REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
VEGETABLE OIL DEVELOPMENT PROJECT (VODP) PHASE II
IFAD LOAN NO.806-UG
FOR THE YEAR ENDED 30TH JUNE 2015

OFFICE OF THE AUDITOR GENERAL
UGANDA
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### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>VODP</td>
<td>Vegetable Oil development Project</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>UG</td>
<td>Uganda</td>
</tr>
<tr>
<td>FYR</td>
<td>Financial Year</td>
</tr>
<tr>
<td>ULC</td>
<td>Uganda Land Commission</td>
</tr>
<tr>
<td>GOU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>PPDA</td>
<td>Public Procurement and Disposal of Public Assets.</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>VODP2</td>
<td>Vegetable Oil Development Project, Phase 2</td>
</tr>
<tr>
<td>KOPGT</td>
<td>Kalangala Oil Palm Growers Trust</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
</tr>
<tr>
<td>OPUL</td>
<td>Oil Palm Uganda Limited</td>
</tr>
<tr>
<td>UGX.</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>Bn</td>
<td>Billion</td>
</tr>
<tr>
<td>MTR</td>
<td>Mid Term Review</td>
</tr>
<tr>
<td>MOU</td>
<td>Memoranda of understanding.</td>
</tr>
<tr>
<td>BUL</td>
<td>BIDCO (U) Ltd</td>
</tr>
<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
</tr>
<tr>
<td>NEMA</td>
<td>National Environment Management Authority</td>
</tr>
<tr>
<td>ha</td>
<td>hectares</td>
</tr>
</tbody>
</table>
THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of Vegetable Oil Development Project II (IFAD loan No. 806 –UG) for the year ended 30th June, 2015. The financial statements set out on pages 17 to 33 comprise of;

- Statement of Receipts and Payments.
- Statement of comparison of Budget and Actual Amounts
- Statement of Cash flows
- Statements of Special Account activities.
- Status of the IFAD loan balances as at 30th June, 2015.
- 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 loan (IFAD) guidelines and the cash basis of accounting as described under Note 1 to the financial statements and for 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 cash balances of the Vegetable Oil Development Project, Phase II (IFAD loan No.806 –UG) as at 30th June, 2015 and the receipts and payments for the year then ended in accordance with the IFAD guidelines and the basis of accounting described under Note 1 to the financial statements.

John F.S. Muwanga
AUDITOR GENERAL

15th December, 2015
I have audited the financial statements of the Vegetable Oil Development Project (VODP) Phase II Project for the year ended 30th June 2015 and reviewed the internal control procedures relevant to the generation of accounting information presented in the financial statements, and those relevant to control over finances and the safeguard of its assets. I obtained all the information and explanations I considered necessary for the audit.

Management Responsibility for the Internal Control System
Project management is responsible for designing, establishing and maintaining a control structure that provides management with reasonable assurance that adequate procedures are followed for generation of accounting information for reliable financial statements, and control over finances and safeguarding assets against loss and unauthorized use or disposal. Management is also responsible for ensuring that conditions provided for in the development partners’ funding agreements and other legal requirements are observed.

Auditor’s Responsibility
My responsibility is to express an opinion on the internal control system based on my audit. I conducted my audit in accordance with International Standards on Auditing and the donor guidelines on auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the internal control mechanisms for the generation of accounting information and for the safeguard of assets are adequate. I assessed the control risk in order to confirm that my audit procedures are adequate to express an independent opinion on the control system. I believe that my audit provides a reasonable basis for my opinion.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:-

- Control over preparation of requisitions for funds.
- Management and control of both bank and cash accounts.
- Purchases and payments.
- Monitoring, evaluation and reporting.

For all the internal control structure categories listed above, I obtained an understanding of the design of the relevant policies and procedures, and whether they have been placed in operation and assessment of the related control risk.
Reportable conditions

No material reportable conditions were observed as management had put in place an adequate internal control system and measures to ensure proper accountability for project funds.

