

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF NKENDA-HOIMA PROJECT 220KV

FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL

UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF NKENDA-HOIMA PROJECT FOR THE 18-MONTH PERIOD
ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of Nkenda-Hoima project, which comprise the Statement of Financial Position as at 30th June 2017, the Statement of receipts and expenditure and Donor fund Accountability statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out pages 8 to 18.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Nkenda -Hoima Project as at 30th June 2017 and its financial performance and cash flows for the period then ended, in accordance with donor reporting guidelines and terms and conditions.

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.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to note 3.4 in the financial statements:

- **Long outstanding Receivables**

Disclosed in receivables under note 3.4 is a sum of UGX.140,272,966 which has been outstanding since 2012. This receivable arose out of the unrecovered advance made to the contractor for the construction of resettlement houses for Project Affected Persons in 2012. There is risk of financial loss to government.

In response, Management explained that UETCL has instituted legal proceedings for recovery of the amounts due from the company and the matter is still ongoing in court.

I await results of Management's efforts in this regard.

Other Matter

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements;

- **Delayed construction of Overhead Transmission Lines**

The Uganda Electricity Transmission Company Ltd (UETCL) signed a contract with a consulting firm to provide consultancy services for Plant design, supply, installation, testing and commissioning of 220KV Nkenda-Hoima Transmission Line Ltd, in April 2015. The contract had an 18 months implementation timeline with a contractual completion date of 6th November 2016.

It was however noted, that completion of the contract had delayed by 11 months. A visit to project sites revealed that works were still on going and of the planned target

of 226km only 163km (72%) of the transmission lines had been strung. The majority of the pending stringing works was between Hoima and Fort portal substation.

The delay was attributed to failure in compensating Project Affected Persons (PAPs) and acquiring Right of Way (RoW) timely. In addition there were various failures in the quality of works occasioned by inadequate supervision of sub-construction. Failure to implement the project on time delays access of the intended beneficiaries to electricity.

In response, management stated that the emergence of new PAPs along the line and court injunctions occasioned by existing PAPs have impacted on project timelines. Some PAPs have continuously rejected the rates hence need for new approved valuation rates. In addition management had engaged the contractors to address the quality issues.

Management is advised to liaise with the relevant stakeholders to ensure the process of compensating PAPs is expedited, so as to enable timely implementation of the project. Regarding quality failures, management should consider imposing the applicable penalty clauses.

- **Delayed construction of Nkenda-Hoima substations**

On 25th June 2016, UETCL signed a contract with a private company for plant design, supply, installation and commissioning of works for Nkenda–Hoima substations. The contract period was 18 months with the contract completion date of 24th February 2017.

It was however, noted that the contract was 10 months behind the contractual date and was subsequently extended to 23rd December 2017. A field visit to the Nkenda and Hoima substations indicated that work was still on-going. The delay in the progress of work was attributed to failure to acquire right of way and inadequate planning of operations by the contractor.

Failure to complete the project within the contract period undermines achievement of the project goals and objectives.

In response, management attributed the delay to handover the substation to prolonged negotiations with PAPs around the substation sites. Penalty clauses where applicable will be implemented on the contractor at the completion of the Project.

Management is advised to liaise with the relevant government agencies to ensure the process of compensating PAPs is expedited, to enable timely implementation of the project.

- **Outstanding Compensations to Project Affected Persons (PAPs)**

The UETCL financial policies and procedures manual, Sec. 12.6.1 requires that, before any project commences, UETCL must first acquire the corridors and or sites required and ensure that all occupants are adequately compensated and /or resettled and have effectively vacated sites. It was noted that, by end of June 2017 only 1,851 PAPs out of a total of 2,067 had been compensated leaving 216 PAP's (10%). It is noted that by the nature of the works, however few the outstanding PAPs are, the progress of construction is impaired.

There is a risk that the outstanding compensation of PAP's may further delay project implementation.

In response, management stated that a number of PAPs who agreed to the compensation lacked the necessary documentation such as letters of administration & Powers of Attorney, while others had disputed the rates.

Management is advised to liaise with all the stakeholders and expedite the compensation process so as to access the corridors and sites, and avoid further delays.

- **Contract cost escalation**

The initial contract for the consultancy services for supervision and project management of construction of the 220Kv line was Euros- 3,042,078 and UGX.484,803,000. However audit noted that the consultant's contract was amended twice resulting into increments, by Euros.730,611 (24%) and UGX.118,583,752 (24%), hence increasing the contractual amount to Euros.3,772,689 and UGX .605,386,752.

This was attributed to the failure by the contractors to meet the contractual deadlines, which required extending the consultant's contract to align with the contractors activities.

There is a risk of further escalation of costs due to failure to complete project work within the approved work schedule.

In response, management attributed the delays in the Project to failure to handover sites in time to the contractors, which resulted into longer supervision days hence increase in the costs.

I advised management to liaise with the relevant stakeholders and expedite implementation of the Resettlement Action Plan, to ensure completion of construction works within the Project timelines.

Management Representation for the financial Statements

Management is responsible for the preparation of Financial statements which show a true and fair view of the state of affairs of the project at the end of each financial year in accordance with Generally accepted accounting practices(GAAPs) and in a manner required by Donor Reporting Guidelines and Government of Uganda requirements, 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, management is responsible for assessing the project's ability to continue delivering its mandate, disclosing, as applicable, matters related to delivery of services, unless Government either intends to discontinue the project'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 project'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 project'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 project 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.

A handwritten signature in black ink, appearing to read 'John F.S. Muwanga', with a long, sweeping horizontal line extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

14th December 2017