THE REPUBLIC OF UGANDA

THE EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (EATTFP)

(MINISTRY OF WORKS AND TRANSPORT COMPONENT)
IDA CREDIT NO.4147 UG

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014
TOGETHER WITH THE REPORT AND OPINION THEREON BY THE
AUDITOR GENERAL

OFFICE OF THE AUDITOR GENERAL
UGANDA
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<tr>
<td>EATTFP</td>
<td>The East Africa Trade and Transport Facilitation Project</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>UG</td>
<td>Uganda</td>
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<tr>
<td>GoU</td>
<td>Government of Uganda</td>
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<tr>
<td>PPDA</td>
<td>Public Procurement and Disposal of Public Assets.</td>
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<td>EAC</td>
<td>East African Community</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
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<tr>
<td>MOWT</td>
<td>Ministry of Works and Transport</td>
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<tr>
<td>US $</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
</tr>
<tr>
<td>URC</td>
<td>Uganda Railways Corporation</td>
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<tr>
<td>JV</td>
<td>Joint Venture</td>
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<tr>
<td>Wrks</td>
<td>Works</td>
</tr>
<tr>
<td>OSBP</td>
<td>One stop Boarder Post</td>
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<tr>
<td>ICD</td>
<td>Inland Container Depot</td>
</tr>
<tr>
<td>EA</td>
<td>East Africa</td>
</tr>
<tr>
<td>TMEA</td>
<td>Trade Mark East Africa.</td>
</tr>
</tbody>
</table>
THE EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT
(EATTFP)
(MINISTRY OF WORKS AND TRANSPORT COMPONENT)
IDA CREDIT NO.4147 UG

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

THE RT. HON. SPEAKER OF PARLIAMENT
I have audited the accompanying financial statements of the East Africa Trade and Transport Facilitation Project (EATTFP) (Ministry of Works and Transport Component) IDA Credit No.4147-UG for the year ended 30th June 2014. The financial statements set out on pages 6 to 25 comprise of;
- Statement of receipts and payments
- Statement of financial position
- Statement of sources and uses of funds
- Schedule of withdrawal applications
- Notes to the financial statements including a summary of accounting policies used.

Management’s Responsibility for the financial Statements
Management is responsible for the preparation and fair presentation of the Project financial statements in accordance with the IDA guidelines and the cash basis of accounting as described under note 1 to the financial statements and for maintenance of such internal controls as management determines is necessary for the preparation and fair presentation of the Project financial statements that are free from material misstatements whether due to fraud or error.

Auditor’s Responsibility
My responsibility is to express an opinion on the financial statements based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISA). Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor’s judgment, including the assessment of the risks of material misstatements of the financial
statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Part “A” of this report sets out my opinion on the financial statements. Part “B” which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

**PART “A”**

**Opinion**

In my opinion, the project financial statements present fairly in all material respects the financial performance of the East Africa Trade and Transport Facilitation Project (EATTFP) (Ministry of Works and Transport Component) IDA Credit No.4147-UG as at 30th June 2014 and the receipts and payments for the year then ended in accordance with the IDA guidelines and the basis of accounting described under note 1 to the financial statements.

John F.S. Muwanga

**AUDITOR GENERAL**

2nd December, 2014
I have audited the special account statement of the East Africa Trade and Transport Facilitation Project (EATTFP) (Ministry of Works and Transport Component) IDA Credit No.4147-UG for the year ended 30th June 2014 which is set out on pages 13-17 of the financial statements.

Management Responsibility for the Special Account Statement
Project management is responsible for preparation of the special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations and IDA guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility
My responsibility is to express an opinion on the Special Account Statement based on my audit. I conducted the audit in accordance with International Standards on Auditing and the IDA guidelines on auditing. Those standards and guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the Special Account statement is free from material misstatement. I believe that the audit provides a reasonable basis for my opinion.

Opinion
In my opinion, Project management complied in all material respects with IDA rules and procedures and that the special account statement for the East Africa Trade and Transport Facilitation Project (EATTFP) (Ministry of Works and Transport Component) IDA Credit No.4147-UG for the year ended 30th June 2014 presents fairly in all material respects the account transactions and the closing balance as at 30th June 2014.

John F.S. Muwanga
AUDITOR GENERAL

2nd December, 2014
REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION
PART “B”
This Section outlines the detailed audit findings, management responses, and my recommendations in respect thereof.

1.0 INTRODUCTION
Article 163 (3) of the Constitution of the Republic of Uganda requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the East Africa Trade and Transport Facilitation Project (EATTFP) (Ministry of Works and Transport Component) IDA Credit No.4147-UG for the year ended 30th June 2014 to enable me report to Parliament.

