REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF UGANDA ENERGY CREDIT CAPITALISATION
COMPANY ENERGY FOR RURAL TRANSFORMATION PROJECT II (ERT II)

IDA CR. NO.4554-UG AND GEF TRUST FUND GRANT AGREEMENT NO. TF:
9094484

OFFICE OF THE AUDITOR GENERAL
KAMPALA
# TABLE OF CONTENTS

LIST OF ACRONYMS .................................................................................................................................................. iii

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LIMITED ENERGY FOR RURAL TRANSFORMATION PROJECT (ERTP II) (IDA CREDIT NO. 4554-UG AND GEF GRANT NO.TF9094484) FOR THE YEAR ENDED 30TH JUNE, 2015 ................................................................................................................. 1

1.0 INTRODUCTION .................................................................................................................................................. 1
2.0 BACKGROUND ..................................................................................................................................................... 1
3.0 OBJECTIVES OF THE COMPONENT ..................................................................................................................... 2
4.0 AUDIT SCOPE ....................................................................................................................................................... 3
5.0 PROCEDURES PERFORMED ................................................................................................................................. 4
6.0 PROJECT IMPLEMENTATION ............................................................................................................................... 5
7.0 COMPLIANCE WITH FINANCING AGREEMENT AND GOVERNMENT OF UGANDA FINANCIAL REGULATIONS ................................................................................................................................. 8
8.0 GENERAL STANDARDS OF ACCOUNTING AND INTERNAL CONTROL ............................................................. 8
   8.1 Categorization of findings ................................................................................................................................. 9
   8.2 SUMMARY OF FINDINGS ............................................................................................................................... 9
   8.3 Mischarged expenditure ................................................................................................................................. 9
# LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>UECCCL</td>
<td>Uganda Energy Credit Capitalization Company Limited</td>
</tr>
<tr>
<td>UETCL</td>
<td>Uganda Electricity Transmission Company Limited</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
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I have audited the financial statements of Energy for Rural Transformation Project Phase II (ERTP II) - Uganda Energy Credit Capitalization Company Limited (UECCCL) Component funded by IDA Credit No.4554-UG and GEF Grant No.TF9094484 for the year ended 30th June 2015 which comprise of the Statement of Financial Position, Statement of comprehensive Income, Statement of Cash Flows, Special Accounts Statements and a summary of significant accounting policies and explanatory notes.

Management’s responsibility for the financial statements
The project management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Development Credit Agreement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility
My responsibility as required by Article 163 of the Constitution of the Republic of Uganda 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to audit and express an opinion on these statements based on my audit. I conducted the audit in accordance with International Standards on Auditing. Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor’s judgment including the assessment of risks of material misstatement of financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity’s preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances but not for
purposes of expressing an opinion on the effectiveness of the entity’s internal control. 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 opinion.

Part “A” of this report sets out my opinions on the financial statements and Special Accounts 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"**

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 and form part of my Annual Report to Parliament.

**Opinion**

In my opinion, the Financial Statements of Energy for Rural Transformation Project II – UECCCL for the year ended 30th June 2015 are prepared in all material respects, in accordance with the basis of accounting set out under note 2(a) to the financial statements and the World Bank guidelines on financial reporting.

**Report on Other Legal and Regulatory Requirements**

The World Bank Guidelines require that in carrying out my audit, I consider and report to you on the following matters. I confirm that;

- I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of my audit;
- In my opinion proper books of account have been kept by the project, so far as appears from my examination of those books and;
- The statement of financial position and statement of comprehensive income are in agreement with the books of account.

John F.S. Muwanga

**AUDITOR GENERAL**

17th December, 2015
REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNTS OPERATIONS
OF UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LIMITED
ENERGY FOR RURAL TRANSFORMATION PROJECT (ERTP II)
(IDA CREDIT NO. 4554-UG AND GEF GRANT NO.TF9094484)
FOR THE YEAR ENDED 30TH JUNE, 2015

During the course of audit of the financial statements for Energy for Rural Transformation Project II (ERTP II) – UECCCL component together with the notes thereon for the year ended 30th June, 2015, I examined the Special Accounts Statements of the Project as contained in Notes 20(a) and (b) to the accounts under the IDA Credit Agreement No.4554-UG and GEF Trust Fund Grant Agreement No.TF: 9094484.

Management’s responsibility for the Special Accounts

Management is responsible for the preparation and fair presentation of the special accounts statements on the basis of cash deposits and withdrawals for the purpose of complying with the Financing Agreements and for such internal controls as Management determines is necessary to enable the preparation of the statement that is free from material misstatement whether due to fraud or error.