John F. S. Muwanga

AUDITOR GENERAL

15th December 2015
I have audited the Special Accounts Statements of the Vegetable Oil Development Project II (IFAD Loan No.806 –UG) for the year ended 30th June, 2015 which is set out on pages 23-24 of Appendix 1.

**Management Responsibility for the Special Accounts Statements**

Project management is responsible for preparation of the Special Accounts Statements and its fair presentation in accordance with the requirements of the Government of Uganda regulations and loan (IFAD) guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the Special Accounts Statements that are 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 accounts statements based on my audit. I conducted the audit in accordance with International Standards on Auditing and the loan guidelines on auditing. Those standards and guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the special accounts statements are free from material misstatement. I believe that the audit provides a reasonable basis for my unqualified opinion.

**Opinion**

In my opinion, Project management complied in all material respects with loan provisions and procedures and that the Special Accounts Statements for the Vegetable Oil Development Project, Phase II (IFAD loan No.806 –UG) for the year ended 30th June, 2015 present fairly in all material respects the accounts transactions and the closing balances as at 30th June, 2015.

John F.S. Muwanga

**AUDITOR GENERAL**

15th December, 2015

**VEGETABLE OIL DEVELOPMENT PROJECT (VODP), PHASE II, IFAD LOAN NO.806-UG**
I have audited the statement of Expenditures supporting withdrawal applications of the Vegetable Oil Development Project (VODP), Phase II Project for the year ended 30th June 2015. Management is responsible for the preparation and fair presentation of the statements of expenditure to support withdrawal applications in accordance with the loan (IFAD) guidelines.

Auditor’s Responsibility
My responsibility is to express an opinion on the statements of expenditure based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISA) and the loan (IFAD) guidelines on auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether statements of expenditure are adequate to support the claims for reimbursements of expenditure for the year. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

Opinion
In my opinion, adequate supporting documentation has been maintained to support the claim for reimbursement of expenditures incurred as provided in the Statement of Expenditures and the expenditures are eligible under the financing agreement.

John F.S. Muwanga

AUDITOR GENERAL

15th December, 2015
REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION
PART “B”

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF VEGETABLE OIL DEVELOPMENT PROJECT PHASE II 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 above Project to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Vegetable Oil Development Project Phase II (VODP2) is a project funded by the
International Fund for Agricultural Development (IFAD) under a Loan Agreement
(Number 806-UG) signed on 21st October, 2010. The total project cost is USD
147.06 million; of this amount, USD 52.00 million is a loan from IFAD, USD 15.00
million is GOU contribution, USD 3.90 is farmers’ contribution, USD 4.44 million from
Kalangala Oil Palm Growers Trust (KOPGT), USD 70.38 million from Oil Palm Uganda
Limited (OPUL), USD 1.00 million is IFAD grant to SNV and USD 0.34 million is SNV
co-financing. During the financial year under review, the project management spent
UGX.23,079,624,569 against a budget of UGX.30,497,939,365.

VODP2 builds upon the work of its predecessor project, the Vegetable Oil
Development Project (VODP), under which IFAD financed smallholder oil palm
development and extension for smallholder oil seeds farmers.

3.0 PROJECT OBJECTIVES

The overall goal is to contribute to sustainable poverty reduction in the project area.
The development objective is to increase the domestic production of vegetable oil
and its by-products, thus raising rural incomes for smallholder producers and
ensuring the supply of affordable vegetable oil products to Ugandan consumers and
neighboring regional markets. The project will achieve this by supporting farmers to
increase their production of crushing material of both oil palm and oilseeds
(sunflower, soybean, sesame and groundnuts) and establishing commercial relations by linking them to processors.

