



THE REPUBLIC OF UGANDA

MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT
PROGRAM (USMID) PROJECT FOR THE YEAR ENDED 30TH JUNE 2015**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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ACRONYMS

| Acronym | Meaning |
|----------------|--|
| USMID | Uganda support to Municipal Infrastructure Development Program |
| IDA | International Development Association |
| UG | Uganda |
| GOU | Government of Uganda |
| PPDA | Public Procurement and Disposal of Public Assets. |
| SDR | Special Drawing Rights |
| US \$ | United States Dollar |
| ISA | International Standards on Auditing |
| FYR | Financial Year |
| LGs | Local Governments |
| MDAs | Ministries, Departments and Agencies |
| MLHUD | Ministry of Lands, Housing and Urban Development |
| OSR | Own Source Revenue |
| MDAs | Ministries, Departments and Agencies |
| UGX | Uganda Shillings |
| IFMS | Integrated Financial Management System |
| RFPs | Request for Proposals |
| A/C | Account |

**UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE
DEVELOPMENT PROGRAM (USMID) PROJECT**

IDA CREDIT NO. 5223 - UG

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

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of the Uganda Support to Municipal Infrastructure Development program project, IDA Credit No.5223 - UG for the year ended 30th June 2015. The financial statements set out on pages 4 to 14 comprise of;

- Statement of fund balance
- Statement of receipts and payments
- Statement of cash flows
- Statement of special account activity
- 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, 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 unqualified 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 Uganda Support to Municipal Infrastructure Development program project, IDA Credit No.5223 - UG as at 30th June, 2015 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

8th December, 2015

**UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE
DEVELOPMENT PROGRAM (USMID) PROJECT
IDA CREDIT NO. 5223 - UG**

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT
OPERATIONS FOR THE YEAR ENDED 30TH JUNE 2015**

I have audited the Special Account Statement of the Uganda Support to Municipal Infrastructure Development program project, IDA Credit No.5223 - UG for the year ended 30th June 2015 which is set out on page 7 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 Uganda Support to Municipal Infrastructure Development program, IDA Credit No.5223 - UG for the year ended 30th June 2015 presents fairly in all material respects the account transactions and the closing balance as at 30th June, 2015.



John F.S. Muwanga
AUDITOR GENERAL

8th December, 2015

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

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM (USMID) PROJECT 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 carried out the audit of the Uganda Support to Municipal Infrastructure Development program, IDA Credit No.5223 - UG for the year ended 30th June, 2015 to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Agreement between Government of Uganda and International Development Association (IDA) was signed on the 22nd of May, 2013. Under the agreement IDA agreed to provide SDR 97,400,000 (Ninety Seven million four hundred thousand Special Drawing Rights (SDR approximately US\$150,000,000) to finance the program activities. The program is co-funded by GOU to the tune of US \$ 10 million. The programme is designed to enhance the Institutional capacity of the 14 program Municipal LGs which are allocated 85% of the program funds to improve urban service delivery. The fourteen participating municipal councils (Municipal LGs) are; Arua, Gulu, Lira, Soroti, Moroto, Mbale, Jinja, Entebbe, Masaka, Mbarara, Kabale, Fort-portal, Hoima and Tororo.

The project became effective on 4th September, 2013, and is implemented by the Ministry of Lands, Housing and Urban Development (MLHUD). The programme is expected to run for 5 years (FYR: 2013/2014 to 2017/2018).

3.0 PROGRAM DESCRIPTION/OBJECTIVES

The objective of the Program is to enhance the institutional performance of Program LGs to improve urban service delivery. The program complements the GOU's local government management and service delivery program and consists of the following;

- Provision of municipal development grants to program LGs, for the carrying out of development activities prioritised within said program LGs' Infrastructure Action Plans.
- Provision of municipal capacity building grants to program LGs for the carrying out of activities prioritised within said Program LGs' Capacity Building Plans.
- Carrying out by Program MDAs of activities whose objective is to strengthen the technical and management capacities of program LGs to implement, coordinate and manage the program.

4.0 EXPECTED OUTCOMES

The program's expected outcomes are;

- Strengthened capacities of participating municipalities in fiduciary, safeguards, urban planning and own source revenue (OSR) generation.
- Increase in total planned infrastructure completed by participating Municipal LGs.
- Enhanced capacity of MLHUD for urban development, management and back stopping for the implementation of the program.

