



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (EATTFP) –
MINISTRY OF WORKS AND TRANSPORT COMPONENT – IDA CREDIT NO.4147 UG
FOR THE FOUR (4) MONTH PERIOD ENDED 31ST OCTOBER 2015**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

TABLE OF CONTENTS

LIST OF ACRONYMS.....	iii
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE EAST AFRICA TRADE AN'D TRANSPORT FACILITATION PROJECT (EATTFP) FOR THE FOUR (4) MONTH PERIOD ENDED 31 ST OCTOBER, 2015.....	iv
REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF THE EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (EATTFP) FOR THE FOUR (4) MONTH PERIOD ENDED 31 ST OCTOBER, 2015	vi
1.0 INTRODUCTION	1
2.0 PROJECT BACKGROUND.....	1
3.0 PROJECT OBJECTIVES AND COMPONENTS	1
4.0 AUDIT OBJECTIVES	2
5.0 AUDIT PROCEDURES PERFORMED.....	3
6.0 CATEGORIZATION AND SUMMARY OF FINDINGS.....	4
6.1 Categorization of Findings	4
6.2 Summary of Findings	5
7.0 DETAILED FINDINGS	5
7.1 Unimplemented Project activities	5
7.2 Outstanding Payables (VAT) GoU Component	6
7.3 Failure to close project Bank account	7
7.4 Un-verifiable land titles for non-produced assets	7

LIST OF ACRONYMS

Acronym	Meaning
EAC	East African Community
EATTFP	The East Africa Trade and Transport Facilitation Project
EU	European Union
GoU	Government of Uganda
IDA	International Development Association
ISA	International Standards on Auditing
MOFPED	Ministry of Finance, Planning and Economic Development
MOWT	Ministry of Works and Transport
MTEF	Medium Term Expenditure Framework
OSBP	One stop Boarder Post
PPDA	Public Procurement and Disposal of Public Assets.
TMEA	Trade Mark East Africa.
UG	Uganda
UGX	Uganda Shillings
URA	Uganda Revenue Authority
URC	Uganda Railways Corporation
US \$	United States Dollar
VAT	Value Added Tax
Wrks	Works

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (EATTFP)
FOR THE FOUR (4) MONTH PERIOD ENDED 31ST OCTOBER, 2015**

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of the East Africa Trade and Transport Facilitation Project (EATTFP) - Ministry of Works and Transport Component, IDA Credit No.4147-UG for the four (4) month period ended 31st October 2015. The financial statements set out on pages 6 to 20 comprise of;

- Statement of receipts and payments
- Statement of financial position
- Statement of sources and uses of funds
- Schedule of withdrawal applications
- Statement of Designated Account Activity
- Notes to the financial statements including a summary of accounting policies used.

Management's Responsibility for the financial Statements

Management is responsible for the preparation and fair presentation of the Project financial statements in accordance with the IDA guidelines and the cash basis of accounting as described under note 1 to the financial statements and for maintenance of such internal controls as management determines is necessary for the preparation and fair presentation of the Project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISA). Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Part "A" of this report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

Opinion

In my opinion, the project financial statements present fairly in all material respects the financial performance of the East Africa Trade and Transport Facilitation Project (EATTFP) - Ministry of Works and Transport Component, IDA Credit No.4147-UG for the four (4) month period ended 31st October 2015 and the receipts and payments for the period then ended in accordance with the IDA guidelines and the basis of accounting described under note 1 to the financial statements.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

30th December, 2016

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT
OPERATIONS OF THE EAST AFRICA TRADE AND TRANSPORT FACILITATION
PROJECT (EATTFP)
FOR THE FOUR (4) MONTH PERIOD ENDED 31ST OCTOBER, 2015**

I have audited the special account statement of the East Africa Trade and Transport Facilitation Project (EATTFP) - Ministry of Works and Transport Component, IDA Credit No.4147-UG for the four (4) month period ended 31st October 2015 which is set out on page 10 of the financial statements.

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 IDA 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 the audit in accordance with International Standards on Auditing and the IDA guidelines on auditing. Those standards and guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the Special Account statement is free from material misstatements. I believe that the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, Project management complied in all material respects with IDA rules and procedures and that the special account statement for the East Africa Trade and Transport Facilitation Project (EATTFP) -Ministry of Works and Transport Component, IDA Credit No.4147-UG for the four (4) month period ended 31st October 2015 presents fairly in all material respects the account transactions and the closing balance as at 31st October 2015.



