

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF THE ELECTRICITY SECTOR
DEVELOPMENT PROJECT FOR THE YEAR ENDED 30TH JUNE 2017**

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UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF THE ELECTRICITY SECTOR DEVELOPMENT PROJECT FOR THE YEAR
ENDED 30TH JUNE 2017**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of the Electricity Sector Development Project (ESDP), which comprise the Statement of Fund balance as at 30th June 2017, Statement of Sources & Uses of funds and the Special Account Reconciliation statement for the period ended, together with other accompanying statements, notes and accounting policies as set out on pages 7 to 12.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Electricity Sector Development 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 in the financial statements

- **Budget Underperformance**

Review of the financial statements note 3, indicated that out of the budgeted revenue receipts from World Bank/IDA funds of UGX 27,222,000,000 for the financial year, only UGX 9,380,000,000 was received, resulting into a shortfall of UGX 17,842,000,000 (66%).

As a result, planned activities such as installation of the solar packages on 34 resettlement houses were not undertaken.

Management explained that following the halting of contractual works, performance certificates could not be issued to enable World Bank release funds. It was further explained that a new consultant had been procured and works were now on-going.

Management is advised to ensure adequate supervision of the project works as it will enhance disbursements of funds by the World Bank.

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.

- **Failure to fulfill contractual obligations**

The Ministry of Energy and Mineral Development (MEMD) signed a contract with a consulting firm to provide implementation support services under the peri-urban component of the ESDP, in January 2016. The consultant was required to

supervise the design, supply and construction of the electricity grid intensification along the Kawanda- Masaka line.

However, the contract was terminated by the Ministry in consultation with the World Bank and the Solicitor General in June 2017, when the completion rate was only 10%. Consequently the intended objective of supplying electricity to the community was not achieved

Management attributed the failure to fulfil contractual obligation to the underestimation of the works by the consultant. In the meantime a new consultant has been procured and works had commenced.

Management is advised to always undertake adequate due diligence before contracting service providers.

- **Funds not accounted for**

Section 33; of the Public Finance and Management Regulations 2016, states that a payment voucher which is incomplete due to the unavailability of the necessary supporting documents shall be regarded as a missing voucher.

It was however observed that UGX. 25,663,956 paid to project staff for field activities, workshops, fuel, and per diems remained unaccounted for at the time of audit.

In the absence of the relevant accountability documents, it was not possible to confirm whether the funds were used for the intended purposes.

In response, Management stated that accountabilities have been provided and are available for verification.

Management should submit accountability of the funds for verification. In the alternative the funds are recoverable from the concerned staff.

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 the Development Credit Agreement 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 'J. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

20th November 2017