2.0 PROJECT BACKGROUND
The Credit Agreement between Government of Uganda and the International Development Association (IDA) was signed on 7th April, 2006. Under the agreement, IDA agreed to provide a credit amounting to SDR 18,200,000 million (US $26.4 million with US $2.8m allocated to URA) to finance the Project activities.

The project became effective on 2nd April 2007 and was scheduled to close on 30th September 2011, however due to delays in the implementation of the key sub components, GoU requested for an extension of the Credit closure date, which was granted up to 30th September 2014. The closing date has further been revised to 30th September 2015.

The Project is executed jointly by the Ministry of Works and Transport (MoWT) and Uganda Revenue Authority (URA).

3.0 PROJECT OBJECTIVES AND COMPONENTS
The project has the following major components;

i) Customs component
ii) Border posts sub-component
iii) Weighbridge sub-component
iv) Railway sub-component

The Project development objectives as at the start of the Project (April 2007), were;
i) Improve trade environment through the effective implementation of the EAC customs union protocol.

ii) Enhance transport and logistics services efficiency along key corridors by reducing non tariff barriers and uncertainty of transit time along key international transport corridors in EA.

iii) Improve railway services in Kenya and Uganda.

However, following the restructuring on June 23rd, 2011 the project lifespan was extended from 30th September 2011 to 30th September 2014 and the project objectives were revised to;

i) Enhance efficiency of customs agencies’ clearance processes for the EAC partner states participating in the EA customs union, to facilitate trade.

ii) Improve efficiency and reliability of transport and logistics services along the key corridors.

iii) Enhance safety in identified areas and reduce the recipient’s fiscal transfers to railway institutions by rationalizing the workforce on the Kenya-Uganda railway.

4.0 AUDIT OBJECTIVES

The audit was conducted in accordance with International Standards on Auditing and included a review of the accounting records, accounting policies used and agreed procedures as was considered necessary.

The Audit was carried out with regard to the following objectives;

a. To express an opinion as to whether the financial statements for the year ended 30th June 2014 present fairly in all material respect the receipts and payments of the project as well as the cash position and are in conformity with generally accepted accounting principles.

b. To establish whether the special account has been maintained in accordance with the provisions of the Credit Agreement.

c. To evaluate and obtain a sufficient understanding of the internal control structure of the project, assess control risk and identify reportable conditions, including material internal control weaknesses.

d. To establish whether project managers are managing the project in compliance with the covenants contained in the financing agreements as well as Government of Uganda financial regulations.

e. To establish whether all procurements of goods and services under the project have been undertaken in accordance with GOU procurement guidelines and procedures as specified in the PPDA Act 2003.
f. To establish whether all necessary supporting documents, accounting records as well as books of accounts have been kept in respect of all project activities.
g. Whether project activities have been implemented as stated in the work plans and budgets.

5.0 AUDIT PROCEDURES PERFORMED

a. Revenue/Receipts
Obtained a schedule of all project funds provided by IDA and Government of Uganda and reconciled the amounts to the project’s cash books and bank statements.

b. Expenditure
Reviewed the Programme funding Agreement to ascertain agreed budget line activities for the IDA and GOU funding and checked whether funds were utilized in accordance with the approved work plan.

Vouched transactions of the programme in particular funding received and expenditures incurred during the period covered by the audit in order to establish that documentation in support of expenditure agreed with the amount and description on the payment vouchers and or applications, bank statements and was properly controlled and accounted for.

c. Internal Control System
Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period.

d. Procurement
Reviewed procurement of goods and services for the project and reconciled with the approved procurement plan.

e. Fixed Assets Management
Reviewed use and management of project assets during the period under review.

f. Periodic Reports about project Activities
Reviewed the programme agreement provisions, and reconciled it to the project activities during the period under review.

g. Programme Financial Statements
Examined on a test basis, evidence supporting the amounts and disclosures in the programme financial statements; assessed the accounting principles used and
significant estimates made by programme management as well as evaluating the overall financial statements presentation.

