



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF THE UGANDA ROAD FUND
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2015

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
URF	Uganda Road Fund
MIS	Management Information System
IMIF	Integrated Management Information System
PPDA	Public Procurement and Disposal of Public Assets
URA	Uganda Revenue Authority
NITA (U)	National Information Technology Authority
RUCs	Road User Charges
UNRA	Uganda National Roads Authority
MOFPED	Ministry of Finance, Planning and Economic Development
FYR	Financial year
UGX	Uganda Shillings
PFMA	Public Finance Management Act, 2015
TAIs	Treasury Accounting Instructions

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE UGANDA ROAD FUND
FOR THE YEAR ENDED 30TH JUNE, 2015

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Uganda Road Fund for the year ended 30th June 2015. These financial statements comprise of the statement of support, revenue and expenses for the financial year ended 30th June 2015, statement of financial position, statement of changes in fund balances, statement of cash flows together with other accompanying statements, notes and accounting policies.

Responsibility of the Directors

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the Public Finance Management Act, 2015 and the requirements of the Uganda Road Fund Act, 2008 and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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, plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

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 misstatements of 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 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

controls. 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 financial statements fairly, present in all material respects the financial position of the Uganda Road Fund as at 30th June, 2015 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Uganda Road Fund Act, 2008.

Report on other legal requirements

As required by the Uganda Road Fund Act and the National Audit Act, I report to you, based on my audit, that:

- i. I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit.
- ii. In my opinion, proper books of account have been kept by the Fund, so far as it appears from my examination of those books; and
- iii. The statement of financial position and statement of Support, Revenue and Expenses are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

14th October, 2015

**REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION**

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE UGANDA ROAD FUND FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2015

This Section outlines the detailed audit findings, management responses, and my recommendations in respect thereof.

1.0 INTRODUCTION

In accordance with Article 163(3) of the Constitution of the Republic of Uganda, 1995 (as amended), I am required to audit and report on the public accounts of Uganda that is to say, all public offices including the courts, the central and the 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 Uganda Road Fund to enable me report to Parliament.

2.0 BACKGROUND INFORMATION

In August 2008, Parliament passed the Uganda Road Fund (URF) Act, with the objective of financing routine and periodic maintenance of all public roads undertaken by designated agencies based on funds generated from road user charges.

The Uganda National Roads Authority (UNRA) is designated in the URF Act to maintain national roads while other designated agencies are responsible for District, Urban and Community Access Roads.

The entity is located at 5th Floor, Twed Towers, Plot 10, Kafu Road Nakasero. The Fund's vision is "Adequate, timely and reliable financing of road maintenance for a safe and efficient network." Its mission is "To manage the Fund with prudence, integrity and transparency in a commercial, cost effective and efficient manner."

3.0 ENTITY FINANCING

During the year, the Uganda Road Fund was financed by grants from Central Government and locally generated revenues. Grants totaling to UGX.428,093,895,718 (99.8%) were received from Central Government, while UGX.827,830,102 (0.19%) was miscellaneous income giving a total revenue for the year of UGX.428,921,725,820.

4.0 OBJECTIVES OF THE FUND

The Objectives of the Fund are articulated in key business areas of Funding, Operations, Impact of funding, Governance and Administration.

4.1 Objectives under funding operations

- To collect the maximum proportion of potential revenue on time and to ensure deposits to the accounts of the Fund;
- To ensure the liquidity of the fund at all times; and
- To ensure that disbursement of monies of the Fund is undertaken fully in accordance with commitments and on time.

4.2 Objectives under impact of funding

The fundamental objective of the Fund is to facilitate the improvement and sustenance of the public road network in good and safe condition by effective funding. The objectives of this business area are therefore;

- To bring about sustained improvement of road condition of all classes of public roads;
- To encourage techniques and procurement models that reduce the unit cost of road maintenance activities;
- To reduce the incidence of fatal and personal injury accidents by improvement of road condition and funding specific targeted improvements;
- To bring about progressive increases in road user satisfaction;

4.3 Objectives under Governance

- To ensure effective Board oversight by full and regular attendance of members and by their due diligence in fund affairs;
- To develop and implement a statistically robust and defensible programme of monitoring and evaluation, augmented by technical and financial audit programme; and
- To report comprehensively and in a timely manner on the activities of the Fund.

4.4 Objectives under Administration and Human Resource

- To recruit and sustain an appropriately qualified, experienced and motivated Secretariat under the leadership of the Executive Director; and
- To administer the Fund effectively and efficiently with due regard to limitation of overhead costs within acceptable budgeted limits.