Auditors’ responsibility

My responsibility is to express an opinion on the Special Accounts Statements, based on my audit. I carried out the audit in accordance with International Standards on Auditing and the World Bank guidelines on auditing. Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the special accounts statements. The procedures selected depend on the auditor’s judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. 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 special accounts statements.
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Opinion**

In my opinion, the receipts were properly accounted for and withdrawals were made for the purposes of the programme in accordance with the Financing Agreements. The special accounts statements contained in notes 20(a) and (b), thereon fairly present in all material respects the account operations for the year ended 30th June, 2015 in accordance with the basis of accounting described under note 2 (a) to the financial statements and in conformity with the World Bank reporting guidelines and terms and conditions.

John F.S. Muwanga

**AUDITOR GENERAL**

17th December, 2015
PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LIMITED ENERGY FOR RURAL TRANSFORMATION PROJECT (ERTP II) (IDA CREDIT NO. 4554-UG AND GEF GRANT NO.TF9094484) FOR THE YEAR ENDED 30TH JUNE, 2015

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, 1995 (as amended) 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 appointed Mungereza & Kariisa, Certified Public Accountants, to carry out the audit of the project on my behalf and report to me to enable me report to Parliament.

2.0 BACKGROUND

2.1 General background

Uganda Energy Credit Capitalisation Company Limited (UECCCL) is a Government of Uganda owned Company set up for purposes of managing and administering the Uganda Energy Capitalisation Trust (the Trust). The Trust’s main function is to provide financial, technical, and other support for renewable energy infrastructure development in Uganda. The Trust financiers include Government of Uganda as well as multilateral and bilateral development partners.

The Trust is a framework which enables the Company to pool, hold, invest and disburse funds in order to meet the Company’s objectives. The Trust was established by a Trust Deed dated 23rd January 2006, and became effective in November 2009 upon operationalization of the UECCCL.

2.2 Background information about the ERTP II – UECCCL Component

The Government of Uganda (GoU), assisted by the World Bank through the International Development Association (IDA) and Global Environment Facility (GEF) represented by the International Bank for Reconstruction and Development (IBRD),
is funding the Energy for Rural Transformation Phase II Project (ERTP II) with the aim of increasing access to modern, clean affordable energy to rural Ugandans over the next decade. The ERTP has a number of components implemented jointly by various organisations, including UECCC.

Following the signing of the Financing and Global Environment Facility Agreements between IDA, IBRD and UECCC dated 27th August 2009 and Subsidiary Financing Agreements between the GoU and UECCC dated 6th November 2009, an amount of SDR 2.3 million (approximated as USD 3.5 million) from IDA and USD 3.1 million from GEF represented by IBRD was made available to UECCC as a non-refundable grant/seed capitalisation to kick start the UECCC. Out of the total funding of USD 6.6 million, USD 5.8 million was for investment into eligible projects, while USD 0.8 million was for Technical Assistance to operationalize the UECCC (Including working capital expense) and thereafter strengthen the capacity of Participating Financial Institutions (PFIs) and Project Developers, to undertake renewable Energy Projects.

In January 2010, UGX 1.2 billion was also contributed by GoU from the Reflows of the Energy for Rural Transformation Refinance Fund (ERTRF) implemented by Bank of Uganda (BoU) under ERT I. This funding was earmarked for meeting most of the operational expenses of the UECCC, including staff salaries.

3.0 OBJECTIVES OF THE COMPONENT

The ERTP II funding is for setting up a Credit Support Facility (CSF) for private sector led renewable energy and or rural electrification projects. The ERTP II specifically provides for establishment of the following credit support instruments at the UECCC aimed at facilitating access to credit in the local financial market. The CSF also has a Technical Assistance element, aimed at strengthening the capacity of local financial institutions and project developers to undertake electrification projects.

Some of the key products under the project are:

a. **A liquidity insurance facility (Standby liquidity or Refinance Option)**

   This product is aimed at enabling local Participating Financial Institutions (PFIs) to extend the tenure of the loans. PFIs can therefore structure the loans to amortize over a longer time frame as required by energy infrastructure projects.
Cash Reserving – in order for the Refinance Option to carry market legitimacy and as an incentive to the PFIs cash is reserved with the PFI in a fixed deposit account for each refinance option undertaken by the UECCC.

b. **The Partial Risk Guarantee facility**

This facility is aimed at mitigating the construction cost overrun risks associated with renewable energy projects. Under this facility the project sponsors have an option of purchasing a partial risk guarantee (PRG) from UECCC. This guarantee covers part of the cost overrun risk during the implementation phase of the project.

c. **Solar Refinance to Micro Finance Deposit Taking Institutions/Banks**

This facility is aimed at promoting the use of solar photo voltaic systems as an alternative off grid solution for rural electrification. In this case UECCC provides refinance facilities to eligible PFIs engaged in microfinance, in order to facilitate the provision of loans to end borrowers for the acquisition of solar systems.