John F.S. Muwanga
AUDITOR GENERAL

30th December, 2016

**REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION**

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT FOR THE FOUR (4) MONTH PERIOD ENDED 31ST OCTOBER 2015

This Section outlines the detailed audit findings, management responses, and my recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended), requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the East Africa Trade and Transport Facilitation Project (EATTFP) -Ministry of Works and Transport Component, IDA Credit No.4147-UG for the four months' period ended 31st October 2015 to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Credit Agreement between Government of Uganda and the International Development Association (IDA) was signed on 7th April, 2006. Under the agreement, IDA agreed to provide a credit amounting to SDR 18,200,000 million (US \$26.4 million with US \$2.8m allocated to URA) to finance the Project activities.

The project became effective on 2nd April 2007 and was scheduled to close on 30th September 2011, however due to delays in the implementation of the key sub components, GoU requested for an extension of the Credit closure date, which was granted up to 30th September 2014. The closing date was further extended to 30th September 2015.

The Project was executed jointly by the Ministry of Works and Transport (MoWT) and Uganda Revenue Authority (URA).

3.0 PROJECT OBJECTIVES AND COMPONENTS

The project had the following major components;

- i) Customs component
- ii) Border posts sub-component

- iii) Weighbridge sub-component
- iv) Railway sub-component

The Project development objectives as at the start of the Project (April 2007), were;

- i) Improve trade environment through the effective implementation of the EAC customs union protocol.
- ii) Enhance transport and logistics services efficiency along key corridors by reducing non-tariff barriers and uncertainty of transit time along key international transport corridors in EA.
- iii) Improve railway services in Kenya and Uganda.

However, following the restructuring on June 23rd, 2011 the project lifespan was extended from 30th September 2011 to 30th September 2014 and the project objectives were revised to;

- i) Enhance efficiency of customs agencies' clearance processes for the EAC partner states participating in the EA customs union, to facilitate trade.
- ii) Improve efficiency and reliability of transport and logistics services along the key corridors.
- iii) Enhance safety in identified areas and reduce the recipient's fiscal transfers to railway institutions by rationalizing the workforce on the Kenya-Uganda railway.

4.0 AUDIT OBJECTIVES

The audit was conducted in accordance with International Standards on Auditing and included a review of the accounting records, accounting policies used and agreed procedures as was considered necessary. The Audit was carried out with regard to the following objectives;

- a. To express an opinion as to whether the financial statements for the three month period ended 31st October 2015 present fairly in all material respect the receipts and payments of the project as well as the cash position and are in conformity with generally accepted accounting principles.
- b. To establish whether the special account has been maintained in accordance with the provisions of the Credit Agreement.

- c. To evaluate and obtain a sufficient understanding of the internal control structure of the project, assess control risk and identify reportable conditions, including material internal control weaknesses.
- d. To establish whether project managers are managing the project in compliance with the covenants contained in the financing agreements as well as Government of Uganda financial regulations.
- e. To establish whether all procurements of goods and services under the project have been undertaken in accordance with GOU procurement guidelines and procedures as specified in the PPDA Act 2003.
- f. To establish whether all necessary supporting documents, accounting records as well as books of accounts have been kept in respect of all project activities.
- g. Whether project activities have been implemented as stated in the work plans and budgets.

5.0 AUDIT PROCEDURES PERFORMED

a. Revenue/Receipts

Obtained a schedule of all project funds provided by IDA and Government of Uganda and reconciled the amounts to the project's cash books and bank statements.

b. Expenditure

Reviewed the Programme funding Agreement to ascertain agreed budget line activities for the IDA and GOU funding and checked whether funds were utilized in accordance with the approved work plan.

Vouched transactions of the programme in particular funding received and expenditures incurred during the period covered by the audit in order to establish that documentation in support of expenditure agreed with the amount and description on the payment vouchers and or applications, bank statements and was properly controlled and accounted for.

c. Internal Control System

Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period.

d. Procurement

Reviewed procurement of goods and services for the project and reconciled with the approved procurement plan.

e. Fixed Assets Management

Reviewed use and management of the assets of the project during the period under review.

f. Periodic Reports about project Activities

Reviewed the programme agreement provisions, and reconciled it to the project activities during the period under review.

g. Programme Financial Statements

Examined on a test basis, evidence supporting the amounts and disclosures in the programme financial statements; assessed the accounting principles used and significant estimates made by programme management as well as evaluating the overall financial statements presentation.

6.0 CATEGORIZATION AND SUMMARY OF FINDINGS

6.1 Categorization of Findings

The following system of profiling of the audit findings is used to prioritize the implementation of audit recommendations:

No.	Category	Description
1	High significance	<i>Has a significant/material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.</i>
2	Moderate significance	<i>Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.</i>
3	Low significance	<i>Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.</i>

6.2 **Summary of Findings**

No	Finding	Significance
7.1	Unimplemented Project activities	High
7.2	Outstanding payables (VAT) GoU Component – UGX.3,171,023,449	High
7.3	Un-verified project assets status	Moderate
7.4	Failure to close project Bank account	Moderate
7.5	Un-verifiable land titles for Non Produced Assets	Moderate
8.0	Prior Year Audit recommendations	Low

7.0 **DETAILED FINDINGS**

7.1 **Unimplemented Project activities**

(i) **Katuna One Stop Border Post (OSBP)**

Review of the project closure report dated 30th June, 2016 revealed that all IDA-financed activities were completed by the credit closure date. However, the Katuna One Stop Border Post (OSBP), which was being co-financed by GOU, was not completed.