4.0 PROJECT COMPONENTS

The project consists of two components:

i) **Oil Palm Development**

VODP2 will continue the partnership with OPUL in Kalangala District and will consolidate the current gains in smallholder oil palm development while expanding the area covered to the neighboring outlying islands. A similar new oil palm development scheme will be established on Buvuma Island, and new areas for oil palm development will be identified. All areas where oil palm will be established will be subject to environment impact assessments under terms of reference agreed upon by NEMA.

ii) **Oil Seeds Development Component**

This component consists of traditional oil seeds and shall be focused around four hubs in the following districts:

(a) **Lira Hub**; Covering the districts of Lira, Dokolo, Apac, Oyam, Masindi, Soroti, Kaberamaido, Amuria, Serere, Katakwi and Amolatar.

(b) **Eastern Uganda hub**; Covering the districts of Mbale, Bududa, Budaka, Bukedea, Bukwo, Kapchorwa, Kamuli, Kumi, Manafwa, Pallisa, Sironko, Bugiri, Busia, Tororo, Butaleja, Iganga, Jinja, Namutumba, and Kaliro.

(c) **Gulu hub**; Covering the districts of Gulu, Kitgum, Amuru, Adjumani and Pader.

(d) **West Nile hub**; Covering the districts of Arua, Koboko, Moyo, Nebbi, Nyadri, Yumbe and Maracha.

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 loan 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 programme 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 IFAD and Government of Uganda and reconciled the amounts to the project’s cash books and bank statements.

b. Expenditure

Reviewed the Project funding agreement to ascertain agreed budget line activities for the IFAD and GOU funding and checked whether funds have been utilized in accordance with the approved work plan;

Vouched transactions of the project 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 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 High significance</td>
<td>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 Moderate significance</td>
<td>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 Low significance</td>
<td>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>
</tbody>
</table>
7.2 **Summary of findings**

<table>
<thead>
<tr>
<th>No</th>
<th>Finding</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1.1</td>
<td>Status of Un recovered Loans from Small holder growers - UGX.32.4bn</td>
<td>High</td>
</tr>
<tr>
<td>8.1.2</td>
<td>Under absorption of Released funds - UGX. 13,363,465,309</td>
<td>High</td>
</tr>
<tr>
<td>8.3.1</td>
<td>Status of Acquired land (Acquisition of Land title) - UGX. 5,271,012,599</td>
<td>High</td>
</tr>
<tr>
<td>8.3.2</td>
<td>Outstanding land compensation claims - UGX.3,804,475,474</td>
<td>High</td>
</tr>
<tr>
<td>8.3.3</td>
<td>Failure to hand over 5,000 hectares of land for oil palm nuclear estate</td>
<td>High</td>
</tr>
<tr>
<td>8.3.4</td>
<td>Failure to establish Buvuma Oil Palm Growers Trust.</td>
<td>High</td>
</tr>
<tr>
<td>8.3.5</td>
<td>Buvuma-Land encroachment.</td>
<td>High</td>
</tr>
<tr>
<td>8.3.6</td>
<td>KOPGT-Un-implemented activities</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.3.7</td>
<td>Staffing at the Buvuma (VODP2) offices</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.3.8</td>
<td>Under Staffing at Mbale &amp; Gulu hubs</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.3.9</td>
<td>Road Network at Buvuma and Kalangala Islands</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.4</td>
<td>Status of Implementation of Prior year audit recommendation</td>
<td>Low</td>
</tr>
</tbody>
</table>

8.0 **DETAILED FINDINGS**

8.1 **Compliance with Financing Agreement and GOU Financial Regulations**

A review was carried out on the project compliance with the loan 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 except in the following matters:

8.1.1 **Status of Un recovered Loans from Small holder growers - UGX.32.4bn**

A review of the status of Kalangala Oil Palm Growers’ Trust (KOPGT) loan Portfolio showed that as at 30th June 2015, a total of UGX.37,373,918,589 had been disbursed to the farmers as cash and input loans to support the farmers for oil palm growing activities. During the year, a sum of UGX.1,691,928,151 was recovered from smallholder growers reflecting cumulative total recoveries of UGX.4,949,465,054 leaving the unrecovered loan balance of UGX.32,424,453,535 (86.7%). Although the recovery period is 15 years after planting, the recovery of the outstanding loans seemed to be very slow. The slow recoveries could disadvantage other farmers from benefiting from the intended objective of poverty reduction.