5.0 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 2015 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.

6.0 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 the assets of the project 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.

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 |
|-----------|---|---------------------|
| 8.1.1 | Lack of project implementation report | Moderate |
| 8.1.2 | Funding gap – UGX.5,493,341,416 | Moderate |
| 8.1.3 | Under-absorption of funds – Ugx.11,756,455,837 | High |
| 8.3.1 | Capacity building funds not utilised – UGX.6079,544,830 | High |
| 8.3.2 | Unutilised Municipal Infrastructure Development Funds – UGX.57,062,020,785 | High |
| 9.0 | Status of previous year audit issues | Low |
| 10.0 | Assessment of 14 municipalities on implementation of USMID infrastructure projects for the financial year 2014/15 | High |

8.0 DETAILED FINDINGS

8.1 Compliance with the Financing Agreement and GoU Provisions

A review was carried out on the project compliance with the credit agreement provisions and GOU financial regulations and it was noted that the project complied in all material respects with the provisions in the agreement and applied GOU regulations fairly except in the following;

8.1.1 Lack of Project Implementation Report

Best practice requires that management produces an annual project implementation report showing status of implementation of the project planned activities, activities implemented, partly implemented and those not implemented, budgets, funds received and utilised. However, I noted that management did not produce a summary performance report that provides the progress of performance. I explained to management that progress reports accelerates quick review and provides stakeholders assurance that the project is on the right path towards attaining the project objectives. I advised management to ensure the project status report is produced to enhance project monitoring and implementation of the project activities.

Nonetheless, I carried out a performance review and noted the following anomalies.

8.1.2 Funding Gap – UGX. 5,493,341,416

During the year, project management budgeted to receive UGX.72,722,177,400 however, UGX.67,228,835,984 (92.4%) was received leaving UGX.5,493,341,416 a funding gap of 7.6%. The following programs were affected as indicated in the table 1 below.

Table 1; Programmes affected by the funding

| Program | Budgeted Amount (UGX) | Actual Release (UGX) | Short fall (UGX) |
|--|-----------------------|----------------------|------------------|
| IDA -Municipal Development Grant | 47,610,000,000 | 47,551,298,040 | 58,701,960 |
| IDA-Municipal capacity building grant | 6,624,000,000 | 6,615,888,000 | 8,112,000 |
| IDA-MLHUD capacity Building Grant | 9,025,724,400 | 8,995,263,620 | 30,460,780 |
| IDA - IFMS Installation in 12 Municipalities | 9,462,453,000 | 4,066,386,324 | 5,396,066,676 |
| Totals | 72,722,177,400 | 67,228,835,984 | 5,493,341,416 |

Un-released funds impact negatively on the performance of the project especially the activity that involved installation of IFMS in 12 municipalities. It is likely the project programs may not be implemented in the scheduled timeline.

In response, management explained that release of funds is based on achieved results. The funds under IFMS were not fully received by 30th June 2015 because Government of Uganda had not fully operationalized IFMS in all the 12 Municipal Local Governments. The funds were finally released late in August, 2015. Besides, the small balances on other items are related to foreign exchange differences between US Dollars and Special Drawing rights.

I advised management to liaise with the appropriate authorities and have the IFMS installation activity undertaken.

8.1.3 Under-absorption of Funds - UGX.11,756,455,837

A review of the financial statements revealed that UGX.11,756,455,837 was not utilized by the project head office as summarised in table 2 below;

Table 2: Unutilised funds

| Revenue Items | Amount (UGX) |
|---|----------------|
| Opening balance (as per the statement of fund balance) | 14,668,169,284 |
| Amount received (as per the statement of receipts and payments) | 67,228,835,984 |
| Available amount | 81,897,005,268 |
| Total Expenditure (as per the statement of budget performance) | 70,140,549,431 |
| Total Un-utilized | 11,756,455,837 |

As a result; the following activities could not be executed during the year. See table 3 below. I explained to management that failure to utilize the released funds could lead to failure to fulfil the project objectives in the scheduled timelines.