4.0 **AUDIT SCOPE**

The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary. The audit procedures were aimed at establishing:

a. Whether the Project managers are managing the Project in accordance with the Financing Agreement;

b. Whether all donor funds have been used in accordance with conditions of the Financing Agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided;

c. Whether counterpart funds have been provided and used in accordance with the conditions of the Financing Agreements, with due attention to economy and efficiency and only for the purpose for which they were provided;

d. Whether goods and services financed have been procured in accordance with the Financing Agreements and in accordance with the donor rules and procedures;
e. Whether all necessary supporting documents, records and accounts have been kept in respect of all Project activities and whether linkages exist between the books of account and the financial statements;

f. Whether the special accounts have been maintained in accordance with the provisions of the Financing Agreements and in accordance with the donor regulations and procedures; and

g. Whether the financial statements present a true and fair view of project financial position as at 30\textsuperscript{th} June 2014, and its receipts and expenditure incurred for the period, in conformity with Generally Accepted Accounting Principles (GAAP).

5.0 PROCEDURES PERFORMED

a. Revenue

Obtained all schedules of funds provided by the donor and Government of Uganda and reconciled the amounts to the Project's cashbooks and bank statements.

b. Expenditure

Vouched transactions including Statements of Expenditure and Financial Monitoring Reports used for submission of withdrawal applications during the period to establish whether documentation in support of expenditure agreed with the amount and description on the vouchers and/or applications and 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 the procurement of goods and services under the Project during the period under review and reconciled with the approved procurement plan.

e. Fixed Assets Management

Reviewed the use and management of the project assets during the period under review.
f. **Periodic Reports about the project Activities**

Reviewed the Agreement provisions, operational manual and reports and reconciled it with the Programme activities during the period under review.

g. **Project Financial Statements**

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

### 6.0 PROJECT IMPLEMENTATION

The Uganda Energy Credit Capitalization Company Limited (UECCCL) performance highlights for the year ended 30th June 2015 are as follows:

a. **ORIO Infrastructure Fund of the Netherlands**

The project entails development of up to 10 mini hydro power projects (1.5 MW). Feasibility studies commenced in August 2014 and key milestone study reports/activities were undertaken as follows:-

- River gauges were installed for all ten (10) sites during the month of August 2014
- Monthly hydrological data (water levels and flow speed) collection was still on going by the end of the financial year.
- Four (4) rain gauges were installed in the Project Area to take accurate rainfall measurements for a period of one (1) year.
- Geotechnical investigations were undertaken and a report was submitted to the funders in April 2015.
- The Conceptual Design Inception report was completed and submitted to the funder in April 2015.
- NEMA approved the Terms of Reference for conducting the Environmental and Social Impact Assessment (ESIA) in September 2014. The consultant submitted an interim report in June 2015.
- Topographic Studies were completed and a draft report was being reviewed by the end of the FY 2014/2015.
- Completion of the Feasibility studies for all the ten (10) sites is expected by February 2016
b. **Kfw Project**

The funding of Euros 1.5m is projected to provide Early Stage Transaction Advisory Services to project developers of renewable energy projects, targeting at least 10 projects. UECCC concluded the procurement process and awarded the contract to Lahmeyer International GMBH to provide transaction advisory services to project developers. A start off workshop was conducted for interaction between developers and the consultant.

During the period under review, TA support was extended to three (3) renewable energy generation projects as follows:-

- **Network Civil Engineering Contractors Limited** (Hydro power project in Nyabuhuka Mujunju in Kabarole district with a capacity of 3.2MW). The support extended was Technical validation of the feasibility study.
- **Savimaxx Limited** (A Hydropower project with a capacity of 8.6MW located in Lower Nsongya in Kabarole district). The support included preparation of a Pre-feasibility study, business plan preparation and financial /economic modeling.
- **Sugar and Allied Industries Limited (SAIL)** (A bagasse cogeneration plant in Kaliro with a capacity of 11.5 MW). TA was extended towards Technical Validation and Gap Filling of their Environmental and Social Impact Assessment (ESIA)

c. **ERT II Project**

ERT II Project entails provision of Credit Enhancement Instruments to Project Developers of renewable energy projects, through Participating Financial Institutions (PFIs).

These include:

- **Solar Refinance for PFI on-lending for Solar acquisition**

The solar loan refinance product is carried out in partnership with 4 PFIs.

