delivery notes nor ledger reference	2.4
value	

Central Book-keeping

11. Even more serious from another point of view was the Auditor's monotonous report each year, listing the accounts and statements required by Section 27 of the Finance Act which should have been presented by the Treasury for his examination but had not been so presented. Para 19 of the Report for 1976/77 is an eloquent example. It says:

- Accounts Submitted by the Treasury. In paragraph 20 of my last report, mention was made of the failure by the Treasury to submit for audit the undermentioned statements relating to the previous four consecutive financial years. The situation persisted during the year under review and I am not aware of the steps proposed to be taken towards rectifying the position. The statements in question are:

- Statement of Receipts into and Issues from Consolidated Funds*
- Balance Sheet of the Consolidated Fund*
- Balance Sheet of the Treasury General Account*
- Summary of the Appropriation Accounts
- Summary of Statements of Revenue*
- Summary of Statutory Expenditure Accounts
- Statement of Public Debt
- Statement of Contingent Liabilities
- Statement of Loans made by Government
- Statement of Subscriptions to International Organisations*
- Statement of Assets held in Development Banks

* Relates to 1972/73 only

Thus for the 5th year running, it has not been possible to publish Section 1 of the Public Accounts nor to compile the Out-Turn of Revenue and Expenditure, the Combined Budget Results and Public Debt or to extract the Surplus and Deficit, the General Revenue and Capital Development Accounts, all of which should normally be incorporated into or annexed to this report.

It should be borne in mind that the accounts and statements referred to here are the main public accounts of the Government of Uganda, required by law, and in the absence of which it is impossible to tell the true state of the country's financial affairs or to see what has been done with public revenues, expenditure and balances over the preceding period. The non-production of the summary accounts for 1972/73 is probably explained by the untimely removal of many finance officials of senior status and experience at the time when non-Ugandans were driven out of the country, but no satisfactory explanation appears to be forthcoming for the failure to produce the summary accounts and statements for subsequent years.

12. The question naturally arises: what steps were taken by the Minister of Finance and his deputies to see that the financial rules were complied with? A few appeals by letter were made to other ministries, but these were largely ignored and brought few results. Were no sanctions applied? It took some time to discover that the situation in Uganda during this period was not one in which financial officials had merely been delinquent in the discharge of their duties. The trouble was to be found in the highest circles of the Government. The Office of the President which should have been the centre of authority reinforcing respect for established financial procedures became, instead, the prime agent of disrespect for such procedures. The President's wishes could always be cited as authority enough for some proposed irregularity. Lip service only was paid by the Cabinet to the observance of financial rules.

13. Officials in the financial departments of the Government with some measure of defensiveness protest that no one who was remote from that financial scene could understand the general atmosphere of financial disorder, disregard for established regulations, undue preference, and open intimidation in which the business of the Government was carried on. This was, they say, a regime without law. The non-accounting for stores, procurement of supplies without Tender Board authority, expenditure in excess of approved votes and the refusal to keep proper records were all part of a system in which members of the Cabinet and those who had the favour of the President for the moment came to regard themselves as above both law and regulations. Officials who tried to resist the depredations on the public resources were jailed for obstruction or worse.

Foreign Exchange

14. As a resource in greatest scarcity, foreign exchange became the object of particular depredations by ministers and others in authority. A minister could call on the Bank of Uganda for advances of foreign exchange, indicating or not, as the occasion demanded, the purpose for which the exchange was required. He was not obliged to provide the local shillings in payment, but would get the exchange nevertheless. Ministers could place orders overseas for their pet projects and incur commitments against the budget and the country's foreign exchange resources, without either the knowledge or consent of the Treasury.

15. The Bank of Uganda looked to the Minister of Finance for instructions concerning drawings on the foreign exchange resources of the country. It carried out the Minister's instructions and it appears that other ministers were always able to obtain, if they chose, the consent of the Ministry of Finance to their drawings on the foreign exchange resources of the nation.

Parastatals

16. Such was the situation in the central Government. In Uganda, the area of governmental activity which is carried on through parastatal agencies is more extensive than any other country not formally recognised as having a 'centrally organised' economy. It is necessary, therefore, to examine also the state of financial administration in these agencies.