Table 3: Activities that were not undertaken during the year

| Activity S/N | Activity | Budgeted amount (US\$) |
|--------------|---|-------------------------|
| 3.0 | Development of systems for urban development: | |
| 3.1 | Annual land, housing and urban development sector review | 280,000 |
| 3.2 | Develop a GIS – based urban development management system | 454,000 |
| 3.3 | Engineering design for second batch of municipal infrastructure investments | 1,219,000 |
| 5.0 | Retooling of MLHUD | |
| 5.2 | Renovation of MLHUD headquarters at Parliamentary avenue | 590,000 |
| 6.0 | Program Management: | |
| 6.4 | To conduct at least 1 PSC meeting | 15,000 |
| | Total | 2,558,000 |

Management explained that some activities that were not concluded were rolled to the financial year 2015/16 and are being fast tracked. Management further indicated that the progress is positive as indicated in the table 4 below.

Table 4: progress of activities

| Activity S/N | Activity | Budgeted amount (US \$) | Current Status |
|--------------|---|-------------------------|--|
| 3.0 | Development of systems for urban development | | |
| 3.1 | Annual land, housing and urban development sector review | 280,000 | The contractor to prepare the initial sector review documents has been procured. |
| 3.2 | Develop a GIS – based urban development management system | 454,000 | The Terms of reference were drawn for procurement of GIS. The RFPs for supply of GIS have been evaluated. |
| 3.3 | Engineering design for second batch of municipal infrastructure investments | 1,219,000 | The Terms of reference were drawn for procurement of the firm to carry out designs. The RFPs for designs have been evaluated |
| 5.0 | Retooling of MLHUD | | |
| 5.2 | Renovation of MLHUD headquarters at Parliamentary avenue | 590,000 | The design contractor is in final stages of completing the designs. Procurement of the construction firm shall be launched based on the approved design. |
| 6.0 | Program Management | | |
| 6.4 | To conduct at least 1 PSC meeting | 15,000 | I PSC meeting was held in the month of November, 2015. |
| | Total | 2,558,000 | |

I advised management to always plan adequately and ensure all planned activities are completed as scheduled.

8.2 General Standard of Accounting and Internal Control

A review of the project financial management system was carried out and it was observed that management instituted adequate controls to manage project resources except for the matter below:

8.2.1 Diversion of Capacity Building Funds - UGX.8,380,000

I carried out inspection of the Municipal Councils and it was observed that capacity building expenditure worth UGX.8,380,000 were executed outside the Councils work plan as summarised in table 5 below: Diversion of funds from the planned activities translates into misallocation of resources.

Table 5: Diversion of funds

| Diversion of funds for Capacity Building – Hoima Municipal Council | | | |
|---|--------------|-----------|------------------------|
| Date | Payee | Amount | Purpose |
| 18/06/2015 | PV-TR S00256 | 7,200,000 | Office rent for 1 year |

| Diversion of Funds for Capacity Building – Tororo Municipal Council | | | |
|--|--------------|-----------|---|
| 16/06/2015 | PV-TR S00256 | 1,180,000 | Transfer of funds from USMID Capacity Building A/C to health A/C. |

Project management responded that the Municipal Local Governments were advised to refund the funds spent outside USMID grants.

I advised management to always adhere to the approved work plan. In the meantime, a refund is awaited.

8.3 Status of project implementation

A review of the status of project implementation revealed the following:

8.3.1 Capacity Building Funds not utilized - UGX.6,079,544,830

It was observed that all the 14 municipal councils had not fully utilized the funds released to them for capacity building to the tune of UGX.6,079,544,830 as summarised in the table 6 below. Failure to utilize all the released funds reflects lack of readiness and commitment to the fulfilment of project objectives. There is a possibility that planned activities may not be completed in the scheduled time which could lead to costly project extension. Some of the Municipal Councils activities were below the 50% mark. The table below refers.