In response, management explained that the oil palm plantations have not all yet reached maturity for harvesting and therefore the loan recovery have not commenced. It was further indicated that recovery of the loans from the oil palm farmers is linked to the harvesting and sale of oil palm fresh fruit bunches by the
farmers and as part of the project design, the farmers sell to the palm oil mill owned by Oil Palm Uganda Limited (OPUL), through KOPGT; where recovery of the loan is deducted at source after sale. The speed of loan recovery is dependent on the yield which is influenced by age and agronomic management of the plantation; and the price at which the oil palm fresh fruit bunches are sold is influenced by international crude palm oil price.

I advised the Accounting Officer to ensure adequate monitoring and supervision of the project for timely recovery of loaned funds.

8.1.2 Under absorption of Released funds - UGX.12,519,116,730
During the year under review, the project received UGX.35,598,741,299 for purposes of undertaking planned project activities however, UGX.23,079,624,569 was spent leaving UGX.12,519,116,730 unutilized representing a 35% underperformance. I noted that some planned activities were not implemented which included; designing of the MIS software for the Project, acquisition of a heavy duty scanner and a 12-14 seater motor boat. I explained to management that underutilization of the available funds could lead to unnecessary project extension costs because of failure to execute the planned activities timely.

In response, management explained that the procurement of speed boat was deferred due to the need to agree on the specifications with the Kalangala farmers while for the heavy duty scanner was due to inadequate provision of funds in the budget. The MIS was not procured because of change in the technical specifications and requirements by the user. This procurement process took long and thus affected the use of the funds under the oil seeds development component.

I advised the Accounting Officer to plan adequately and ensure uncompleted activities are handled within the stipulated time.

8.2 General Standard of Accounting and Internal Control
A review of the system of accounting and internal control was carried out and in all material respects, the internal control system and measures to ensure proper accountability for the project funds put in place by management was satisfactory.

8.3 Status of Project Implementation
A review of the status of project implementation revealed the following;
8.3.1 **Status of Acquired land (Acquisition of Land title) - UGX. 5,271,012,599**

Expenditure totalling to UGX.5,271,012,599 was made to purchase 1,174.32 hectares of land for implementation of project activities in Buvuma Island in the period under review however at the time of reporting; land titles of the procured land had not been secured. Below is the status of possession of the highlighted land.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Land</th>
<th>Registered Proprietor</th>
<th>Delivered Hectares</th>
<th>No. of tenants</th>
<th>Tenant Compensation (UGX)</th>
<th>Status of title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Plot 3, Block 28, Buluta, Buvuma</td>
<td>Kato Sekabanja P.O. Box 2064, Kampala</td>
<td>412.193</td>
<td>202</td>
<td>767,467,726</td>
<td>In consultant’s custody</td>
</tr>
<tr>
<td>2</td>
<td>Plots 1&amp;4, Block 35, Bubale, Buvuma</td>
<td>George William Muwonge P.O. Box 123, Mukono</td>
<td>359.000</td>
<td>128</td>
<td>576,181,968</td>
<td>In consultant’s custody.</td>
</tr>
<tr>
<td>3</td>
<td>Plot 1 Block 6 Bukaibale - Buvuma District.</td>
<td>Stephanie Kyazike and Nansubuga Jane- Administrators Of The Estate Of The Late Atanansi Kirakasoro</td>
<td>77.1</td>
<td>82</td>
<td>454,912,800</td>
<td>In Consultant’s Custody</td>
</tr>
<tr>
<td>4</td>
<td>Plot 1, 2 &amp; 3, Block 25 Nsese Buvuma.</td>
<td>Fred Luyombya, Simon Kivumu and Mike Kagwia, Administrators of The Estate of The Late Sefatiya Katamba</td>
<td>198.33</td>
<td>158</td>
<td>1,050,060,362</td>
<td>In consultant’s custody</td>
</tr>
<tr>
<td>6</td>
<td>Plot 19 Block 6 Bukwaya</td>
<td>Kiyimba Edward - Administrators of the Estate of the Late Muhammad Mukasa</td>
<td>181.30</td>
<td>103</td>
<td>1,295,493,260</td>
<td>In consultant’s custody</td>
</tr>
<tr>
<td>7</td>
<td>Plot 9 Buvuma Block 1 Bunyiguza-Galigaty</td>
<td>Daniel Wandabula</td>
<td>20.23</td>
<td>22</td>
<td>98,754,305</td>
<td>In consultant’s custody</td>
</tr>
<tr>
<td>8</td>
<td>Plot 1 Buvuma Block 3 Bukaibale-Galigaty</td>
<td>Kibalama Joseph and Kalenzi David - Administrators of The Estate of The Late Barnabe Katte</td>
<td>46.54</td>
<td>39</td>
<td>374,408,045</td>
<td>In consultant’s custody</td>
</tr>
<tr>
<td></td>
<td>Plot 5B land at Buyengo FC 24659</td>
<td>Sekanjako Saul</td>
<td>80.12</td>
<td>70</td>
<td>653,734,133</td>
<td>In consultant’s custody</td>
</tr>
<tr>
<td></td>
<td>Totals</td>
<td></td>
<td>1174.32</td>
<td>1039</td>
<td>5,271,012,599</td>
<td></td>
</tr>
</tbody>
</table>

