



THE REPUBLIC OF UGANDA

MINISTRY OF LOCAL GOVERNMENT

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-
PROJECT III (CAIIP III) IDB LOAN NO.UG0081 COMPONENT
FOR THE YEAR ENDED 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST ACRONYMS

Acronym	Meaning
IsDB	Islamic Development Bank
GOU	Government of Uganda
SHS	Uganda Shillings
UG	Uganda
CAIIP	Community Agricultural Infrastructure Improvement Programme -3
USD	United States Dollar

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OT THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT
PROGRAMME – PROJECT 3 (CAIIP-3-IsDB)
FOR THE YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Community Agricultural Improvement Programme –Project 3 (CAIIP-3; IsDB) for the year ended 30th June 2017. The financial statements set out on pages 11 to 23 comprise of Statement of cash receipts and payments, Statement of comparative budget and actual amounts, Cash flow statement, Statement of fund disbursements 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 Improvement Programme –Project 3 (CAIIP-3; IsDB) for the year ended 30th June 2017 and the receipts and payments for the year then ended in accordance with the accounting policies stated on pages 18 and 19 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 matters described in note 6.10 of the financial statements.

- **VAT payable on Civil Works**

It was noted that the project had outstanding VAT payable of UGX.1,327,140,137 at the close of the financial year. Non-payment of VAT to contractors on civil works risks the project to unwarranted costs in form of litigation costs and interests and a result of late payment of VAT.

Management explained that the arrears were due to limited GoU counterpart funding, however, the Ministry was following up with the MoFPED to have the arrears cleared in the financial year 2017/2018.

I advised the Accounting officer to continue following up the matter with MoFPED to ensure timely settlement of tax liabilities.

Other Matter

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

- **Low budget absorption**

The project expenditure was estimated at UGX.11,384,424,226. However, only UGX.7,720,716,250 was spent during the year, representing an absorption capacity of only 68% leaving 32% of the estimated budget unutilized. This was partly attributed to failure to carry out planned civil works and delayed completion of consultancy works during the year. Low absorption capacity may lead to failure to achieve the project's intended objectives within the specified period. **Refer to Appendix.1.**

Management explained that that the variance was a result of savings on the loan which was not utilized as IsDB and the donor recommended for new project proposals be submitted which would cover the additional works.

I await the outcome of Management's efforts to complete additional works.

- **Performance against the logical framework**

CAIIP 3 commenced in 2011 as five year project funded by ADB, IDB and GOU with an initial closure date set as 31st December 2016. However, the closure period was extended to 31st 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 30th June 2017 revealed that the project was still faced by delays in the implementation of some activities. For instance, rehabilitation of the remaining 85.9km is still ongoing. **Refer to Appendix .2**

Due to the delayed implementation of activities, the project may not achieve its objectives before set project completion date of 31st October 2017.

I advised Management to expedite the process of implementing the remaining activities in order to achieve the required completion date of 31st December 2017.

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.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish above the name.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

14th December, 2017

REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL STRUCTURE
THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME
– PROJECT 3 (CAIIP-3-IsDB)
FOR THE YEAR ENDED 30TH JUNE 2017

Opinion

I have audited the financial statements of the community Agricultural Infrastructure Improvement Programme (CAIIP 3; IsDB), 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 30th 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 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.

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

14th December, 2017

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF
THE COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT
PROGRAMME-PROJECT III (CAIIP III) IDB LOAN NO.UG0081
FOR THE YEAR ENDED 30TH JUNE 2017**

Opinion

I have audited the Special Account Statement of the Community Agricultural Infrastructure Improvement Programme-Project III, (CAIIP III) IsDB Loan No.UG0081 for the year ended 30th June 2017 which are set out on page 14 of Appendix 1 respectively.

In my opinion, Project management complied in all material respects with IsDB rules and procedures and that the Special Account Statement for Community Agricultural Infrastructure Improvement Programme-Project III (CAIIP III)- IsDB LOAN NO.UG0081 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 (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 International Standards of Supreme Audit Institutions (ISSAIs) and the IsDB 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

Budget performance

Category	Activities	Amount budgeted	Unachieved	Management response
Provision for Additional Civil works	Additional road works under IsDB	3,870,400,000	Additional civil works not done during the year.	An evaluation report was submitted to the Bank for No objection which was not obtained by the year end.
Extension of Grid	Extension of Approximately 100km of Grid	6,837,522,962	Energy meters not yet installed on the 6 sites out of the 58 sites	All works will be completed by July 2018.
Cross cutting issues	ESMP implementation and mobilization aspects training for CDO's and Environment officers	20,000,000	28 private Operators of agro-processing facilities out of 79 sites were not yet identified.	Management the processes of identifying private operators would be completed early next financial year
Supervision and monitoring	Monitoring and supervision of community mobilization activities and environment	20,000,000	So far only 27 case Studies/success stories documented.	Documentation of additional case studies will be done during the next financial year
Knowledge sharing management	Provision for final study and environmental audit (5% of estimate costs)	30,000,000	Final study and environmental audit (5% of estimate costs) was not yet done	completion studies were expected to commence in the next financial year.

Performance against the logical Framework

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

FINANCIAL STATEMENTS