Management attributed this to the delay in obtaining a “No Objection” by the Government of Rwanda to proceed with the development of Katuna/Gatuna OSBPs and also lack of funding by the European Union which had committed to co-finance Katuna/Gatuna OSBP.

(ii) **Other Uncompleted Activities not Funded by IDA**

Due to insufficient funding under IDA, GoU with assistance from World Bank sought and received financial support from TradeMark East Africa (TMEA) to finance some of the activities under the Project. This support was off-budget and in form of a grant. The table below gives a summary of the on-going activities under the Project which were being financed by TradeMark East Africa and GOU:

No	Activity	Financier	Status
1	Construction of One-Stop Border Post (OSBP) facilities at Katuna-Phase 1(building works)	GOU U\$ 3.75 Mn	Swamp reclamation works were completed. Overall average physical progress of works was at 60%. Expected completion date for building works was end December 2016

2	Construction of One-Stop Border Post (OSBP) facilities at Elegu border post	TMEA U\$ 8.12Mn	Works commenced on 27 October 2015. Average physical progress was 50%. Expected completion date was end February 2016. The works were not completed as per plan.
3	Construction of exit roads at Malaba and Busia One-Stop Border Posts (OSBPs)	GOU U\$ 5.8 Mn	Construction of exit roads at Malaba/Busia OSBPs had commenced. Expected completion date was February 2016. The works were not completed as per plan.
4	The freight traffic carried by railways in Uganda and measured in net-ton-kilometers increases by 75% in five years.	-	Not achieved

Management attributed delayed implementation of project to a number of challenges including delayed credit effectiveness in Uganda, where the IDA credit became effective one year late, procurement challenges which delayed the Project for two years due to the issue of Trans-border implementation framework. Other challenges included delayed commitment by Government of Rwanda to construct Katuna OSBP, cost overruns and the Ministry inability to handover over full project sites to contractors due to the need to keep the borders operational.

I advised the Accounting Officer to expedite the remaining activities to ensure that the project is completed with the agreed timelines.

7.2 Outstanding Payables (VAT) GoU Component – UGX 3,171,023,449

An amount of UGX.3,171,023,449 was reported in the statement of financial position 30th June 2015 as outstanding VAT payable under the GoU component. At the time of audit these obligations remained outstanding even after the project closure on 31st October 2015.

According to management, this was being cleared by GoU counter funding.

I advised the Accounting Officer to follow up the matter with the MoFPED to enable settlement of these liabilities.

7.3 Failure to close project Bank account

Following the Credit Agreement between Government of Uganda and the International Development Association (IDA) signed on 7th April, 2006 under which IDA agreed to provide credit amounting to SDR 18,200,000 million (US \$26.4 million with US \$2.8m allocated to URA) to finance the Project activities, project completion periods were extended from the original 30th September 2011 to 30th September 2014 and finally to 30th September 2015. It was anticipated that at closure of the Project, the Project bank accounts would be closed.

However, during the audit of the four month closure period July to October 2015, I noted that the project bank account had not been closed. Further, on the bank account number 000160088400007 at BOU there was a balance of USD90.17, twelve months after the official project closure date, implying that that the special project account was still in use.

Non-closure of the project bank account after project closure could lead to the abuse of the account for non-project activities.

Management explained that they had written to the Bank of Uganda to initiate the closure process. Further, the Accountant General had issued a standing instruction to Bank of Uganda to automatically close all accounts that fall dormant for more than six months.

I advised the Accounting Officer to close the project account and transfer any fund balances to the Consolidated Fund or refund the amount to the Project funders, in accordance with the terms of the funding agreement.

7.4 Un-verifiable land titles for non-produced assets

Review of the Project Statement of financial position of 30th June 2015 recognized land acquired worth UGX.150,000,000, which value was not disclosed in the financial statements of 31st October 2015, and Management did not disclose how the land was disposed off or transferred. However, I could not verify the details of this land by way of purchase agreements, land titles and ownerships transfers. There is a risk that such land may be lost to encroachers or other developers.

This was attributed to the uncompleted project activities.

I advised the Accounting Officer to disclose details of the land including ownership transfers after project closure.

APPENDIX I

FINANCIAL STATEMENTS