I explained to management that the delay to acquire land titles slows down the progress of implementation of the project activities.
In response, management explained that the land titles for the specified land above were handed over to the project with transfer forms dully signed by the vendors, transferring the land to Uganda Land Commission (ULC) and these were handed over to the land consultants to start the process of transfer to ULC. Management further explained that as a control; these have been caveated to protect the land from any transfer without the knowledge of the project.

I await the outcome of the Accounting Officer’s actions.

**8.3.2 Outstanding land compensation claims**

I noted that a total of UGX.3,804,475,474 was outstanding in land compensation claims in favour of a claimant. Although funds were available and the valuation process already undertaken, the claimant had not been paid as at the time of reporting in December 2015. I explained to management that unpaid claims may lead to litigation challenges that impact negatively on the project. Besides, it slows down the oil palm growing due to lack of adequate land.

Management explained that the payment in question is pending verification and due diligence of tenants on the land and payment will be effected thereafter.

Management effort to expedite the process is awaited.

**8.3.3 Failure to hand over 5,000 hectares of land for oil palm nuclear estate**

In the project work-plan for the year under review; I noted that management planned to procure and clear all encumbrances on the 5,000 hectares of land in Buvuma district and hand it over to BIDCO Uganda Limited (BUL) to establish the oil palm nursery and begin setting up the nucleus estate. However; review of the activities carried out showed that this was not achieved.

In addition, management planned to identify and procure the remaining 1,500 hectares of land to achieve government commitment of 6,500 hectares for the nucleus estate to BUL however I noted that only 4,780 hectares were procured leaving a balance of 1,720 un-procured. At the time of reporting in December 2015, no land had been handed over to BIDCO. Consequently, no oil palm growing activity was undertaken including the planned establishment of the 10,000 oil palm nursery for seedlings of the small holder farmers. Failure to deliver as agreed could result into non-attainment of project objectives in the scheduled timelines.
In response, management explained that the process of land acquisition has been slowed by lack of updated documents like land titles; multiple claims on a piece of land, tenants and licensees; and dealing with absentee landlords. In order to hand over land to BIDCO, a total of 6,500 hectares of plantable land has to be available and efforts to acquire all the required land are on-going.

I advised the Accounting Officer to expedite the procurement process and hand over the said land to the company to enable it commence.

8.3.4 **Failure to establish Buvuma Oil Palm Growers Trust.**

I noted that management planned to establish the Buvuma Oil Palm Growers Trust during the year and the recruitment process of the skeleton staff including recruitment of 250 smallholder farmers to start the smallholder oil palm scheme to facilitate modern oil palm growing. However, a review of the project performance showed that the trust was not established. Besides; the recruitment process of the skeleton staff has also not started. I explained to management that failure to start up the trust could affect the cultivation of oil palm activities as expected leading to failure to achieve the intended project objectivities.