By June 2015, the number of households reached as a result of this refinance was 1,468;

224 loans from Post Bank Uganda,
232 loans from Centenary Bank,
147 loans from Pride Microfinance and
865 loans from Finance Trust Bank
• **Connection Loan Refinance (Pilot Scheme of UGX200m)**

The Connection Loan Program aims to facilitate access to the grid electricity by addressing the affordability barrier posed by upfront connection costs. It covers the costs of wiring premises, conversions from diesel-powered systems to grid-powered systems, and connection fees charged.

The Connection Loan pilot was launched in August 2014 in partnership with Centenary Bank and Wenreco (utility Company). The pilot is expected to end in June 2016.

Centenary Bank had extended seventeen (17) loans with a volume of UGX 59.7 million by June 2015.

d. **Technical Assistance (TA) to Participating Financial Institutions (PFIs) and Project Developers**

- TA of USD 50,000 was extended to ZIBA LTD, a developer of Kyambura Mini Hydro power project (8MW) to complete preparation of the Environmental Social Impact Assessment Report. The report was completed and a NEMA clearance is now in place.

- Design of Stand Alone Solar Loan Products for Participating Financial Institutions(PFIs)

  - The Inception report covering five (5) Participating Financial Institutions (PFIs) was completed in December 2014.
  - Draft Report was filed in March and comments were provided by UECCC and other partners.
  - By the end of the financial year, the Project Consultant was finalizing the report.
  - Review and initial roll out of the Designed Loan Product by the PFIs will take place in FY 2015/16

- Development of UECCC Strategic Plan

  Five Year Strategic Plan (2015/16 -2019/20) was in place by the end of the financial year.

- Development of a Solar financing framework for SACCOs

  - During the financial year, UECCC developed a Solar financing framework for SACCOs to increase intermediation for Solar uptake as an off grid electrification solution at the grassroots.
The Board approved the Framework and agreed to a Pilot with four (4) SACCOs.

UECCC organized a Solar PV workshop as an initial step to facilitate selection of the pilot SACCOs and to facilitate interaction, awareness and business development amongst SACCOs, Solar Companies, Financial Institutions as well as Government Institutions.

UECCC plans to implement the pilot during FY 2015/16.

e. **Other Key activities in the Financial year**

- During the financial year, UECCC in partnership with the World Bank developed a Working Capital Loan for Solar Companies.
- The product is a line of credit to PFIs for on lending to Solar Companies at concessionary terms, with particular focus to Companies that employ a Pay plan model.
- Funding for this product has been provided as part of ERT III project approved by the World Bank Board in June 2015.
- Implementation is to commence in FY 2015/2016 after signing of Financing Agreements.

f. **GIZ support to UECCC to engage a Clean Development Mechanism (CDM) Technical Advisor**

With GIZ support, UECCC continued to provide technical advice on climate change mitigation to project developers

7.0 **COMPLIANCE WITH FINANCING AGREEMENT AND GOVERNMENT OF UGANDA FINANCIAL REGULATIONS**

It was noted that management had in all material respects complied with the covenants contained in the Financing Agreements and the Government of Uganda Financial Regulations.

8.0 **GENERAL STANDARDS OF ACCOUNTING AND INTERNAL CONTROL**

A review of the following areas was carried out:

- Accounting system and policies
- Book keeping
- Management and control of both bank and cash accounts.
- Purchases and payments.
- Fixed assets management
It was noted that management’s control structure environment, accounting system and policies and control procedures were generally adequate to ensure prudent use of, and accountability for all Project funds except for the following matters:

8.1 **AUDIT FINDINGS**

8.2 **Categorization of findings**

The following system of profiling of the audit findings has been adopted to better prioritise the implementation of audit recommendations

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High significance Has a significant / material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.</td>
</tr>
<tr>
<td>2</td>
<td>Moderate significance Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.</td>
</tr>
<tr>
<td>3</td>
<td>Low significance Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.</td>
</tr>
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8.3 **SUMMARY OF FINDINGS**

<table>
<thead>
<tr>
<th>No</th>
<th>Finding</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mischarged expenditure</td>
<td>High</td>
</tr>
</tbody>
</table>

9.0 **DETAILED AUDIT FINDINGS**

9.1 **Mischarged expenditure**

During my review, I noted that management charged a sum of USD 3,145.41 on inappropriate budget line items which did not reflect the nature of the expenditures. This practice not only makes tracking of budget performance per item in line with the approved budget difficult but also results into misrepresentation of expenditure balances in the financial statements.

I advised the Accounting officer to ensure adherence to the approved budgetary provisions and to seek authority for reallocation from the board whenever there is a justifiable need.