

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF ELECTRICITY REGULATORY AUTHORITY

FOR THE YEAR ENDED 30TH JUNE 2017

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UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF ELECTRICITY REGULATORY AUTHORITY FOR THE
YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Electricity Regulatory Authority, which comprise the Statement of Financial Position as at 30th June 2017, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 68.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Electricity Regulatory Authority's as at 30th June 2017 and its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards.

Basis of Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Authority in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current period. I have determined that there are no key audit matters to communicate in my report.

Other Matter

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Inadequate Monitoring of the annual conversion targets of a Licensee**

The Electricity Regulatory Authority (ERA) approved a 7 years Prepayment meter Roll-out Plan presented by UMEME Ltd and is supposed to monitor the implementation of the Plan. The Plan requires connection of a total of 863,000 customers both retrofitted and new customers from 2013 to 2018. The company's target is to have all domestic and small commercial installation retrofitted by 2018 and the progress of the conversion is submitted to ERA through annual compliance reports.

It was however noted that, although the roll out had been ongoing for five years, actual conversion for retrofitted customers was 267,829 (51.4%) out of 521,000 against the targeted 87% as at the end of 2017.

Failure to meet the targets hinders the company from achieving the intended objectives of reducing losses, costs, as well as increasing connections and improving customer services.

In response, management explained that it has engaged the company on the deviations and steps are being taken to address the challenges faced in the prepayment conversion project.

Management is advised to increase the frequency of monitoring the company performance, other than the annual compliance monitoring approach as this will ensure timely interventions aimed at achieving the agreed targets.

- **Non-compliance with standard connection period**

According to the standards for Quality of Service related to access to supply, customer service and network operations, UMEME Ltd is required to connect applications for electricity in a specified period ranging from 10-30 days.

However, review of the company's quarterly performance reports revealed non-compliance with specified days ranging from 8% - 46% of the applications. The practice denies customers timely services, and has the effect of causing disenfranchisement and its attendant costs.

In response, management stated that the company has been engaged to ensure enhancement of compliance levels in the 2017/18 financial year.

Management is advised to enforce compliance by the company to ensure customers access quality and reliable electricity supply services as prescribed.

Responsibilities of the Accounting Officer for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the Authority.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Authority's operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:-

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to deliver its mandate. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to

the date of my auditor's report. However, future events or conditions may cause the Authority to fail to deliver its mandate.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



John F.S. Muwanga

AUDITOR GENERAL

12th December, 2017