

**OFFICE OF THE AUDITOR GENERAL**



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF ENERGY FOR RURAL TRANSFORMATION  
PROJECT (ERT II/III) IDA CR. NO.4554-UG AND GEF TRUST FUND GRANT  
AGREEMENT NO. TF: 094484 IMPLEMENTED BY RURAL ELECTRIFICATION  
AGENCY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

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**UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS  
OF THE ENERGY FOR RURAL TRANSFORMATION PROJECT II and III (ERT  
II/III) RURAL ELECTRIFICATION AGENCY IDA CREDIT AGREEMENT NO. 4554  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**Opinion**

I have audited the accompanying Financial Statements of the Energy for Rural Transformation II/III implemented by the Rural Electrification Agency(REA), Fund Balance Statement, Statements of Receipts and Payments and, a summary of significant accounting policies and other explanatory notes as set out on pages 7 to 12.

In my opinion, the Financial statements of Energy for Rural Transformation Project II/III as at 30th June, 2017 are prepared, in all material respects in accordance with the general guidelines for Accounting and Auditing issued by the World Bank.

**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 Project 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;

- **Outstanding Compensations for Project Affected Persons (PAPS)**

The ERT II financing agreement stipulates that all compensations to PAPS will be met by funding from the Government of Uganda (GoU).

A review of the financial statements for the year revealed that compensations amounting to UGX.959,011,150 were effected for the PAPS. However, compensations in the sum of UGX.1,504,419,968 remained outstanding, at the closure of the project.

This was attributed to insufficient GoU counterpart funding. Delayed compensation of PAPS may result into cessation of funding by development partners, who have indicated that it is a pre-condition for financial support.

In response management stated that the outstanding sum has been included in the budget for the financial year 2017/18 and it would be paid accordingly.

I await results of management's action in this regard.

- **Delayed Arbitration regarding Consumer Awareness Consultancy**

A Consultant was contracted to conduct consumer awareness under the Output Based Aid (OBA) project at a contract price of Euros 616,206.91 (equivalent to UGX.2,037,862,112) on 11<sup>th</sup> February 2013 funded under KFW. Review of documents revealed that UGX.779,232,780, that was disbursed to the consultant had not been used for the intended purpose and consequently, the consultant was

required to refund the funds. The consultant instead requested for arbitration of the matter, and the Agency accepted.

However it was noted that the arbitration process had not taken off. In the circumstances there is risk of loss of public funds.

Management explained that REA had requested the Solicitor General for advise on the matter

Management is advised to follow up the matter and have it resolved without further delay.

### **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 Agency.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of General guidelines for Accounting and Auditing issued by the World Bank, 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 Agency's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the Agency's operations, or has no realistic alternative but to do so.

### **Auditors' Responsibilities for the audit of the Financial Statements**

My objectives as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008, 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 ISAs 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 ISAs, 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 Agency'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 Agency'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 Agency to cease to continue as a going concern.
- 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 project 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 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 the 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.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a long horizontal flourish extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

30<sup>th</sup> November 2017