Table 6: Unutilised capacity building funds

| Municipal Council | Amount Released | | | Amount utilized | Balance not utilized | %age not utilized |
|-------------------|-----------------|---------------|----------------|-----------------|----------------------|-------------------|
| | 2014/2015 | 2013/2014 | Cumulative | | | |
| Arua | 472,563,420 | 438,553,614 | 911,117,034 | 424,059,256 | 487,057,778 | 53.5 |
| Entebbe | 472,563,420 | 438,553,614 | 911,117,034 | 466,119,813 | 444,997,221 | 48.8 |
| Fort Portal | 472,563,420 | 438,553,614 | 911,117,034 | 352,088,783 | 559,028,251 | 61.4 |
| Gulu | 472,563,420 | 438,553,614 | 911,117,034 | 427,418,612 | 483,698,422 | 53.1 |
| Hoima | 472,563,420 | 438,553,614 | 911,117,034 | 692,766,199 | 218,350,835 | 24.0 |
| Jinja | 472,563,420 | 438,553,614 | 911,117,034 | 460,298,162 | 450,818,872 | 49.5 |
| Kabale | 472,563,420 | 438,553,614 | 911,117,034 | 520,865,283 | 390,251,751 | 42.8 |
| Lira | 472,563,420 | 438,553,614 | 911,117,034 | 596,743,780 | 314,373,254 | 34.5 |
| Masaka | 472,563,420 | 438,553,614 | 911,117,034 | 485,164,349 | 425,952,685 | 46.8 |
| Mbale | 472,563,420 | 438,553,614 | 911,117,034 | 402,884,627 | 508,232,407 | 55.8 |
| Mbarara | 472,563,420 | 438,553,614 | 911,117,034 | 402,884,627 | 508,232,407 | 55.8 |
| Moroto | 472,563,420 | 438,553,614 | 911,117,034 | 442,491,643 | 468,625,391 | 51.4 |
| Soroti | 472,563,420 | 438,553,614 | 911,117,034 | 465,661,809 | 445,455,225 | 48.9 |
| Tororo | 472,563,420 | 438,553,614 | 911,117,034 | 535,646,703 | 375,470,331 | 41.2 |
| Totals | 6,615,887,880 | 6,139,750,596 | 12,755,638,476 | 6,676,093,646 | 6,079,544,830 | 47.7 |

In response, management attributed the low absorption of funds to the fact that the Municipal Councils had not procured key retooling equipment for surveying, engineering and environment among others partly due to lack of technical capacity to procure such specialized equipment. In order to increase on absorption rate, the procurement process is being coordinated by MLHUD and the bids for equipment in all the 14 Municipal Councils have been received and evaluated.

I advised management to expedite the procurement process and have the activities implemented.

8.3.2 Un-utilized Municipal Infrastructure Development Funds - UGX.57,062,020,785

An inspection of the Municipal councils also revealed that during the financial year 2014/2015, all the 14 municipal councils had not fully utilized the funds released to them under infrastructure development as summarized in the table 7 below;

Table 7: Un-utilized Municipal Infrastructure Development Funds

| Municipal Council | Amount Released | | | Amount utilized (UGX) | Balance not utilized (UGX) | %age not utilized (UGX) |
|-------------------|-----------------|-----------------|------------------|-----------------------|----------------------------|-------------------------|
| | 2014/2015 (UGX) | 2013/2014 (UGX) | Cumulative (UGX) | | | |
| Arua | 3,007,049,280 | 2,598,140,253 | 5,605,189,533 | 1,311,804,421 | 4,293,385,112 | 76.60 |
| Entebbe | 2,820,233,160 | 2,689,196,364 | 5,509,429,524 | 3,264,961,735 | 2,244,467,789 | 40.74 |
| Fort Portal | 2,030,726,160 | 1,660,798,385 | 3,691,524,545 | 871,849,532 | 2,819,675,013 | 76.38 |
| Gulu | 9,946,929,720 | 8,162,893,132 | 18,109,822,852 | 4,087,810,012 | 14,022,012,840 | 77.43 |
| Hoima | 3,887,466,840 | 3,511,993,797 | 7,399,460,637 | 3,877,510,699 | 3,521,949,938 | 47.60 |
| Jinja | 2,931,537,180 | 3,193,080,598 | 6,124,617,778 | 3,824,659,205 | 2,299,958,573 | 37.55 |
| Kabale | 1,831,947,660 | 1,535,125,679 | 3,367,073,339 | 127,259,041 | 3,239,814,298 | 96.22 |
| Lira | 4,275,509,370 | 4,967,345,128 | 9,242,854,498 | 2,783,707,441 | 6,459,147,057 | 69.88 |
| Masaka | 4,068,651,210 | 3,041,413,788 | 7,110,064,998 | 2,468,214,546 | 4,641,850,452 | 65.29 |
| Mbale | 3,326,050,860 | 2,911,815,489 | 6,237,866,349 | 3,772,283,322 | 2,465,583,027 | 39.53 |
| Mbarara | 5,119,403,100 | 2,687,415,841 | 7,806,818,941 | 263,169,574 | 7,543,649,367 | 96.63 |
| Moroto | 552,571,380 | 446,243,632 | 998,815,012 | 450,848,393 | 547,966,619 | 54.86 |
| Soroti | 1,892,904,810 | 2,482,947,308 | 4,375,852,118 | 2,592,443,008 | 1,783,409,110 | 40.76 |
| Tororo | 1,860,317,430 | 1,938,533,146 | 3,798,850,576 | 2,619,758,986 | 1,179,091,590 | 31.04 |
| Totals | 47,551,298,160 | 41,826,942,540 | 89,378,240,700 | 32,316,219,915 | 57,062,020,785 | 63.84 |

