THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF ENERGY FOR RURAL TRANSFORMATION PROJECT (ERT) BANK OF UGANDA COMPONENT IDA CREDIT NO.3588-UG FOR THE YEAR ENDED 30TH JUNE 2016

OFFICE OF THE AUDITOR GENERAL
KAMPALA
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>BoU</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>ERTP</td>
<td>Energy for Rural Transformation Project</td>
</tr>
<tr>
<td>ERTRF</td>
<td>Energy for Rural Transformation Refinancing Fund</td>
</tr>
<tr>
<td>GoU</td>
<td>Government of Uganda</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Agency</td>
</tr>
<tr>
<td>PFIs</td>
<td>Participating Financial Institutions</td>
</tr>
<tr>
<td>PSFU</td>
<td>Public Sector Foundation Uganda</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
</tr>
</tbody>
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REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF ENERGY FOR RURAL TRANSFORMATION
PROJECT (ERT) (BANK OF UGANDA COMPONENT) IDA CREDIT NO.3588-UG FOR
THE YEAR ENDED 30TH JUNE 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the Financial Statements of the Energy for Rural Transformation Project (ERTP) Bank of Uganda Component funded under IDA Development Credit Agreement No.3588 UG, for the year ended 30th June 2016 which comprise of the Statement of Financial Position, Income and Expenditure Statement, Statement of Cash Flows and a summary of significant accounting policies and explanatory notes.

Management’s responsibility for the Financial Statements

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

Auditors’ responsibility

My responsibility is to express an independent opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing 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 misstatement 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, 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 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 our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Energy for Rural Transformation Project - BOU component as at 30th June 2016, and its income and expenditure and its cash flows for the year then ended in accordance with the Project accounting policies and in the manner required by the Development Credit Agreement.

John F.S. Muwanga

**AUDITOR GENERAL**

7th November, 2016
PART “B”

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF ENERGY FOR RURAL TRANSFORMATION PROJECT (ERT) (BANK OF UGANDA COMPONENT) IDA CREDIT NO.3588-UG FOR THE YEAR ENDED 30TH JUNE 2016

This Section outlines the detailed audit findings, management response, 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 DATIVA & ASSOCIATES, Certified Public Accountants, to carry out the audit of the project on my behalf and report to me to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Government of Uganda (GoU), assisted by the World Bank through the International Development Association (IDA), funded the Energy for Rural Transformation Project (ERTP) with the aim of increasing access to modern, clean affordable energy to millions of rural Ugandans over the next decade. The ERT project has a number of components and is implemented jointly by the following bodies and/or organizations:

- Bank of Uganda
- The Private Sector Foundation Uganda (PSFU)
- Ministry of Energy and Mineral Development
- Ministry of Local Government
- Ministry of Health
- Ministry of Agriculture, Animal Industry and Fisheries
- Ministry of Education and Sports
- Ministry of Water, Lands and Environment
- Ministry of Finance, Planning and Economic Development
- Uganda Communications Commission
Pursuant to the signing of a subsidiary Project Agreement between IDA and Bank of Uganda (BoU) dated 20 December, 2001 (as amended) and a Subsidiary Financing Agreement between Government of Uganda (GoU) and BoU dated 26 July 2004, an amount of SDR 11.18 million (approximated as USD 15.27 Million) was made available to BOU for on-lending to Participating Financial Institutions (PFIs). The amount allocated for on-lending was revised to SDR 8,284,824 (approx. USD 12.8 million) during project implementation. An amount of SDR 76,404 was also made available for operational expenses under the Energy for Rural Transformation Refinance Fund (ERTRF), BoU Component.

The ERTP I closed on 28th February 2009 with a grace period up to 30th June 2009 and therefore there were no refinances to the PFIs during the period. However, recovery of the loan payments from the various PFIs is still ongoing. The role of BoU has remained that of collection of reflows from the PFIs.

