
OFFICE OF THE AUDITOR GENERAL
UGANDA
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## ACRONYMS AND ABBREVIATIONS

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>GOU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>UNRA</td>
<td>Uganda National Road Authority</td>
</tr>
<tr>
<td>TSDP</td>
<td>Transport Sector Development Project</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>MoWT</td>
<td>Ministry of Works and Transport</td>
</tr>
<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
</tr>
<tr>
<td>SIA</td>
<td>Social Impact Assessment</td>
</tr>
<tr>
<td>NRSA</td>
<td>National Road Safety Authority</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>IFMS</td>
<td>Integrated Financial Management System</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>PAPS</td>
<td>Project Affected Persons</td>
</tr>
<tr>
<td>RDPP</td>
<td>Road Development Programme</td>
</tr>
<tr>
<td>MATA</td>
<td>Metropolitan Area Transport Authority</td>
</tr>
<tr>
<td>GKMA</td>
<td>Greater Kampala Metropolitan Area</td>
</tr>
<tr>
<td>BRT</td>
<td>Bus Rapid Transit</td>
</tr>
<tr>
<td>MTRA</td>
<td>Multi-sector Transport Regulatory Authority</td>
</tr>
<tr>
<td>MoFPED</td>
<td>Ministry of Finance Planning and Economic Development</td>
</tr>
<tr>
<td>URURA</td>
<td>Ugandan Rural, Urban Roads Authority</td>
</tr>
</tbody>
</table>
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE TRANSPORT SECTOR DEVELOPMENT PROJECT FOR THE SEVEN (7) MONTH PERIOD ENDED 31ST JANUARY 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Transport Sector Development Project (TSDP) IDA Credit Nos.4679 UG and 4949 UG and DFID Grant No.TF-11094 for the seven (7) month period ended 31st January 2016. The financial statements are set out on pages 13 to 26 of appendix 1 and comprise of the statement of receipts and payments, statement of fund balance, special account statements and notes to the accounts which contain the summary of significant accounting policies.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Government of Uganda, IDA/World Bank Guidelines and the Accounting Policies described under Note 12 to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the
reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence 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 present fairly, in all material respects, the fund balance of the Transport Sector Development Project (TSDP) – IDA Credit Nos. 4679–UG and 4949-UG, DFID Grant No. TF-11094 as 31st January 2016 and of its receipts and payments for the period then ended in accordance with basis of accounting set out in Note 12 to the financial statements.

**Emphasis of Matter**

Without qualifying my opinion, I draw your attention to note 12.15 of the financial statements;

- **Use of Project funds on other Projects**
  Management utilized UGX. 10.3 billion counterpart funding allocated to TSDP to settle obligations of other projects implemented by UNRA with no adequate authorization.

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

29th December, 2016
REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT STATEMENTS OF THE TRANSPORT SECTOR DEVELOPMENT PROJECT FOR THE SEVEN (7) MONTH PERIOD ENDED 31ST JANUARY 2016

I have audited the accompanying Special Accounts designated for Transport Sector Development Project (TSDP) Activities and Financial Monitoring Reports submitted to the Bank during the seven (7) month period ended 31st January 16 in support of loan withdrawals under Credit Agreement Nos. 46790-UG and 49490-UG, and DFID Grant No. TF11094.

Management Responsibility for the Special Accounts Statements
Management is responsible for preparation of the special account statements and fair presentation in accordance with the requirements of financing agreements. 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 account statements based on our audit. I conducted our audit in accordance with generally accepted auditing standards that accordingly included examination, on a test basis, of evidence supporting the amounts and disclosures in the Special Accounts designated for Transport Sector Development Project (TSDP) Activities. An audit also includes assessing the accounting principles used and significant estimates made by Management as well as evaluating the overall statement presentation. I believe the audit provides a reasonable basis for my opinion.

Opinion
In my opinion, Management complied in all material respects with the conditions of the financing agreements, and that the Special Accounts Statements and Financial Monitoring Reports present fairly the account transactions of the IDA and DFID Designated Accounts and the closing balances as at 31st January 2016,

John F.S. Muwanga  
AUDITOR GENERAL  
29th December, 2016
REPORT OF THE AUDITOR GENERAL AND SUPPLEMENTARY INFORMATION
PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF THE TRANSPORT SECTOR DEVELOPMENT PROJECT FOR THE SEVEN (7)
MONTH PERIOD ENDED 31ST JANUARY 2016

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

1.0 INTRODUCTION
Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended), requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I appointed M/s Grant Thornton, Certified Public Accountants to carry out the audit on my behalf and report to me to enable me report to Parliament.

2.0 PROJECT BACKGROUND
The World Bank Group has been supporting the Government of Uganda in its development efforts since early 1990s. A financing agreement between Government of Uganda (GoU) and the International Development Association (IDA) was signed on 3rd February 2010. Under the agreement, IDA agreed to provide SDR 120,000,000 to finance the improvement of connectivity and efficiency of the Transport Sector. Another agreement was signed between GoU and IDA on 22nd October, 2012 when IDA agreed to provide a credit of SDR 47,400,000. The project was implemented by Uganda National Roads Authority and it closed on 31st January 2016, after suspension of its funding by the World Bank.