Analysis of unutilized funds showed that for the past two (2) years now, Kabale and Mbarara Municipal Councils have not procured contractors to work on the planned roads. This was evidenced by the huge balances on their bank accounts as reflected by the huge percentages of unutilized funds. I explained to management that unutilized funds are a reflection of lack of effective implementation of project

programs. Failure to utilize funds also delays the development of the planned Municipal Infrastructures and disadvantages the community who are intended to benefits from these activities.

In response; management explained that for Mbarara and Kabale, the Municipal Councils failed to attract responsive bidders twice and have now opted to re-advertise through Open bidding. The bids were received and are being evaluated while for the other twelve (12) Municipal Local Governments, contractors are now on site and works have commenced. Funds for the initial 3 years shall be substantially absorbed by the end of 2015/16 financial year.

I await the outcome of management’s commitment.

9.0 **STATUS OF PRIOR YEAR AUDIT ISSUES**

A review of the status of implementation of the prior year audit issues showed that some recommendations have not been implemented by management as indicated below.

| S/N | Issues raised | Recommendations | Status of Implementation |
|------|---|---|--|
| 1.0. | <p><u>Unutilized funds at Project Headquarters</u> The project received all the budgeted funds expected (Shs.66,542,389,583) but only Shs.51,874,220,299 (78%) was spent leaving Shs.14,668,169,284 (22%) unutilized Management explained that generally there was time constraint and the project had to start late</p> | <p>I advised management to expedite the procurement processes and have the implementation kick-started.</p> | <p>Vehicles were procured. However, the challenges of unutilized funds is still on</p> <p>Not Resolved.</p> |
| 2.0. | <p><u>Training Abroad</u> The project spent US \$ 8,814 and Shs.16,930,780 on training of six officers in South Africa and India. The following anomalies were noted:</p> <ul style="list-style-type: none"> • he project had no training guidelines to guide the project staff on training. Training was therefore done haphazardly. • ll the individuals trained were MoLHUD officials and not project staff. It was not clear under what project budget item the Ministry officials were trained. The project | <p>I advised management to endeavor to put in place a training policy that will guide the project management and staff in training so as to benefit from the project. Management should also account for the funds not supported.</p> | <p>Still no training policy in place.</p> <p>Not Implemented.</p> |

| | | | |
|-------------|---|---|---|
| | <p>funds were therefore diverted.</p> <ul style="list-style-type: none"> • here was no evidence of training needs assessment carried out to confirm that the individual's needs were assessed. | | |
| 3.0. | <u>Unutilized funds remitted to Municipal Councils</u> | | |
| 3.1. | <p><u>Unutilized funds for capacity building-Shs.4,723,244,616</u> The project head office remitted a total of Shs.6,139,752,416 to 14 Municipal Councils. However, it was noted that as at the close of the financial year 2013/2014, only Shs.1,416,507,800 (23%) had been utilized implying that Shs.4,723,244,616 (77%) remained unspent.</p> | I urged management to support the municipal councils and ensure that the procurements are done on time and activities implemented. | The challenge of unutilized funds still happened in the financial year 2014/2015. Challenge still on. |
| 3.2. | <p><u>Un-utilised fund for Infrastructure Development</u> The project head office remitted a total of Shs.41,826,946,392 to 14 Municipal Councils as budgeted. During inspection, it was noted that at the close of the financial year, a total of Shs35,018,760,442 (84%) remained unspent</p> | I urged management to liaise further with management of the municipalities to ensure that infrastructure development activities are successfully implemented. | The challenge of unutilized funds is still on. Not Implemented |

I advised management to implement all the recommendations without further delay.

10.0 ASSESSMENT OF 14 MUNICIPALITIES ON IMPLEMENTATION OF USMID INFRASTRUCTURE PROJECTS FOR THE FINANCIAL YEAR 2014/15

The main objective of the audit was to assess the economy, efficiency and effectiveness with which urban infrastructure has been delivered by the Uganda Support to Municipal Infrastructure Development Program (USMID) participating Municipal Local Governments in the financial year 2014/2015.