3.0 OBJECTIVES OF THE PROJECT

The objectives of the ERTP BoU component include the following:

• To facilitate investment in commercially oriented rural electrification sub-projects, initially for four first track projects; and
• Build capacity and develop the needed financial intermediation mechanism in which provision of term finance for rural electrification and renewable energy development is part of the normal functioning of the financial sector in Uganda.

4.0 TERMS AND CONDITIONS OF THE PROJECT

The terms and conditions of the Project were stated in the Development Credit Agreement (DCA) No. 3588 UG, signed between the Government of Uganda and the IDA on 21 December 2001. Under these terms and conditions;

a. PFIs were responsible for the appraisal of the investment sub-Projects and overseeing their implementation;

b. Loans to sub-projects was denominated in Uganda shillings;

c. The ERTP was a refinancing facility, therefore PFIs had to first disburse their own funds and subsequently submit expenditure documentation to BOU for reimbursement if the application was sanctioned by BOU and the World Bank;

d. The PFI were refinanced up to 90% under anyone loan application;
e. Applicable interest rate (from BOU to PFI) was based on the weighted average of time deposit rates for the top five banks participating in the ERTP;

f. Maturities of loans and their grace periods did not exceed 15 years and up to 5 years respectively. The periods are on a matched maturity basis between BOU and the PFI on one hand, and the PFI and final borrower on the other;

g. ERTP refinance did not constitute more than 75% of the total Project cost for any given Project;

h. BOU was responsible for reviewing PFI loan application against the terms and conditions of the Project, sanctioning and disbursing refinance requests; and

i. The World Bank was responsible for issuing a "no objection" for all applications in excess of US$ 250,000 sanctioned by BOU.

5.0 AUDIT OBJECTIVES

The audit has been carried out in accordance with the International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary.

Special attention was paid to establish whether;

a. all external funds had been used in accordance with conditions of the relevant legal agreements and only for the purposes for which the financing was provided, with due attention to economy and efficiency;

b. Counterpart funds had been provided and used only for the purposes for which they were provided and in accordance with relevant financing agreements, with due attention to economy and efficiency.

c. goods and services financed have been procured in accordance with relevant financing agreements;

d. all necessary supporting documents, records and accounts have been kept in respect of all project expenses;

e. the financial statements have been prepared in accordance with consistently applied International Accounting Standards;

f. The Project Financial Statements (PFS) have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the
resources and expenditure for the year and of the financial position at the end of year.

6.0 **PROCEDURES PERFORMED**

Reviewed the terms of appointment to ensure audit procedures are appropriately designed to achieve the objectives of the audit. Attention was paid to establish whether:-

a) Project funds had been used in accordance with conditions of the relevant legal agreements and only for the purposes for which the financing was provided, with due attention to economy and efficiency;

b) Goods and services financed have been procured in accordance with relevant financing agreements;

c) All necessary supporting documents, records and accounts have been kept in respect of project expenses; and

d) The financial statements have been prepared in accordance with consistently applied project accounting policies.

6.1 **Revenue**

Obtained and reviewed the sub-loan statement(s) for the two PFIs with outstanding balances under the Project to ensure all quarterly interest due was received. Reconciled revenue figures to Project accounting records.

6.2 **Expenditure**

- Verified all expenditure charged to the project during the year audited.
- Verified the correctness of the commission charged under the project and checked rates applied to ensure compliance with the financing agreement.
- Agreed expenditure to project financial records.
- Checked completeness and consistence of recording project transactions, including eligibility of expenditure.

6.3 **Accounting and Internal control system**

- Reviewed the internal control system in operation including data capture, accounting, and data security systems; and assessed their appropriateness.
- Checked whether the financial and operational controls in place are adequate in design and consistent in operation.
• Reviewed the internal control procedures on expenditure and project assets and assessed their effectiveness and management’s adherence to these controls.

6.4 **PFI Loans**
• Checked whether loan instalments due from the PFIs are timely remitted in accordance with the funding agreement.