Management explained that the smallholder farmers oil palm activities in Buvuma are tagged to the private sector partner- BIDCO starting activities on the Island. Because hand over of land has not yet taken place in Buvuma, all the other activities are on halt, including recruitment of farmers to the smallholder oil palm scheme and setting up of the Buvuma Oil Palm Growers Trust.

I advised the Accounting Officer to ensure follow up and have the trust set up.

8.3.5 **Buvuma-Land encroachment**

During inspection; it was noted that there were reported cases of land encroachment on the project land. People have built up temporary structures and many gardens have been established. It was noted that there are no sign posts installed across the entire land that would clearly show or demarcate the project land. I explained to management that allowing such activities to be carried out on the project land accelerates encroachment and land grabbing besides; there is a possibility that this could lead to litigation challenges while evicting the encroachers which may affect and or delay implementation of the project activities.
In response, management explained that in order to protect the acquired land from further encroachment, the project has started opening boundary roads around all the acquired land. All the tenants that have been compensated have been asked to vacate the land and from the compensation provisions, these tenants are expected to vacate the land within six months from the time of compensation. The project has also initiated procurement of security services to help undertake surveillance around the land to protect it from encroachment. In the meantime, the police were helping to protect the land by undertaking surveillance and inspecting the lands for any further encroachment.

I advised the Accounting Officer to speed up the exercise of acquiring the required hectares of land and hand them over to BIDCO as agreed.

**8.3.6 Un-implemented activities under KOPGT**

I noted that the planned road maintenance (civil works) that was scheduled to be carried out under KOPGT during the year was not implemented. Failure to execute planned activities could affect fulfilment of project objectives in the project scheduled time and may cause project extension costs.

Management explained that the road works were affected by the breakdown of road equipment and indicated that the procurement process for repair was ongoing. A no objection from IFAD has already been granted to have the repairs done.

I advised the Accounting Officer to follow up the procurement process to ensure that the activities are implemented timely.

**8.3.7 Lack of Staff at the Buvuma (VODP) offices**

I noted that ever-since the project started purchasing land in Buvuma, no project staff has been recruited for close monitoring of the land acquired as well as the established office. It was noted that a project Assistant and a copy typist recruited by the district are manning the office; carrying out various activities including sensitization of farmers on land surveying among other activities. I explained to management that the project activities may not be suitably handled and absence of suitable project staff could cause a mix up in handling of project activities and contribute to land encroachment on the already paid for land. This may further cause delayed take off of the project.
In response, management explained that the Project activities in Buvuma have been affected by the slow progress in land acquisition which has affected start of activities by the private sector partner. Most of the activities being undertaken currently are preparatory in nature. It was indicated that plans are underway to boost the Buvuma Project office with more staff who will be based at the island to carry out project activities.

I advised the Accounting Officer to ensure close monitoring to ensure project resources are safeguarded.

### 8.3.8 Under Staffing at Mbale & Gulu hubs

Mbale Hub comprises of 19 districts in the eastern Uganda. VODP 2 organization structure provides for the recruitment of the Hubs Coordinator, the driver, and an Office Assistant. However during inspection, it was noted that only the hub’s coordinator was officially recruited to manage the oil seeds activities including mobilization and training of more farmers in the region about the importance of oil seed. The post of driver and office assistant are not yet filled.

Similarly; at Gulu hub; a Coordinator was recruited and the hub comprises of 5 districts in the Northern Uganda. One staff did not seem to be adequate for the size of the hub. Understaffing could lead to non-implementation of project activities that could impact negatively on the performance of the project.

In response, management explained that the initiated process of filling the posts has started and in the meantime, the hubs have drivers seconded from the project office in Kampala and are able to undertake field activities.