A participatory approach involving consultations and constructive engagements with Ministry of Lands Housing and Urban Development (MLHUD- USMID PST), Municipalities and World Bank was adopted. Project documents including planning estimates, designs, procurement files, works/ material supply contracts, progress reports, payment documents, correspondences and minutes of management meeting. Field inspection was undertaken jointly with representatives of the Municipality for the selected projects to verify time, cost, quality, quantity and functionality of the works.

Performance was measured against a value for money assessment tool which was developed, discussed with stakeholders and piloted in two municipal councils of Entebbe and Jinja, there after the VFM assessment tool was then implemented in all the 14 municipalities.

The audit identified some areas that require improvement in order to strengthen the institutional capacity of the 14 municipalities and improve urban service delivery at the municipalities in Uganda.

Below is a summary of the key findings arising from the assessment undertaken; details can be obtained in the detailed report which was issued separately and forms an integral part of this report.

Key findings

Assessment results of municipalities under disbursement link 3 (DLI3) is shown in the tables below.

USMID Projects

Table 1: Assessments for USMID funded projects

| S/No | Municipality | Performance measurement | | | Municipal Total Score (Max.100 points) |
|----------------|--------------|-------------------------|------------|---------------|---|
| | | Economy | Efficiency | Effectiveness | |
| 1. | Jinja | 10 | 44 | 36 | 90 |
| 2. | Lira | 5 | 48 | 35 | 88 |
| 3. | Entebbe | 10 | 37 | 40 | 87 |
| 4. | Arua | 10 | 42 | 33 | 82 |
| 5. | Moroto | 9 | 41 | 32 | 82 |
| 6. | Mbale | 8 | 40 | 33 | 81 |
| 7. | Hoima | 10 | 27 | 40 | 77 |
| 8. | Masaka | 10 | 26 | 40 | 76 |
| 9. | Tororo | 9 | 39 | 27 | 75 |
| 10. | Gulu | 2 | 38 | 31 | 71 |
| 11. | Soroti | 3 | 40 | 20 | 63 |
| 12. | Fort-portal | 10 | 28 | 20 | 58 |
| 13. | Kabale | n/a* | n/a* | n/a* | n/a* |
| 14. | Mbarara | n/a* | n/a* | n/a* | n/a* |
| Average | | 8 | 37.5 | 32.25 | 77.5 |

*USMID funded projects had not yet commenced at the time of the audit

Economy Assessment

This assessment was based on comparisons between engineers' estimates, contract prices and average market prices (bidders' prices) in the municipality. The maximum score for this assessment was 10 points and criteria for the scores developed as in the assessment tool.

It was observed that nine out of fourteen municipalities, the contract prices for the projects, engineers and bidders' prices were within the acceptable limits to achieve maximum scores.

For the 3 municipalities of Soroti, Lira and Gulu, there were wide disparities between the contract prices, engineer's estimates and the average bidders' prices. For example, in Gulu, the difference between engineers' estimate and the contract amount was 34.8% and for Soroti, the difference between the engineer's estimate and the average bidders' prices was 63.2%.

These disparities could have been caused by inadequate analysis of the market rates for the different municipalities and inadequate involvement of the municipalities during the design period.

Efficiency Assessment

The assessment was based on how the municipalities provided the necessary preliminary arrangements for supervision of the projects, time control of payments and works; and the financial control of the projects. The maximum score was 50 points.

The municipalities provided the necessary preliminary arrangements to supervise the projects by way of ensuring that the contractors submitted work programs, performance securities and the consultants had the necessary logistics. However, it was noted that some municipalities such as Fort Portal and Hoima did not verify the performance and advance securities submitted by the contractors. The work programs submitted by the contractors were not followed and the progress of work was not as per the schedules. The progress of the works against time per municipality is shown in the table below.