6.5 **Compliance with laws and regulations**
• Checked whether project management complied with the provisions of the Financing agreement and the relevant legislation and applicable regulations. Material instances of non-compliance were documented.

6.6 **Verification of activities**
• Sampled and visited one participating financial Institution to verify whether funds from World Bank have been used in accordance with the conditions of the Financing Agreement and for purposes for which these funds were provided with due attention to value for money.

7.0 **STATUS OF PROJECT IMPLEMENTATION**
Initially the ERTP-BOU component had five funded projects, the status of project loans is shown in Table 1 below:

**Table 1: status of project implementation as at 30th June, 2016:**

<table>
<thead>
<tr>
<th>Sub-Project</th>
<th>PFI</th>
<th>Approved Loan</th>
<th>Repayments</th>
<th>Outstanding Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>US $</td>
<td>US $</td>
<td>US $</td>
</tr>
<tr>
<td>KSWL</td>
<td>EADB</td>
<td>7,730,000</td>
<td>7,730,000</td>
<td>-</td>
</tr>
<tr>
<td>WENRECO</td>
<td>Barclays Bank (U) Ltd</td>
<td>3,735,000</td>
<td>3,134,530</td>
<td>600,470</td>
</tr>
<tr>
<td>Solar Loans</td>
<td>Global Trust Bank (U) Ltd</td>
<td>297,000</td>
<td>297,000</td>
<td>-</td>
</tr>
<tr>
<td>Solar Loans</td>
<td>Equity Bank (U) Ltd</td>
<td>297,000</td>
<td>297,000</td>
<td>-</td>
</tr>
<tr>
<td>Solar Loans</td>
<td>Post Bank (U) Ltd</td>
<td>425,000</td>
<td>348,107</td>
<td>76,893</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>12,484,000</strong></td>
<td><strong>11,806,637</strong></td>
<td><strong>677,363</strong></td>
</tr>
</tbody>
</table>
8.0 DETAILED FINDINGS

8.1 Compliance with Financing Agreement and Government of Uganda Financial Regulations
It was noted that Project management complied in all material respects, with all the covenants contained in the project management as well as government of Uganda financial regulations.

8.2 General Standard of Accounting and Internal Control
A review of the financial management system and internal controls was carried out. I noted that management had put in place a satisfactory internal control system and measures to ensure proper accountability for all project funds.

9.0 Status of Prior Year Audit issues
Review of the implementation of the previous year’s recommendation revealed the following status.

<table>
<thead>
<tr>
<th>Description</th>
<th>Recommendation</th>
<th>Status</th>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Failure to monitor project activities</td>
<td>Bank of Uganda should ensure procedures are in place to monitor and evaluate project activities in accordance with the funding agreements to ensure achievement of project activities.</td>
<td>Not implemented</td>
<td>Bank of Uganda’s responsibilities and obligations were clearly spelt out under articles 2 and 3 of the subsidiary financing agreement and Section 2.06 of the BOU Project agreement. However following the closure of the BOU-ERT Component in August 2008, BOU’s role remained the collection of the reflows of the disbursed schemes. BOU subsequently wrote to the MoFPED seeking an amendment to the Subsidiary Financing Agreement but to no avail. Previous audit reports have also mentioned this gap.</td>
</tr>
<tr>
<td>2.2 Non submission of reports by PFIs to Bank of Uganda</td>
<td>Bank of Uganda should request PFIs to submit required returns / reports to ensure compliance with the regulations governing the project and also to update BoU on the progress of implementation of project activities.</td>
<td>Not implemented</td>
<td>This activity, which was previously under the mandate of BOU, was transferred to the Uganda Development Bank (UDBL) in 2008. UDBL currently makes periodic assessments including compliance of scheme regulations and subsequently reports to various stakeholders.</td>
</tr>
<tr>
<td>2.3</td>
<td>Utilization of ERTP reserves without clear principal repayment and interest policies</td>
<td>Management of BOU should obtain a repayment schedule for both the principal and the interest.</td>
<td>Not implemented</td>
</tr>
</tbody>
</table>