**AUDIT FINDINGS**

6.0 **COMPLIANCE WITH THE FINANCING AGREEMENT AND GOVERNMENT OF UGANDA PROVISIONS**

Project Management complied in all material respects with the provisions in the agreement and GoU regulations except in the following matter;

6.1 **Unreleased Budgeted Project Funds (IDA & GOU)**

Analysis of budget for the year showed that the Project expected funding from IDA and GOU to a tune Shs.894,846,000 and Shs.11,910,000,000 respectively. However, I noted that only Shs.14,227,175,761 was received from IDA and Shs.2,357,076,832 from GOU translating into 45% performance of the total budgeted funds for the year as summarised in the schedule below;

<table>
<thead>
<tr>
<th>Details</th>
<th>Budgeted Amount</th>
<th>Actual Receipts</th>
<th>Variance</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA Funds</td>
<td>24,894,846,000</td>
<td>14,227,175,761</td>
<td>10,667,670,239</td>
<td>43% of funds not applied for due to the low rate of absorption.</td>
</tr>
<tr>
<td>GOU funds</td>
<td>11,910,000,000</td>
<td>2,357,076,832</td>
<td>9,552,923,168</td>
<td>80% of the budget not funded.</td>
</tr>
<tr>
<td>Total</td>
<td>36,759,845,000</td>
<td>16,584,252,593</td>
<td>20,220,593,407</td>
<td></td>
</tr>
</tbody>
</table>

Funds totalling to Shs.9,552,923,168 (26 % of the total budget) from GOU was not released to the project. Low absorption capacity coupled with the non-release of funds from GOU affects implementation of the planned activities and could lead to unnecessary project extension costs.

Management explained that the unreleased funds from GOU had been budgeted for taxes that were finally waived by Ministry of Finance as at 30th June 2014 while the slow disbursement of funds from IDA was a result of delayed completion of works for Malaba OSBP and Mukono Railway ICD.

I advised management to take up the matter with appropriate authorities for purposes of obtaining adequate funding and enforce monitoring to ensure project activities are completed as scheduled.
7.0 **GENERAL STANDARD OF ACCOUNTING AND INTERNAL CONTROL**

A review of the project financial management system was carried out and it was observed that management had instituted adequate controls to manage project resources.

8.0 **PROJECT IMPLEMENTATION**

8.1 **Inspection of construction works at One Stop Border Posts (OSBP)**

I inspected four OSBPs at Katuna, Mutukula, Mirama, Busia, Malaba and Mukono ICD was carried out between the 24th August and 5th September 2014.

It was noted that works at all the OSBPs and Mukono Railway ICD were behind schedule despite several requests to have the project extended.

Specific observations at each inspection site are as below:

8.1.1 **BUSIA OSBP**

The construction of Busia OSBP at a contract sum of Shs.15,898,641,294 was for a period of 12 months. Works commenced on 29th August 2013 and was to be completed on 28th August, 2014. At the time of inspection, the agreed time period had expired and the construction works were far behind schedule. At the time of reporting, the progress of works was estimated at 60% and the contractor had provisionally been given the extension up to end of December 2014. Such delays have an effect on project performance.

In response, management explained that some major works could not commence due to the need to keep the border operational. Management further indicated that there was a funding challenge for extra works which were omitted at the bidding stage yet the works were essential for OSBP operations. These include purchase and installation of firefighting equipment, Generator and Stabilizer, borehole, relocation of the national fiber optic cable, and extension of truck parking yard. The cost variation to cater for the above extra works was estimated at about Shs.2 billion and that TMEA was soliciting for the funds.

I advised management to liaise with the PS/ST and IDA on the matter and have the extra works urgently funded to avoid any delays and costs associated with project extension.
8.1.2 MALABA OSBP

The construction of Malaba OSBP was agreed at a contract sum of Shs.15,708,759,579 to be completed within 12 months effective 29th August 2013. The expected date of completion was scheduled to 28th August, 2014 however, this period had expired before completion of works. At the time of inspection, works were estimated at 75% completion. As at the time of reporting, I noted that management had not secured a “No Objection” for the project extension from the IDA. Non completion is likely to extend the project life further.

In their response, management explained that the Contractor’s performance was affected by delayed relocation of URA customs office and delayed construction of exit road by UNRA. The Ministry applied for an extension of the IDA credit in March 2014 however, the extension has not been secured. Management has continued to work with the contractor to achieve practical completion of major works by the credit closure date of 30th September 2014. Presently, the average physical progress of works at Malaba is estimated at 94% and full completion will be achieved by end of November 2014.

I advised management to seek for an extension and have the construction finalized.

8.1.3 MUTUKULA OSBP

The construction of Mutukula OSBP commenced on 6th September 2013 at a contract sum of Shs.18,793,900,201. The expected date of completion was 5th September 2014, however, at the time of inspection, the expected date had expired yet a substantial amount of work had not been done. Delayed completion of works has greatly affected the performance of the project.

Management explained that the contractor’s underperformance was a result of partial site possession by the contractor due to land disputes with Project Affected Persons which caused a design review/alteration in the project area; delayed relocation of Government border agencies (Immigration and Police); additional excavations due to marshy soil; and less mobilization by the contractor.