Table 2: Progress of works against time

| Sn | Municipality | Commencement date | Completion date | %age physical Progress as at Sept 2015 | %age Time progress |
|----|--------------|--------------------|---------------------|--|--------------------|
| 1 | Jinja | 5th September 2014 | Nov. 4, 2015 | 70% | 80% |
| 2 | Lira | August 26, 2014 | August 26, 2015 | 80% | 100% |
| 3 | Entebbe | 27th August 2014 | 30th September 2015 | 100% | 100% |
| 4 | Arua | 3rd October 2014 | 3rd April 2016 | 20% | 66% |
| 5 | Moroto | September 04, 2014 | Sept 30, 2015 | 30% | 100% |
| 6 | Mbale | June 16, 2014 | 31st December 2015 | 35% | 85% |
| 7 | Hoima | 13th February 2015 | 13th February 2016 | 11% | 79% |
| 8 | Masaka | 4th September 2014 | 4th January 2016 | 39% | 90% |
| 9 | Tororo | June 27, 2014 | Dec 30, 2015 | 35% | 75% |
| 10 | Gulu | 26th August 2014 | Aug. 12, 2016 | 70% | 100% |
| 11 | Soroti | June 27, 2014 | Dec 30, 2015 | 27% | 75% |
| 12 | Fort-portal | 23rd February 2015 | 24th February 2016 | 3.5% | 80% |
| 13 | Kabale | n/a | n/a | n/a | n/a |
| 14 | Mbarara | n/a | n/a | n/a | n/a |

The municipalities made payments in time and responded to the issues put to them in time to ensure quick progress of works save for a few municipalities where payments to both the contractors and consultants delayed such as Gulu municipality. In Fort Portal and Hoima, advance payments were made based on insurance bonds instead of bank guarantees contrary to the contract conditions. In addition, a total of UGX 1,949,643,774 (table below) was made by municipalities to contractors as a result of payments without supporting documents, payment for unexecuted works or services not provided, and payments for works over and above measured works.

Table 3 showing overpayments per municipality

| SN | Municipality | Overpayments (UGX) | Remarks |
|--------------|--------------|----------------------|---|
| 1 | Fort Portal | 98,500,000 | Paid for activities not carried out by the contractor under USMID project |
| 2 | Hoima | 570,886,700 | Payments for un executed works/ non provided services |
| 3 | Masaka | 97,185,000 | Provisional sum for relocation of utilities paid when no services had been relocated at the time of audit |
| | | 163,072,074 | No evidence that paid activities were carried out |
| 4 | Mbale | 50,000,000 | Overpaid for fixed obligations |
| 5 | Soroti | 970,000,000 | No evidence that paid activities were carried out |
| Total | | 1,949,643,774 | |

The inefficiencies observed were mainly caused by inadequate contract management within the municipalities, engagement of the consultants after commencement of the works contracts and lack of clear role definition of the Consultant within the works

contract. These could lead to project cost overruns. In addition, slow progress of works was attributed to relocation of utilities after commencement of works, clustering of municipalities where resources were moved from one municipality to another.

Effectiveness Assessment

The assessment was based on the quality of works under implementation, usability of the infrastructure and the supervisory arrangements. The maximum score was 40 points.

The municipalities organised management meetings and progress reports regarding the works, carried out testing of the materials before use and works after placement and the roads were being used by the public during construction except Fort Portal where some roads such as Nyakana and Kagote were opened up and left in an usable condition.

Results for samples taken from the works indicated that some materials used failed in gradation tests such as the borrow pit materials and crushed stone for base in Mbale, Tororo, Arua, Jinja and Soroti. The asphalt concrete core samples failed in air voids and indirect tensile strength tests for the roads in Lira and Gulu.

Failure in these parameters especially asphalt concrete were caused by low temperatures at placing and inadequate compaction. These could lead to premature cracking of the asphalt concrete on loading.

Overall Audit Conclusion

The assessment of economy, efficiency and effectiveness with which urban infrastructure was delivered for USMID projects by the municipalities in the financial year 2014/15 yielded an average score of 77.5% as shown in table1 .

Recommendations USMID

- Engineers' estimates should be developed after proper analysis of market rates for the different regions in the country during design period.
- Municipalities should ensure that acceptable preliminary contractual documents such as performance and advance guarantees are submitted by contractors.

- Municipalities should ensure that supporting documents are attached on certificates before effecting payments and where there are payments for non-executed works or services not provided, recoveries should be implemented.
- Consultants should be engaged before commencement of works and the roles of the consultants and the clients should be clearly spelt out in the contracts.
- Clustering of construction works should be carefully assessed to ensure that key resources are maintained during the execution of works.
- Relocation of utilities should precede commencement of works contracts
- Supervision of works during laying of asphalt concrete should be improved.

FINANCIAL STATEMENTS