5.0 AUDIT OBJECTIVES

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 was carried out with regard to the following objectives:-

- a. Whether the financial statements have been prepared in accordance with consistently applied accounting policies and fairly presents the revenues and expenditures for the period and of the financial position as at the end of the period.
- b. Whether all funds were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.
- c. Whether goods and services financed have been procured in accordance with the PPDA Act.
- d. To evaluate and obtain a sufficient understanding of the internal control structure of the Fund, assess control risk and identify reportable conditions, including material internal control weaknesses.
- e. Whether management was in compliance with the Government of Uganda financial regulations.
- f. Whether all necessary supporting documents, records and accounts have been kept in respect of all activities, and are in agreement with the financial statements presented.

6.0 AUDIT PROCEDURES PERFORMED

The following audit procedures were undertaken:-

a. Revenue

Obtained all schedules of all revenues collected and reconciled the amounts to the Fund's cashbooks and bank statements.

b. Expenditure

The Fund payment vouchers were examined for proper authorization, eligibility and budgetary provision, accountability and support documentation.

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 Fund during the period under review and reconciled with the approved procurement plan.

e. Fixed Assets Management

Reviewed the use and management of the assets of the Fund during the period under review.

f. 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.

7.0 **CATEGORIZATION AND SUMMARY OF FINDINGS**

7.1 **Categorization of findings**

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

	<i>Category</i>	<i>Description</i>
1	<i>High significance</i>	<i>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.</i>
2	<i>Moderate significance</i>	<i>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.</i>
3	<i>Low significance</i>	<i>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.</i>

7.2 **Summary of Findings**

No	Finding	Significance
8.1	Outstanding Commitments UGX.1,124,563,846	High
8.2	Outstanding funds recoverable from implementing agencies	High
8.3	Un executed Planned Procurements - UGX.520,000,000	Moderate
8.4	Follow-up of Prior Year Audit Recommendations	Low

8.0 DETAILED FINDINGS

8.1 Increasing Outstanding Commitments UGX.1,124,563,846

I noted that at the close of the financial year, the Uganda Road Fund (URF) had outstanding commitments (Payables) totaling to UGX.1,124,563,846. This represented an increase of 889% compared to UGX.113,721,073 of the previous financial year. Accumulation of payables is an indication of inadequacy in the management of commitments. This could lead to litigation challenges against the Fund.

In response; the Accounting Officer explained that at the close of the financial year; the Fund carried forward commitments totalling UGX.1,124,563,846 that were mainly contracts not concluded by the 30th June 2015 and hence payments could not be effected. It was indicated that these commitments were reprogrammed in the FY2015/16 work plan.

I advised the Accounting Officer to ensure earlier planning to enable completion of the projects timely.

8.2 Outstanding funds recoverable from implementing agencies

During the year under review, various implementing agencies had outstanding amounts totalling to UGX. 1,325,063,382 that were to be recovered and refunded to the Uganda Road Fund. The amounts arose as a result of funds garnished from court orders and Uganda Revenue Authority, inaccurate measurements, overpayments to contractors, ineligible expenditure and unaccounted for funds among others. Some of these funds have been outstanding for more than one year.

Management explained that this issue was referred to the Ministry of Local Government as the supervising authority to handle the defaulting Local Governments.

I advised the Accounting Officer to take interest on the matter to ensure funds are utilised for the intended activities.

8.3 Un executed Planned Procurements - UGX.520,000,000

A review of the procurement plan and the procurement reports for the year revealed that some planned procurements worth UGX.520,000,000 were not carried out during the year as summarized in the table below:

S/N	Details of the Planned procurements	Planned Amount (UGX)	Management Responses
1	External legal support	30,000,000	Implementation was done in house following recruitment of a legal person (Manager Corporate Services)
2	Financial management information system. Design and supervision of Implementation of an Integrated Management Information System (IMIF)	150,000,000	Implementation of MIS was delayed due to the long duration of time it took to receive guidance from NITA (U) and thus procurement was reprogrammed for the financial year 2015/2016.
3	Consultancy for preparation of manuals and guidelines for correction and management of road user charges.	150,000,000	This was executed under Road User Charges (RUCS) management framework under PWC.
4	Consultancy for development of URF Research manual	30,000,000	The mode of execution was changed to be done in-house. Funds were reallocated to cover consultancy services to design roads under town council projects.
5	Consultancy for preparing annual roads expenditure plan	30 000,000	The mode of execution of this activity was changed to be done in-house. Work plan was revised for funds to be used on consultancy services for town council projects.
7	Consultancy to undertake study on axle road control and road safety	50,000,000	The Ministry is drafting an axle load policy. The activity will be implemented once the policy is in place. The work plan was therefore revised to fund consultancy services for town council project.
8	Consultants for determination of efficiency of funds utilization under forced accounts	80,000,000	Work plan was revised to fund consultancy services for town council projects. The mode of execution was changed to be done in-house.
	Total Amount	520,000,000	