However, the above issues have been resolved and the average physical progress of works was presently at 60% completion. The contract was also extended to 2nd December 2014 to enable the contractor complete all outstanding works.
I advised management to monitor the contractor closely and ensure that the works are completed within the extended timelines.

8.1.4 **KATUNA OSBP**

The construction of Katuna OSBP at a contract sum of Shs.8,951,277,750 commenced on 13th June 2014 and was estimated to be completed on 13th June, 2015. At the time of inspection, the contractor had completed demolishing of the existing structures preparing the site for construction works to commence. It was evident that works may not be completed at the set period.

I advised management to ensure close monitoring so that the project is completed on schedule.

8.1.5 **MIRAMA HILLS OSBP**

The Construction of OSBP at Mirama Hills at a contract sum of US $ 7,817,703.32 commenced on 4th July 2013 and the revised completion date had been set for 19th September 2014. At the time of inspection, the extension had expired and the physical progress of works achieved was estimated at 70%. Delayed completion of works affects border post operations and could lead to unnecessary project extension costs.

Management explained that the slow progress was attributed to the Supervision Consultant who is based in Nairobi where decisions and instructions are taken; contract administration differences with former Project Architect which caused delays in procurement of materials and processing of documents/payments; additional scope due to demolitions and bulk excavations; heavy rains in South Western Uganda and low mobilization by the Contractor. Management indicated that the above issues have now been resolved and the average physical progress of works had reached 80%. Consequently, the contractor was given up to end of December to complete all outstanding works. The contractor has also been served a notice to charge liquidated damages.

I advised management to enforce the provisions of the contracts and ensure that the contractor speeds up the works at the border posts to avoid escalation of contract costs.
8.1.6 **MUKONO ICD**

The Construction of proposed Railway Inland Container Depot (ICD) at Mukono by an international construction company at a contract sum of US $ 8,688,120,112 commenced on 10th December 2012 and was expected to be completed on 10th December 2013 but was later revised to 9th June 2014. At the time of inspection, the constructions were estimated at 50% completion way below expected performance. As explained earlier, delays are likely to affect the project performance and time extensions.

Management explained that the contractor’s underperformance was caused by among others; partial site possession due to disputes between Uganda Railways Corporation (URC) and Mukono District Council over the ownership of existing warehouses that was later resolved in July 2014; death of the Contractor’s site engineer in December 2013; and increased scope of works on the office block and container platform.

However, all the above challenges were resolved and extension sought from the financiers to the end of December 2014 and the average physical progress of ICD works was presently estimated at 85% completion. It was further indicated that the contractor has been served with a notice to charge liquidated damages.

I advised management to increase suspension and monitoring with a view of having the construction completed within the extended time period.

9.0 **STATUS OF PRIOR YEAR AUDIT OBSERVATIONS AND RECOMMENDATIONS**

It was noted that matters pointed out in the previous period were being implemented though not fully resolved. The summary of the status is indicated below:

<table>
<thead>
<tr>
<th>Audit Issue</th>
<th>Recommendation</th>
<th>Current Status As at 30/6/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unreleased funds Shs.6,912,531,767:</td>
<td>Management was advised to fast track the implementation of the outstanding activities.</td>
<td>Construction Works are in progress, most of the OSBP are above 50% performance level but behind schedule. This continued to affect the absorption rate. Implementation in progress</td>
</tr>
<tr>
<td><strong>Acquisition of Land for the project:</strong></td>
<td>Management was advised to expedite the process of acquiring the titles</td>
<td>At the time of audit (September 2014) the acquired land was to the tune of Shs.6,623,307,277 but the titles had not been secured.</td>
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<td>---</td>
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</tr>
<tr>
<td><strong>Undelivered mandatory spares-USD 35,596.00:</strong></td>
<td>Management was advised to ensure that the spare parts are delivered.</td>
<td>Spares were delivered.</td>
</tr>
<tr>
<td><strong>Delayed construction of border posts:</strong></td>
<td>Management was advised to ensure work is expedited</td>
<td><strong>Implementation is in progress though works are behind schedule.</strong></td>
</tr>
<tr>
<td><strong>Land ownership:</strong> ICD Mukono claim by Mukono District Administration that needed compensation</td>
<td>The Accounting Officer was advised to take up the matter urgently with appropriate authorities to ensure the dispute is resolved quickly.</td>
<td>After a series of meetings between the Ministry’s technical and political leadership and Mukono District Council, the latter finally accepted the Ministry’s offer of Shs.490 million on 8th July 2014 and allowed ICD project works to proceed. <strong>Implementation in progress</strong></td>
</tr>
</tbody>
</table>

I advised management to ensure all the recommendations are fully implemented so as to realize the project objectives.
FINANCIAL STATEMENTS