I wait the outcome of the Accounting Officer’s commitment.

### 8.3.9 Road Network at Buvuma and Kalangala Islands

Inspection of operational areas of Buvuma and Kalangala Islands showed that the road network was not adequate for easy monitoring. The current road network does not facilitate easy monitoring and supervision of the palm growing activity and collection of the harvests. I explained to management that some farmers’ harvests might not get collected in time which could frustrate farmers’ efforts. In addition; the purchased land needs close monitoring of the boundaries and without roads, some areas might be inaccessible.
I response, management explained that in Kalangala, opening of new roads would be undertaken as soon as the road equipment has been repaired. Some roads will be upgraded to community access roads and handed over to the district for maintenance; while the farm roads will remain in the hands of the farmers for maintenance. It was indicated that the project is working with farmers to ensure that adequate road network is available to meet their needs.

I advised management to expedite the process.

8.4 Status of Implementation of Prior year Audit Recommendations

Review of the status of implementation of the prior year audit Recommendations showed that some recommendations were not yet implemented by management as per the schedule below:

<table>
<thead>
<tr>
<th>Audit Issue FYR 2013/2014</th>
<th>Recommendation Given</th>
<th>Management response/Audit Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under absorption release of funds</td>
<td>I advised management to expedite the pending processes and have the activities implemented.</td>
<td>A 700 m2 store was completed and stocked with fertilizers. The 2 station wagons and 28 motorcycles were delivered and payment made. The Environmental impact assessments were completed. Implemented</td>
</tr>
</tbody>
</table>

Review of the Operations of KOPGT

(a) Un-utilized recoveries from the farmers

Article 3 (h) of the agreement signed on the 28th April 2006 between OPUL and KOPGT, provides that it is the Trustee’s obligation to refund to the Government the resources of the Scheme repaid by the smallholders and out growers within one year of receipt, or utilise such resources as may otherwise be agreed upon by the Government, the Trustee and IFAD. I noted that loan recoveries worth UGX 3,257,536,892 had accumulated on the Loan Recovery Account and the Trustee declared the resources to Ministry of Agriculture but no action has been taken on the utilisation of the funds. Management actions on the matter are awaited. Loan recoveries from oil palm farmers in Kalangala have been budgeted for to establish oil palm growing in Buvuma under the Mid-term review. UGX 667,375,000 was budgeted to purchase seedlings in the FYR 2015/16 for Buvuma oil palm and the balance will be utilized in the subsequent years. Slow rate of Implementation.

(b) Outstanding loans from KOPGT

I advised Oil palm planting started in
### Small holders

At the reporting date, a total of UGX.33,728,757,674 had been disbursed as cash and input loans to KOPGT farmers for oil palm activities. However, I noted that UGX.3,257,536,892 only has been recovered from the farmers as loan repayments to-date leaving the balance of UGX.30,491,220,782 yet to be recovered. I explained to management that the recovery rate was slow.

management to come up with a payback schedule indicating how much has been recovered and what is anticipated to be recovered over the remaining period. This will enable me assess the performance of the loan portfolio.

2006 and is planned to go on up to 2016. This means that the last loans will be recovered in 2030. The project only recovers 33% of the net sales of oil palm fresh fruits and gives the farmer 67%, because this is a development project meant to reduce poverty in the project area.

The loan recovery considering all the plantings since 2006 was UGX 3.258b against projections of UGX 3.256b, which indicates that the project is performing better than expected. Though the project ends in 2018, oil palm harvesting will go on up to 2045. The loan recovery process will continue being handled by KOPGT, the implementing partner that will remain in place after the project closure.

Implementation on-going.

### (c) Untitled land

In 2006, the registered farmers agreed to purchase a plot of land on which the KOPGT secretariat was to be constructed. The farmers contributed UGX.50,000 each collecting a total of UGX.24,000,000 that was used specifically to buy land in Kalangala Town Council in 2007. However, as at the time of reporting, I noted that management had not yet acquired the land title.

