



**THE REPUBLIC OF UGANDA**

**MINISTRY OF LOCAL GOVERNMENT**

**ADB LOAN NO.2100150024294 AND IDB LOAN NO.UG0081**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS**  
**COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-**  
**PROJECT III (CAIIP III)**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**

**UGANDA**

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## **LIST ACRONYMS**

<b>Acronym</b>	<b>Meaning</b>
ADB	African Development Bank
CAIIP	Community Agricultural Infrastructure Improvement Programme
GOU	Government of Uganda
IDB	Islamic Development Bank
SDR	Special Drawing Rights
UA	Unit of Account
UG	Uganda
UGX	Uganda Shillings
USD	United States Dollar

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-  
PROJECT III (CAIIP III) - ADB LOAN No. 2100150024294 AND IDB LOAN  
NO.UG0081  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of Community Agricultural Infrastructure Improvement Programme-Project III (CAIIP III) ADB Loan No. 2100150024294 and IDB Loan NO.UG0081 for the year ended 30<sup>th</sup> June 2017. The financial statements set out on pages 11 to 34 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, the Project financial statements present fairly in all material respects the fund balances of the Community Agricultural Infrastructure Improvement Programme Project III (CAIIP III) as at 30<sup>th</sup> June 2017 and the receipts and payments for the year then ended in accordance with the accounting policies stated on pages 25 to 26 of the financial statements.

**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 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 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 attention to the following matter described in note 6.10 and Annexes 1 and 2 of the financial statements.

- **VAT payable on ADB civil works**

VAT amounting to UGX. 16.7BN arising from ADB civil works had not been paid to contractors. Failure to comply with tax laws may result into unnecessary expenditure in form of fines and penalties imposed by the tax body. Management explained that the funds released were not adequate to cover all outstanding liabilities but the Ministry requested for supplementary funding from MoFPED.

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

### **Other Matters**

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

- **Shortfall in Government of Uganda (GoU) counterpart funding**

Out of a total of UGX.10.6BN budgeted as GOU counterpart funding, only UGX 0.72BN was released as at 30<sup>th</sup> June 2017 resulting into a shortfall of UGX 9.9BN (93% of the GOU budget). Refer to the overall Budget performance in **Appendix.1** 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 engaged with MoFPED for supplementary budgets to cover the arrears in light of the project closure of December 2017.

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

- **Diversion of GoU counterpart funding**

It was noted during the year under review that GOU counterpart funding amounting to UGX.34,550,959 meant for project activities was diverted by the Ministry to fund MATIP 1 activities.

Diversion of funds has a direct impact on successful implementation of project activities and affects the timelines of the project and the overall objective. Expenditure is overstated by UGX.34,550,959 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 due to limited counterpart funding to cover all the pressing budget needs.

I advised the Accounting Officer to endeavor to implement activities according to work plans and refund diverted funds to the project.

- **Performance as per the logical framework**

CAIIP 3 commenced in 2011 as five year project funded by ADB, IsDB and GOU with an initial closure date set as 31<sup>st</sup> December 2016. However, the closure period was extended to 31<sup>st</sup> December 2017 due to delays in implementation of activities in the early years of the project.

A review of the project implementation plan and project progress report as at 30<sup>th</sup> June 2017 revealed that the project was still faced by delays in the implementation of some activities. **Refer to Appendix 2.**

There is a risk that project management may not complete the remaining activities by the expected completion date which will result into increased costs.

Management explained that the project had intensified supervision and monitoring of works to ensure all ongoing rehabilitations of Community Access Roads are completed by December 2017.

I await the outcome of Management's efforts to complete activities on time.

### **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**

14<sup>th</sup> December, 2017

**REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL OF  
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-  
PROJECT III (CAIIP III) - ADB LOAN NO 2100150024294 AND IDB LOAN UG0081  
STRUCTURE FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**Opinion**

I have audited the financial statements of the Community Agricultural Infrastructure Improvement Programme-Project III (CAIIP III) ADB Loan No.2100150024294 and IDB Loan NO.UG0081, and reviewed the Internal Control procedures relevant to generation of accounting information presented in the financial statements, and those relevant to control over programme finances and the safeguard of its assets. I obtained all the information and explanation I considered necessary for the audit.

In my opinion, 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 30<sup>th</sup> June 2017.

**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 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.

A handwritten signature in black ink, appearing to read 'John F. S. Muwanga', with a large, stylized initial 'J'.

John F. S. Muwanga

**AUDITOR GENERAL**

KAMPALA

14<sup>th</sup> December 2017

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNTS OPERATIONS**  
**OF COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT**  
**PROGRAMME-PROJECT III (CAIIP III) ADB LOAN NO 2100150024294 AND IDB**  
**LOAN. UG0081**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**Opinion**

I have audited the Special Accounts Statements of the Community Agricultural Infrastructure Improvement Programme-Project III, (CAIIP III) ADB Loan No. 2100150024294 and IDB Loan NO.UG0081 for the year ended 30<sup>th</sup> June 2017 which are set out on pages 17 and 18 of Appendix 1 respectively.