17. The name parastatal is applied in Uganda to two very different types of semi-government agency:

a) The first is the familiar government corporation, similar to those which many other countries have set up. It is established by an Act of Parliament (or Presidential Decree under the military regime) which defines its objectives, powers and resources and usually provides for specific financial control and accounting. Such Corporations are usually set up to pursue some governmental aim or provide some service which is thought to require operating flexibility and independent day-to-day decision-making power such as the central Government's departmental practices do not permit. The Bank of Uganda, the Uganda Commercial Bank, the Coffee and Lint Marketing Boards, the National Insurance and Housing Corporations and the Steel Corporation were parastatals of this first category. There were 11 such bodies set up between 1966 and 1974.

b) The other main category of parastatals was the former private businesses which the military Government decided to take into the public domain, the only reason for the decision to vest these businesses in government being their former ownership by non-Ugandans. There were 45 such companies taken over from departing Asians under Decrees Nos. 29 and 32 of 1972, and 44 tea growing estates and other businesses from persons of British nationality under Decree No. 11 of 1975. Developments were as follows:

- The Asian businesses were assigned to native Ugandans to manage, at first under the Uganda Development Corporation as their supervising manager. They were later removed, however, from supervision by the UDC and allocated in groups to various ministries of central Government for control and guidance. (For a list of these bodies according to their guiding ministries see Annex 8 to the paper on parastatals).

- Commercial banking finance did not always continue to be available to such businesses after their vesting in Government, and continued pressure had usually to be applied to the susceptible banks and credit institutions to supply them with working capital.

c) A further group of parastatals, similar in kind to the first group mentioned above, had to be established in 1976 and 1977 (when the East African Community appeared to be breaking up) to take care of those services which had been provided up to then on a regional basis. The Post and Telecommunications Corporation, the Uganda Railways Corporation, Uganda Airlines, the Harbour Services etc. are parastatal agencies of this third kind.

18. Officers of parastatal bodies would certainly appear to be 'entrusted with the receipt, custody and payment of public money and the custody of Government property' (in the language of the Finance Act). To what extent the procedures laid down in the Financial and Accounting Regulations apply to their accounts is, however, not quite clear. It can be argued that such an officer is not obliged to submit his accounts to the Auditor General for audit unless he is expressly directed so to do by the Secretary to the Treasury.

(The Accounts of the Bank of Uganda were removed from the schedule of the Auditor General after some awkward questions were asked by him and are now being audited by a private firm of Accountants).

19. Was financial control exercised within parastatal agencies? Again the report of the Auditors is a guide to the state of affairs :

e.g. The Coffee Marketing Board is a crucial agency in the management of the country's major export crop and the mobilisation of foreign exchange resources, yet year after year the private Auditor's report on the accounts of the Coffee Board carried the following significant and attention-demanding qualification:

- No quantity reconciliation of coffee movements during the year were prepared by the Board, as a result of which we have been unable to satisfy ourselves that all coffee purchased by the Board was accounted for.

And no action appears to have been taken by the authorities to whom these 'certified' accounts were presented every year.

20. A remoteness from Treasury and Finance Ministry control and the direct involvement of the Minister in their affairs seems to be the distinguishing feature of their financial administration :

- Each group of parastatals tended to acknowledge the financial authority only of its own Minister or Regional Governor. Attempts by the Ministry of Finance to call for financial statements from the smaller Agencies were met by frivolous excuses such as 'inability to find competent Accountants', in which the parastatal would be supported by its Minister.

- If the Minister concerned chose to apply enough pressure to his colleague, the Minister of Finance, he could always obtain a Government guarantee on behalf of any parastatal in respect of loans and overdrafts which banks and credit institutions had supplied to those agencies. Thus the inconvenience and the necessity to answer awkward questions which would be involved in an application to the Ministry of Finance for a direct loan or grant from the central Government budget, was avoided.

21. We recommend that the Ministry of Finance should call for early reports from all parastatal bodies on their present financial position, and insist on receiving details of their assets (including fixed investments) and liabilities, and on disclosure of all assumed obligations which may have to be discharged in foreign currency.

22. Where the Ministry of Finance is satisfied that a particular parastatal is unable to have a proper statement prepared, the Ministry should have the authority to select an accountant, and instruct him to examine the books (at the parastatal's expense) and prepare whatever statements and accounts are required.

23. Another form of control which the Minister of Finance should rigorously enforce in future is to call for regular reporting by both lenders (where possible) and borrowers on the sums which are actually outstanding from time to time on Government-guaranteed loans and overdrafts.

The Task Ahead

24. The most immediate and urgent task which confronts the new Government in the field of financial administration, is to separate itself completely from that pattern of financial management which characterised the military regime. This separation is essential in the interest of the public service, which confidently expects it. The separation is indispensable also in the interest of Uganda's external image and the need to ensure that the country reinstates itself in international opinion.

25. Dramatic new action should be taken by the Government to demonstrate to everyone that the era of gross financial mismanagement and corruption in Uganda has come to an end, and that a new era of probity, honest management of the public finances and strict observance of financial regulations has begun.

Policies and Resources Needed

26. It is recommended that the Government signal the change by another Proclamation or a formal Presidential Order, which should be issued as early as practicable in the new financial year.