I explained to management that failure to implement the planned activities implies delayed service delivery. In response, management explained that a review of the work plan was undertaken in the course of the financial year 2014/2015 where amendments were made.

I advised the Accounting Officer to ensure that plans are realistic to enable timely implementation of activities.

8.4 **Follow-up of Prior Year Audit Recommendations**

A review of the status of prior year audit recommendations as summarised in the table below showed that some of the recommendations pointed out in the previous year's report had not been resolved at the time of reporting:

Issue raised in the Audit Report (FYR:2013/2014)	Recommendation	Status of Implementation
<p><u>Outstanding funds recoverable from Implementing agencies</u> A number of implementing agencies had outstanding amounts totaling to UGX.1,860,291,838 whose activities had not been undertaken as planned. These were funds that were a result of funds garnished by court orders, garnished by Uganda Revenue Authority. Management explained that they pursued recovery of the funds from the affected implementing agencies with limited success.</p>	<p>I await the outcome of the management effort.</p>	<p>Out of UGX.1,860,291,838, only UGX.300,000,000 (16%) has been recovered.</p> <p>Slow implementation</p> <p>Not fully Resolved</p>
<p>7.1 <u>Sources of funding</u> The Road Fund Act provides for various sources of funding to the fund including donations, Road user-charges and others however during the review, I noted that appropriations by Parliament was the only source of funding to the fund during the year. Accounting Officer explained that URF did not realize funds from its various sources because an amendment to (URA) Act to enable the fund collect its revenues has not been done.</p>	<p>I advised management to liaise with the relevant authority with a view of fulfilling URF mandate of having a fund collecting its revenue.</p>	<p>Not yet implemented.</p>
<p>7.2 <u>Lack of Enabling Regulations</u> URF was created in 2008 by an Act of Parliament. However, six years later; I noted that the fund secretariat does not have enabling policies. The Accounting Officer explained that the above mentioned policies are in draft form awaiting the minister to gazette.</p>	<p>I advised management to have the manuals approved and operational</p>	<p>The regulations, training and risk management policies were approved by the Board and forwarded to the Minister for gazetting.</p> <p>Implemented.</p>
<p>7.3 <u>Delayed Release of Funds to Designated Agencies</u> It was noted the first quarter release of funds from the Ministry of Finance, Planning and Economic Development (MOFPED) was received on the 12th of August 2013 however; URF took over three months to release these funds to the affected 7 designated agencies. Accounting Officer explained funds could not be released in time as affected agencies had not updated their bank accounts.</p>	<p>I advised management to always endeavour to release road maintenance funds on a timely basis.</p>	<p>The Process is slow.</p> <p>Not efficient yet.</p>

<p>7.4 Human Resource 7.4.1 Vacant positions</p> <p>A review of the approved staff establishment of 31 posts showed that only 22 posts representing 71% had been filled by the year end leaving nine (9) vacant posts. Accounting Officer explained that the delay arose because of the selection process</p>	<p>I advised management to expedite the recruitment process and have the vacant positions filled.</p>	<p>More 6 positions have been filled. Making it a total of 28 staff, out of 31 approved.</p> <p>90.3 % filled and only 8.7% unfilled.</p> <p>Implementation on.</p>
<p>7.4.2 Staff Turn over</p> <p>It was observed that 5 members of staff resigned their positions or offered not to have their contracts renewed. The Accounting Officer explained that staff have previously raised concern about remuneration and welfare and that the Board is addressing the issue by reviewing the structure and remuneration of staff with effect from next financial year</p>	<p>I advised management to address the above challenge.</p>	<p>15% salary increment given to staff, revision of gratuity up to 25% and doubling to 4 dependants on medical insurance cover.</p> <p>Implemented.</p>

I advised the Accounting Officer to ensure all the recommendations given are fully implemented.

FINANCIAL STATEMENTS