



THE REPUBLIC OF UGANDA

MINISTRY OF LOCAL GOVERNMENT

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-
PROJECT II (CAIIP II) -ADB LOAN NO.2100150017394
FOR THE YEAR ENDED 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL
UGANDA

TABLE OF CONTENTS

LIST ACRONYMS.....	3
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 TH JUNE 2017.....	4
REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL STRUCTURE OF THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-PROJECT II (CAIIP II) -ADB LOAN NO.2100150017394 FOR THE YEAR ENDED 30 TH JUNE 2017	9
REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-PROJECT II (CAIIP II) - ADB LOAN NO.2100150017394 FOR THE YEAR ENDED 30 TH JUNE 2017	11

LIST ACRONYMS

Acronym	Meaning
ADB	African Development Bank
CAIIP	Community Agricultural Infrastructure Improvement Programme
GOU	Government of Uganda
UA	Unit of Account
UG	Uganda
SHS	Uganda Shillings
USD	United States Dollars
APFS	Agro-processing Facilities
CARS	Community Access Roads
IMCS	Infrastructure for management of civil works

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-
PROJECT II (CAIIP II) - ADB LOAN NO.2100150017394
FOR THE YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the financial statements of Community Agricultural Infrastructure Improvement Programme-Project II (CAIIP-II), ADF Loan No. 2100150017394 for the year ended 30th June 2017. These financial statements comprise of Statement of cash receipts and payments, Statement of comparative budget and actual amounts, Cash flow statement, Special account statement and Notes to the accounts which contain a summary of significant accounting policies.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the Project financial statements present fairly in all material respects the cash balances of Community Agricultural Infrastructure Improvement Programme-Project II (CAIIP-II) as at 30th June 2017 and the receipts and payments for the year then ended in accordance with the accounting policies stated on pages 20 and 21 of the financial statements.

Basis for Qualified Opinion

• **Diversion of GOU counter-part funding**

The project received GOU counterpart funding amounting to UGX.2.08 bn meant for project activities during the year. However, counterpart funding amounting to UGX.1.41bn was diverted by the Ministry to fund MATIP 1, CAIIP 1 and DLSP projects activities. Hence expenditure is overstated by UGX.1.41bn spent on non-project activities.

Management explained that some of the funds budgeted for under the project were used to fund activities within the wider mandate of the Ministry for example outstanding obligations of closed projects.

I advised the accounting officer to implement activities according to work plans and ensure that diverted funds are refunded to the project.

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 Project Management 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 (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified 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 other Key Audit Matters to communicate in my report.

Emphasis of matter

Without qualifying my opinion further, I draw attention to the following matter described in note 6.11 of the financial statements.

- **VAT payable on Civil works**

The project had outstanding VAT payable of UGX.3.46bn as at 30th June 2017 arising from civil works under Batch C. Delayed payment of VAT attracts penalties and interest which may adversely affect the project as funds have to be diverted from core activities to settle the tax penalties resulting into nugatory expenditure.

Management explained that the Ministry was still in dialogue with MoFPED for supplementary budgets releases to cover the arrears.

I await the outcome of Management's efforts to obtain additional funding from MoFPED.

Other Matters

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

- **Shortfall of (GOU) Counterpart Funding**

A review of the Project's GOU budget revealed that a total of UGX.4.4bn was budgeted as GOU counterpart funding meant for taxes, however, only UGX.2.08bn was released resulting into a shortfall of UGX.2.32bn (53% of the budget). Failure by Government to provide planned counterpart funding violates the project financing agreement and hinders the smooth implementation of the project activities.

Management explained that the Ministry was still in dialogue with MoFPED for supplementary budgets releases to cover the arrears.

I await the outcome of Management's efforts to obtain additional funding from MoFPED.

- **Performance as per the logical framework**

According to the project completion report, the project achieved substantially all project targets by the time of project closure. However I noted some issues for instance under-utilization of the Agro processing facilities due to lack of business operators and lack of routine road maintenance that may affect the sustainability of the project benefits.

Refer to Appendix1.

Due to insufficient funds for road maintenance and operational challenges of Agro-processing facilities affecting the beneficiary communities as project benefits may not be sustainable.

Management explained that all project deliverables had been achieved at the time of project closure except for the operationalization of some Agricultural Processing Facilities (APFs).

I advised the Accounting Officer to engage the Uganda Road Fund to ensure that funds are allocated for the maintenance of project roads in the districts. Further, the Accounting officer should continue to sensitize the beneficiary communities on the utilization of Agro processing facilities.

Management Responsibility

Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the provisions of the Public Finance Management Act, 2015 and the Project Funding Guidelines. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial

statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, Management is responsible for assessing the Project's ability to achieve its core objectives, disclosing, as applicable, matters related to the achievement of its objectives, unless management either intends to close the project or to cease operations, or have no realistic alternative but to do so.

Management is responsible for overseeing the Project's financial reporting process.