In my opinion, Programme Management complied in all material respects with loan rules and procedures and the Special Accounts Statements for the Community Agricultural Infrastructure Improvement Programme-Project (CAIIP III) ADB LOAN No. 2100150024294 and IDB Loan NO.UG0081 present fairly in all material respects the accounts transactions and the closing balances as at 30<sup>th</sup> 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 and IsDB) 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 ISSAIs and the ADB and IsDB guidelines. 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.

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

John F.S. Muwanga

**AUDITOR GENERAL**

KAMPALA

14<sup>th</sup> December 2017



## APPENDIX. 1

### **Budget performance**

<b>Component .1: Rural Infrastructure</b>				
<b>Category</b>	<b>Activity/Task</b>	<b>Overall Total (UGX)</b>	<b>Unachieved Activity</b>	<b>Management Response</b>
Civil Works	Rehabilitation of Batch A Community Access Roads	12,575,999,188	Target Achieved.  1,294.7km out of the planned 1281.6km of Batch A CARs have been completed.	100% achievement
	Rehabilitation of Batch B Community Access Roads-975KM (ADB) And 112 Km (IDB)	33,041,667,088	Only 1,074.3 out of 1171.43km of Batch B CARs fully rehabilitated (85.9km still remaining). Furthermore the project has total VAT liabilities of UGX.16.7bn.	All pending works will be completed during the next quarter(F/Y 2017/18).
	Provision For Additional Works Under IDB	3,870,400,000	Additional works not yet done	An evaluation report was submitted to the bank for a no objection to award contracts
	Extension of Approximately 100km of The Grid	6,837,522,962	Energy meters not yet installed on 6 sites (out of 58 Sites)	All works on grid extension are expected to be completed by end of July 2018
	Construction of Shelters For 78 APFs And Produce Stores	8,740,891,549	2 out of 77 APF shelters have not yet been completed.	All pending works on shelters to be completed by end of July 2017
Equipment Designs &Supervision	Delivery and installation of 78 assorted agro processing facilities	9,750,728,755	<ul style="list-style-type: none"> <li>• Supply and installation of (30) maize mills</li> <li>• Supply and</li> </ul>	<ul style="list-style-type: none"> <li>• Machine installation and test running of maize mills ongoing</li> <li>• Coffee huller installation and</li> </ul>

			installation of (33) Coffee Hullers • Supply and installation of (14) milk coolers	test running were ongoing • Installation and test running of milk coolers ongoing.
<b>Component 2: Community Mobilization</b>				
Training and Capacity Building	Profiling service providers for management of APFs	39,500,000	Profiling service providers for Management of APFs There is intensive supervision and monitoring of works to ensure all ongoing rehabilitations of Community Access Roads are completed by December 2017was not done.	Training of Local Artisans in the basics of O&M of the APFs scheduled for the next quarter.
Cross cutting Issues	ESMP implementation and community mobilization aspects training for CDOs & Environment Officers	99,000,000	28 private Operators of agro-processing facilities out of 79 sites were not yet identified.	Management explained that the processes of identifying private operators would be Completed early next financial year.
Supervision & Monitoring	Monitoring and supervision of community mobilization activities and environment	178,000,000	So far only 27 case Studies/success stories documented.	Documentation of additional case studies will be done during the next financial year (2017/18)
<b>Component 3: Programme Facilitation</b>				
Knowledge management	Provision for Final Impact study and environmental audit (5% of estimated costs)	60,000,000	Not yet done	Issued the Consultants with Request for proposals. Contracts to be signed by End of August

**Performance as per logical Framework**

<b>Activity</b>	<b>Targets</b>	<b>Status of Implementation as at 30<sup>th</sup> June 2017</b>
Rehabilitation of Community Access Roads (CARs)	2,845Km (2,470km under AfDB and 375km under IsDB)	<ul style="list-style-type: none"> <li>• A total of 2454.9km out of the planned 2430.82km of community access roads under the ADB loan have so far been rehabilitated and handed over to local governments for use.</li> <li>• The rehabilitation of the remaining 85.9km is still ongoing with physical progress averaging 73.3%.</li> <li>• Management stated that 375.2km out of 375.22Km of CARs (100%) have also been completed under the Islamic Development Bank (IDB) loan. However, I noted that Civil works in Kabale and Kisoro had not been completed.</li> </ul>
Supply and Installation of Agro-processing Facilities	79 APFs	<ul style="list-style-type: none"> <li>• 79 Agro-Processing machines supplied and so far 67 machines have been installed.</li> </ul>
Execute civil works for shelters for agro processing facilities.	77 shelters	<ul style="list-style-type: none"> <li>• The construction of 75 out of 77 shelters has been completed.</li> </ul>
Extension of grid to APF sites	100km	<ul style="list-style-type: none"> <li>• Extension of national HEP grid to 55 APF sites is completed. The pending item is installation of energy meters in 6 facilities.</li> </ul>

**FINANCIAL STATEMENTS**