3.0 PROJECT OBJECTIVES
The objective of the Transport Sector Project broadly defined, was to assist the GoU in its effort to improve the efficiency of the national road network in order to support economic and social recovery programmes, and effective market integration. The specific objective of the project was to reduce the cost of transport in the Northern Region of Uganda.

4.0 PROJECT COMPONENTS
The project was being implemented under the following categories, namely;
PART A: Upgrading and Rehabilitation of National Roads

(i) Rehabilitation of infrastructure and provision of services for the improvement of approximately 160 Kilometers of gravel roads to paved standard in selected sections in Northern Uganda, and the preparation of the design and bidding documents for the future rehabilitation of the Recipient’s existing national roads systems.

(ii) Implementation of the mitigation measures specified in the EIA/SIA and provision of support to affected persons including provision of resettlement activities and compensation.

PART B: Enhanced Road Safety

Improving road safety through the creation and operationalization of a National Roads Safety Authority (NRSA) and through the establishment of a crash data base.

PART C: Support to Preparation of a Kampala Urban Transport Project and the Legislation for establishment of a Metropolitan Area Transport Authority (MATA)

Preparation of a bus rapid transit project in Kampala through feasibility studies and design activities for an introductory phase of such a public transportation system, and assistance to the startup of an urban transport authority. This component is implemented by MoWT.

PART D: Support to Ministry of Works and Transport (MOWT) to focus on its core functions

Strengthening the capacity of the Recipient’s MOWT to provide sector oversight, monitoring, policy formulation and planning, through the provision of technical assistance, the carrying out of studies, and the provision of training and equipment.

PART E: Technical Assistance (TA) and Capacity Building to Uganda National Roads Authority (UNRA)

Strengthening the capacity of Recipient’s UNRA to serve as a project implementing unit, through the refurbishing of offices, provision of technical assistance, the carrying out of studies, provision of training and equipment and supervision vehicles.

5.0 AUDIT PROCEDURES

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. To express an opinion whether the financial statements present fairly, in all material respects, project receipts and expenditure incurred for the period, and are in conformity with generally accepted accounting principles;
- b. 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 weakness;
- c. To perform tests to determine whether the Project complied, in all material respects, with agreement terms and applicable laws and regulations;
- d. To establish whether all external funds have been used in accordance with conditions of the relevant legal agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided;
- e. To establish whether counterpart funds have been provided and used only for the purposes for which they were provided and in accordance with the relevant financing agreement, with due attention to economy and efficiency;
- f. Establish whether goods and services financed have been procured in accordance with relevant financing agreement;
- g. To establish whether proper books of accounts were duly kept in accordance with the generally accepted accounting principles.

6.0 PROCEDURES PERFORMED

The following audit procedures were undertaken:

- a. Revenue

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

- b. Expenditure

  The Project 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 Project 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 Project during the period under review.

f. **Periodic Reports about the project Activities**

Reviewed the Agreement provisions, operational manual and the Financial Monitoring Reports and reconciled them with the project activities during the period under review.

g. **Project Financial Statements**

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

7.0 **CATEGORIZATION AND SUMMARY OF FINDINGS**

7.1 **Categorization of Findings**

The following system of profiling of the audit findings is used to prioritize the implementation of audit recommendations:

<table>
<thead>
<tr>
<th>No.</th>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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</td>
<td>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</td>
<td>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>Inter-project transfers without adequate authorization</td>
<td>High</td>
</tr>
<tr>
<td>8.1.2</td>
<td>Implementation of World Bank supervision recommendations</td>
<td>High</td>
</tr>
<tr>
<td>8.1.3</td>
<td>Non-compliance with the Financing Agreement</td>
<td>High</td>
</tr>
<tr>
<td>8.2.1</td>
<td>Lack of control accounts for advance payment, recoveries and IPC retention from contractors</td>
<td>High</td>
</tr>
<tr>
<td>8.2.2</td>
<td>Inconsistencies in PAP Expenditure Records</td>
<td>High</td>
</tr>
<tr>
<td>8.2.3</td>
<td>Failure to carry out internal audit of project activities</td>
<td>Moderate</td>
</tr>
<tr>
<td>8.2.4</td>
<td>Inactive pastel report writer module</td>
<td>Moderate</td>
</tr>
<tr>
<td>9.0</td>
<td>Status of Prior Audit recommendations</td>
<td>Low</td>
</tr>
</tbody>
</table>

8.0 **DETAILED AUDIT FINDINGS**

8.1 **Compliance with the Financing Agreement and GoU Financial Regulations**

It was observed that management had complied in all material aspects with the financing agreement and GoU financial regulations except for the following matters;

8.1.1 **Inter-project transfers without adequate authorization**

I noted un-authorized inter-project transfers from GoU grants amounting to UGX. 10,365,145,000 from TSDP allocated funds to settle obligations of other projects implemented by UNRA.

Use of project funds for non-project activities could result into delayed implementation of activities.

