



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF THE ENERGY FOR RURAL
TRANSFORMATION PROJECT COORDINATION UNIT FOR THE FINANCIAL
YEAR ENDED 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF THE ENERGY FOR RURAL TRANSFORMATION PROJECT COORDINATION
UNIT FOR THE YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying Financial Statements of the Energy for Rural Transformation Project Coordination Unit (ERT PCU), which comprise the Statement of Sources & Uses of Funds, the Statement of Fund Balance, and Designated account statement together with other accompanying statements, notes and accounting policies as set out on pages 9 to 17.

In my opinion, the financial statements of ERT PCU for the year ended 30th June 2017 are prepared, in all material respects in accordance with the donor reporting guidelines and terms and conditions.

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.

- **Delayed Contract Implementation**

The Ministry of Energy & Mineral Development (MEMD) and Ministry of Water and Environment (MWE) as project implementing agencies contracted service providers to provide consultancy services in the financial years 2015/2016 and 2014/2015 respectively, to assess whether environmental and social safeguards of the Kalagala offset area are taken into consideration in the on-going construction of Isimba HPP.

My assessment of the contract files revealed delays in contract implementation of up to 390 days for the contract under MEMD and 270 days for the one under MWE.

However, the project objective may not be achieved since it is anticipated that the Hydro Power Project will be commissioned in 2018, which happens to be the end date of the consultancy contract.

Regarding the consultancy contract under MWE, the delay implies that the end users may have to wait much longer to access water.

Management explained that under MEMD, reviews involved physical inspections and public consultations, which delayed approval of the reports. Under MWE there were substantial delays arising from the review process of the feasibility studies and bid documents.

Management should ensure that contracts are executed in a timely manner in accordance with the contract terms.

- **Sustainability Assessment of ERT Investments**

In March 2014, the ERT Sustainability Plan was formulated to beef up the ERT-maintenance programme that Government of Uganda (GOU) initiated in 2002. I reviewed the monitoring reports from the various ERT beneficiaries to assess the sustainability and noted the following from the ERT Implementing Agencies;

- a) **Ministry of Health**

The assessment of solar energy packages during the FY 16/17 by Trans-African Supply services Ltd in various health centres (HCs) in the west Nile, Eastern Uganda and Karamoja area, revealed the following:

- The contractor noted cases of dismantled or vandalized systems contractor at the health centres including Rengen H/C III and Nakapelimoru H/Cs in Kotido district and Lyama H/C III in Budaka district.
- The contractor observed that 89.6% of the systems inspected were non-functional due to weak or faulty batteries. A few of the examples included

Barakala H/C II Yumbe, Komoru H/C II Kotido, Ludara H/C III Koboko among others.

- Failure to re-install solar systems after renovations, the contractors also noted that some systems were installed on old blocks that had been abandoned by medical staff.

Management indicated that a full assessment of all the faulty equipment/solar systems is ongoing to determine equipment, that need immediate replacement. The MOH will notify to the District Local Governments to ensure that all renovated buildings with solar systems are properly uninstalled and reinstalled. Deployment of security guards at health centres and fencing off health facilities to be undertaken for better security.

Management should enhance improvements in ensuring assessment and replacement of the faulty/dismantled equipment and solar systems, including installing security measures.

b) Ministry of Water and Environment

In 2016, JW Technologies Limited (JWTL) was contracted under ERT-MWE to carry out technical support visit and assessment of 51 water schemes. The main purpose of the visit was to establish the level of system functionality of the energy packages and water schemes as a whole. The following were noted;

- The visit indicated declined functionality levels of energy packages from 84.3% in 2015 to 78.4% in 2016. The reasons for the downtime of the water schemes included failure of inverters and water pumps to function, broken solar modules and theft of some components.

Management should ensure maintenance of solar packages is undertaken on quarterly basis, as stipulated in the various maintenance contracts.

- **ERT III Project Activities Behind Schedule**

ERT III became effective on 31 March 2016 and as such the World Bank approved an investment work plan 2016-17, which indicated a number of activities that were to be implemented under the new project.

My review of the consolidated work plan showed that about 95% of the activities planned for the financial year had not been achieved by the time of the audit.

Management explained that the ERT III funding was not availed until November 2016 due to delay in fulfilling the pre-disbursement effectiveness conditions by Government.

The delay in commencing project activities is likely to keep the project behind schedule which may lead to failure to achieve project objectives and goals.

The Supervising consultant was procured under ERT II and is already on board. These bids relate to The Supply and Installation Works under Lots 1, 2 and 3 above.

Management should ensure that the implementation of project activities is expedited.

- **Budget Underperformance - IDA funds**

A review of the financial statements indicated that the budgeted revenue receipts from World Bank/IDA funds amounted to UGX.9,940,000,000 for the financial year, however the project only received UGX.7,166,000,000 which amounts to a shortfall of UGX.2,774,000,000 This represents a budget performance of 72%.

The budget underperformance was attributed to delays in the procurement process and project execution which affected funds disbursement.

There is a risk that certain budgeted and planned activities/payments such as consultancy services for feasibility study, detailed designs, guidelines and construction were not undertaken.

Management explained that delays in the procurement process impacted on the financial performance. They added that disbursement projections were not met and thus the project only requested for funds covering implemented activities.

Management should expedite the procurement processes to ensure that funds are disbursed as per project budgets.

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 project.

The Accounting Officer is responsible for the preparation of the financial statements in accordance with the requirements of the Government of Uganda, donor regulations and guidelines and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, the Accounting Officer 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.F.S. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

21st November 2017