In 2006 and is planned to go on up to 2016. This means that the last loans will be recovered in 2030. The project only recovers 33% of the net sales of oil palm fresh fruits and gives the farmer 67%, because this is a development project meant to reduce poverty in the project area.

The loan recovery considering all the plantings since 2006 was UGX 3.258b against projections of UGX 3.256b, which indicates that the project is performing better than expected. Though the project ends in 2018, oil palm harvesting will go on up to 2045. The loan recovery process will continue being handled by KOPGT, the implementing partner that will remain in place after the project closure.

Implementation on-going.

Management submitted land transfer forms and mutation forms and the land purchase agreement and survey deed print to Masaka Land Registration office transfer of the land into the name of (KOPGT). The title is awaited. To ensure that the land is not encroached on, The KOPGT offices are on the land and also the land has been fenced.

Not implemented Yet.

### Inspection of Oil seeds component hubs

#### Staffing at Mbale Hub

A review of the operations at Mbale Hub that comprises of 20 districts in Eastern Uganda indicated that it is currently managed by only one staff yet the hub is too big. I explained to management that farmers may not get the guidance they need and in time.

Management explained that the project design document did not provide for extra staff at hub level however, the concern of low levels of staffing was noted and raised with IFAD and accordingly, the

I advised management to expedite the recruitment process.

The Extension services are provided through Pay for Service Providers, who go directly to farmers and train them on extension, provide market linkages and other services. The hub office only works as a liaison office for coordination of project activities. The Hub Officer has built linkages with the district focal persons who manage the project activities in the districts and then report to the hub officers.
### September 2014 IFAD Support Mission Aide Memoire recommended recruitment of a hub driver and another staff to manage the regional office.

<table>
<thead>
<tr>
<th>Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Not Implemented.</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### a) Inspection of oil palm component - Buvuma Palm Oil Project

The Oil Palm Component of the project covers the districts of Kalangala and Buvuma. Acquisition and hand over of 4,000 hectares to BIDCO (U) Ltd (BUL)

According to VODP 2 work plan and budget for the financial year under review, the project was to consolidate all the acquired land, identify more, survey, process and hand over 4,000 hectares of this land to BUL for nucleus estate out of the total planned and agreeable 6,500 hectares of land. I noted that the project has not handed over the planned hectares of land. This has made the handover difficult since.

<table>
<thead>
<tr>
<th>Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>I advised management to expedite the process and have the handover concluded.</td>
<td></td>
</tr>
<tr>
<td><strong>The project has acquired/committed a total of 7,331.2ha of land in order to secure 6,500ha plant able land for oil palm growing in Buvuma. Of this, 4,833ha has been cleared of any encumbrance and is ready to be handled over to the private sector partner. Efforts to clear the remaining land of encumbrances are on-going. Tenants’ properties are being valued before payment is effected and the tenants vacate the land.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Not Resolved yet.</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Establishment of Buvuma Oil Palm Growers Trust**

According to the VODP 2 work plan and budget for the financial year under review, the project was supposed to have started the establishment of Buvuma Oil Palm Growers Trust and the recruitment process of the skeleton staff should have taken off. However at the time of inspection, it was noted that no such Trust had been established. The Accounting Officer explained that the project can only establish Buvuma Oil Palm Growers Trust after BIDCO starts implementation of nucleus activities in Buvuma.

<table>
<thead>
<tr>
<th>Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>I advised management to address all the issues hindering progress of the project activities for successful implementation of planned activities.</td>
<td></td>
</tr>
<tr>
<td><strong>The Project is concentrating on acquiring the land so that the private sector partners can start activities which will then trigger the smallholder activities including mobilization and registration of smallholder farmers for oil palm production. These farmers will then form the Buvuma Oil Palm Growers Trust. The project will recruit a skeleton staff by April 2016 to undertake start up activities in Buvuma.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Not Implemented Yet.</strong></td>
<td></td>
</tr>
</tbody>
</table>

I advised the Accounting Officer to implement all the recommendations given.
FINANCIAL STATEMENTS