27. The institutional modifications would be few. They would relate entirely to the role of the Consultative Council. An earlier statement intimated the Government's intention that the National Consultative Council should serve as a Parliament of Uganda until new elections are held. It should be made clear that the Council will approve the national budget which the Cabinet will present to the Council in the normal way.

28. The National Consultative Council should be invited to establish a Public Accounts Committee as a standing committee of the Council, appointed to receive accounts by Accounting Officers and to consider the reports and comments by the Auditor General on the accounts of public bodies. No minister or person with Executive authority should serve on this Committee of the Council. It could commence its work with the accounts for the year 1978/79.

29. As regards financial control in the Executive Branch, the Proclamation should reaffirm the validity of the Finance Act and emphasise the Government's firm intention to ensure that financial and accounting regulations are strictly observed in future.

Supervisory Powers of the Ministry of Finance

30. The full and complete authority of the Ministry of Finance should be confirmed over the management of all public funds and public property, including the collection and custody of public revenue, the raising of public loans and the creation of public obligations, the expenditure of public funds and the care and maintenance of public property. It should be emphasised that the Ministry of Finance exercises a supervisory function over other ministries and departments in matters relating to the public finances.

31. The civil service should be reminded that every public officer described in Section 4(1) of the Act has a duty to obey instructions of the Ministry. Civil servants should be assured at the same time, that ministers will not in future attempt to control or frustrate public officers in the discharge of their financial duties.

32. In order to ensure that particular attention is paid to financial administration from the very start of the rehabilitation period, we recommended that the Government of Uganda should select or designate or appoint a new senior official in the Ministry of Finance, not lower in status than Deputy Secretary of the Treasury who should be given full responsibility for the oversight of financial administration in the public service and parastatal bodies.

Note:

Governments which have experienced no deterioration of financial practice such as has occurred in Uganda have yet found it necessary to distinguish the function of financial supervision from that of central accounting for public expenditure, and to assign special staff in the Ministry of Finance for the supervision of financial management in ministries and departments.

Accounts in Arrears

35. All public accounts should be kept up to date in future. Where any ministry's or department's public accounts are in arrears or if books and statements have not been kept up to date, a proper complement of staff should be reserved for keeping current records and accounts so as to avoid any new fall into arrears. Other staff will be assigned to the duty of preparing overdue accounts and records.

Appointments

34. The present status of the super-scale posts in matters relating to appointments, promotions and dismissals should be reviewed. The recent experience in the country has dramatically shown what serious consequences can flow from the appointment to posts of Permanent Secretary and Accounting Officer of persons unqualified to fill them. The Presidency should divest itself of the direct power to make appointments to super-scale posts. All such posts, including that of Permanent Secretary should be filled in future on the recommendation of the Public Service Commission. The President could well retain, however, the power to assign Permanent Secretaries to the various ministries after appointment.

Special Tax Exemptions

35. All exemptions from internal taxes presently enjoyed by personnel of the Armed Forces should be abolished. It should be made clear that such facilities and pre-requisites as the Government intends personnel of the new Armed Forces to enjoy in future will take the form of specific allowances and will be provided for in the new Armed Forces Regulations.

Parastatals

36. The UNLF Government has announced its commitment to a mixed economy. Very different interpretations have been given to a similar commitment in different countries at different times. Our view is as follows:

i) We have suggested elsewhere that the new Government take immediate steps to make clear both to the public of Uganda and to potential investors from overseas precisely what its own commitment to a mixed economy involves. Private enterprise, both local and foreign, will wish to know how far the new Government will roll back the encroachment of the Amin regime on the private sector, and on what criteria it will determine the release of some of the present government-controlled businesses.

ii) In terms of financial control it should be made clear that the officers of parastatal bodies whether established by law or decree have a similar duty to those of public offices in regard to the management of public funds and are equally accountable to the Ministry of Finance and ultimately to the Consultative Council.

The Contribution of External Assistance

37. Very little external assistance is needed by Uganda in the area of financial administration:

i) Facilities might be offered by the Government to encourage former Senior Officials in financial departments who left Uganda in 1972 to rejoin the service. (It is understood that their Civil Service entitlements were never abrogated).

ii) For the first two years, it might also be necessary to call on some Commonwealth country to provide the Deputy Secretary of the Treasury for financial administration. Beyond this, only facilities for training of Audit and Treasury staff would be required. Other Commonwealth countries could be requested to take people for short periods into their Treasuries and Audit Departments. The Commonwealth Secretariat should consider organising a training course for auditors on Ugandan soil.

iii) Later in the reconstruction period, say during 1980/81, an experienced official should be engaged for the task of reviewing and updating the Financial and Accounting Regulations.