Auditor's 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 the 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 judgment and maintain professional skepticism 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 our 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 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 continue as a going concern. 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 on 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 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 him/her 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.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

14th December, 2017

**REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL STRUCTURE OF
THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT
PROGRAMME-PROJECT II (CAIIP II) -ADB LOAN NO.2100150017394
FOR THE YEAR ENDED 30TH JUNE 2017**

Qualified Opinion

I have audited the accompanying financial statements of Community Agricultural Infrastructure Improvement Programme-Project II (CAIIP-II), ADB Loan No.2100150017394 for the year ended 30thJune 2017 and reviewed the Internal Control procedures relevant to generation of accounting information presented in the financial statements, and those relevant to control over project finances and the safeguard of its assets. I obtained all the information and explanations I considered necessary for the audit.

In my opinion, except for the significance of the matter described in the Basis for Qualified Opinion section of my report, the Programme management maintained an adequate internal control system for the preparation of reliable financial statements, control over finances and safeguard of the programme assets during the year ended 30th June 2017.

Basis for Qualified Opinion

- **Diversion of GOU counter-part funding**

The project received GOU counterpart funding amounting to UGX.2.08bn meant for project activities during the year. However, it was noted that GOU counterpart funding amounting to UGX.1.41bn was diverted by the Ministry to fund MATIP 1, CAIIP 1 and DLSP projects activities. Hence expenditure is overstated by UGX.1.41bn spent on non-project activities.

Management explained that some of the funds budgeted for under the project were used to fund activities within the wider mandate of the Ministry for example outstanding obligations of closed projects.

I advised the accounting officer to implement activities according to work plans and ensure that diverted funds are refunded to the project.

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 Statement's section of my report. I am independent of the Ministry 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 qualified opinion.

Management Responsibility

Management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgment are required to assess the expected benefits and related costs of internal control structure policies and procedures.

Auditor's Responsibility

My examination was made in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and accordingly included such tests of the accounting records, verification of assets and liabilities and such other auditing procedures I considered necessary in the circumstances.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:-

- Control over preparation of withdrawal applications for funds from the project account
- Bank and cash Purchases and payments
- Monitoring, evaluation and reporting.

For all the internal control structure categories listed above, I obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation and I assessed control risk.



John F. S. Muwanga

AUDITOR GENERAL

14th December, 2017.

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF
THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT
PROGRAMME-PROJECT II (CAIIP II) - ADB LOAN NO.2100150017394
FOR THE YEAR ENDED 30TH JUNE 2017**

Opinion

I have audited the Special Account Statement of the Community Agricultural Infrastructure Improvement Programme-Project II (CAIIP-II), ADB Loan No.2100150017394 for the year ended 30th June 2017 which is set out on page 17 of financial statement.

In my opinion, Project Management complied in all material respects with ADB rules and procedures and that the Special Account Statement for Community Agricultural Infrastructure Improvement Programme-Project II (CAIIP-II), ADB Loan No.2100150017394 presents fairly in all material respects the account transactions and the closing balance as at 30th June 2017.

Management Responsibility for the Special Account Statement

Project management is responsible for preparation of the special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations, and loan (ADF) guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the special account statement based on my audit. I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and the ADB guidelines on auditing. Those standards and the loan guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the special account statement is free from material misstatement. I believe that the audit evidence I have obtained provides a reasonable basis for my opinion.



John F.S. Muwanga

AUDITOR GENERAL

14th December, 2017

APPENDIX.1

Performance as per the logical framework

Activity	Target	Achieved as per End of project report	%age achieved as per end of project report	Audit remarks
Rehabilitation /construction of Community Access Roads	3,587km	4037.4	112.5%	<ul style="list-style-type: none"> Batch A, B and C roads were completed and handed over to the respective districts. As per inspection report during the year under review, Lack of routine maintenance is still a major problem and there were a few instances of Poor workmanship on road works in the districts of Tororo (Kirewa and Mella sub county) and Bukedea District (Kolir and Malera sub county) arising from inadequate supervision.
Construction of APF shelters and produce stores.	95 APF shelters and 2 produce stores	97	100%	<ul style="list-style-type: none"> All Agro-processing shelters were completed and Agro-processing machines installed. All visited by the audit team had the relevant sign posts showing they were constructed by Government of Uganda with support from the African Development Bank under the CAAIP Programme except one maize mill in Kolir sub county Bukedea district which did not have a sign post.
Supply and Installation of Agro-processing Facilities	95	95 Assorted APF machines	100%	<ul style="list-style-type: none"> The assorted APFs include 36 maize mills, 37 grain mills, 14 rice hullers, 5 milk coolers and 3 coffee hullers. I also noted that although funds were released to districts to engrave the machines supplied, on the 11 APFs visited in the eastern region(Tororo, Mbale, Bukedea and Kumi districts), only 3 APFs in Kumi district had been engraved by the time of the audit in June 2017.
Operationalization of all installed agro-processing machines	95	95 Assorted APF machines	100%	<ul style="list-style-type: none"> I noted that some of the APFs in Tororo, Bukedea and Kumi were not operational at the time of the audit thus are not utilized by the beneficiary communities. This was attributed to the low agricultural supplies in the districts, accumulated power bills, lack of capacity by the operators and in some districts there are no organized groups to run the facilities. Furthermore the APF in Barr Sub County- Lira district was not functional as it did not have power installed despite having all the necessary parts delivered and power poles closer to the facility.

FINANCIAL STATEMENTS