Management explained that it was true some of the money meant for the Project was used to pay compensation to PAPS on other projects. This was largely because of the slow land acquisition processes that many times result into idle funds on some projects and shortage of funds on others. Management transferred the funds to relieve pressure on the projects to which the funds were used.

I advised Management to ensure that all project funds are spent in accordance with Project guidelines or authority is obtained for the transfers.
8.1.2 Implementation of World Bank supervision recommendations

I noted that Management had not implemented 6 out of 36 World Bank supervision report recommendations especially social safeguards and environmental issues as indicated below;

<table>
<thead>
<tr>
<th>Section Issues</th>
<th>No. Issues Implemented</th>
<th>Issues Implemented</th>
<th>Not Implemented</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>13</td>
<td></td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Safety</td>
<td>4</td>
<td></td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Environmental</td>
<td>9</td>
<td></td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Resource mobilization</td>
<td>3</td>
<td></td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Financial</td>
<td>1</td>
<td></td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total issues</strong></td>
<td><strong>30</strong></td>
<td></td>
<td><strong>6</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

The non-implementation of the World Bank recommendations may have been a major cause of the suspension of the Project funding.

Management explained that the ‘Not Fully Compliant” issues include Compensation and Grievance redress, Workplace Accidents and Work Permits for Foreign Personnel. Management further explained that they instructed the contractor to make the outstanding payments to accident victims as per the insurance report.

I wait the outcome of Management’s efforts to ensure proper social and environmental safeguards during project implementation.

8.1.3 Non-compliance with the Financing Agreement

During the year under review, I noted that Management did not comply with the financing agreement in the following ways;

- Project guidelines require that Management submits quarterly reports not later than 45 days after the reporting period. However, a review of the quarterly Interim Financial Reports (IFRs) to the development partners revealed that IFR quarter 2 was submitted May 5, 2016 together with quarter 3 instead of February 15, 2016.
- Failure to set up National Roads Safety Authority (NRSA).
- Management had not fully rectified the social and environmental issues that resulted into the cancellation of funding IDA.
Non-compliance with the financing agreement may have partly led to the suspension of Project funding and subsequently negatively affected achievement of the project objectives.

Management explained that the Set-up of National Roads Safety Authority required enacting a Law to establish the authority, however, Cabinet did not approve the proposal to set up of a new authority within the Ministry of works. Management further explained that UNRA had vigorously rectified most social and environmental issues and the matrix to address them had been implemented.

I advised Management to ensure that implementation of Projects is done in accordance with the requirements of Financing Agreements.

8.2 **General Standard of Accounting and Internal Control**

A review was carried out on the system of accounting and internal control. It was noted that management had instituted adequate controls to manage project resources except for the following matters;

8.2.1 **Lack of control accounts for advance payment, recoveries and IPC retention from contractors**

It was noted that UNRA did not maintain control accounts for advance payments, recoveries and Interim Project Certificates (IPC) retentions from the contractor’s payments. Lack of control accounts causes reconciliation problems especially the contractor’s accounts.

I noted differences in the retention recomputed amounting to UGX. 201,355,318 which was recorded as audit adjustment.

Management regretted the error in computation of retention. Management further explained that the project has been completed and recovery is no longer possible. Management further explained that the Project was in the process of acquiring a Project Management module under new financial Management reforms which would help to keep track of project transactions such as advance recoveries and retentions.

I advised management that it is important to maintain control accounts for all contractors to track advance payments, recovery and retentions for proper monitoring and recording in the financial statements.
8.2.2 **Inconsistences in PAP Expenditure Records**

I noted some bounced LPC payments to PAPs which were not reconciled to Valuation reports and ledgers. These bounced payments were also not communicated to Land acquisition department.

Under the circumstances, PAPs may not be compensated on time which may delay project implementation.

Management explained that Payments to PAPS are made whenever funds are released. Management further explained that in cases were payments bounce back, the project ensures that the transactions are investigated and corrected.

I advised Management to continue to reconcile PAPs payments to Valuation records and general ledger and communicate the bounced payments to land acquisition department on time.

8.2.3 **Failure to carry out internal audit of project activities**

During the year under review, I noted that internal audits were not undertaken on the operations of TSDP. In the absence of sufficient project monitoring, irregularities in project implementation may not be detected in time.

Management explained that the failure to conduct internal audits was due to the restructuring in UNRA where the number of staff in the Directorate of Internal Audit was reduced from seven (7) to three (3) staff which forced the Directorate to scale down on its activities. Management further explained that staffing levels had since improved and the current structure has 28 staff to conduct internal audits.

I advised Management regularly monitor project activities in order to achieve the project intended objectives.

8.2.4 **Inactive pastel report writer module**

It was noted that the Pastel report writer module was not being used by management. It was further noted that accounts extracted from the Pastel accounting software did not correspond to budget components and sub components.
It was therefore difficult to correlate expenditures to budgets for each component and sub-component.

Management explained that in order to fully address the project’s financial reporting requirements, URA had undertaken to acquire an ERP system that would among other things include the project Management module capable of accumulating costs.

I advised Management to enhance its financial reporting processes.
FINANCIAL STATEMENTS