



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
KAMPALA CAPITAL CITY AUTHORITY
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
BLB	Buganda Land Board
CDD	Community Driven Development
DLB	District Land Board
DPP	Directorate Of Physical Planning
EFT	Electronic Funds Transfer
IGG	Inspectorate of Government
KCC	Kampala City Council
KCCA	Kampala Capital City Authority
KDLB	Kampala District Land Board
MDA	Ministries, Departments and Agencies
MOU	Memorandum of Understanding
NSSF	National Social Security Fund
NTR	Non-Tax Revenue
PPDA	Public Procurement and Disposal of Assets Authority
YIG	Youth Interest Group
YLP	Youth Livelihood Programme
PFMA	Public Finance Management Act, 2015
TAIs	Treasury Accounting Instructions

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KAMPALA
CAPITAL CITY AUTHORITY
FOR THE YEAR ENDED 30TH JUNE, 2017**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the financial statements of Kampala Capital City Authority for the year ended 30th June, 2017. These financial statements comprise of the Statement of financial position, Statement of comprehensive financial performance, cash flow statement, Statement of comparison of budget and actual amounts together with notes and accounting policies.

In my opinion, the Authority financial statements present fairly in all material respects the financial position of Kampala Capital City Authority as at 30th June 2017 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) and the Kampala Capital City Authority Act, 2010.

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 the Authority 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 opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my

opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matters described below as key audit matters to be communicated in my report;

- **Outstanding Domestic arrears**

Domestic arrears refer to the total value of unpaid bills for goods and services rendered to a government entity, including wages and pension that remain outstanding at the closure of a financial year. There has been persistent accumulation of domestic arrears to unmanageable levels which has led to settlement of arrears that are not authorized, unbudgeted for, inadequately supported and in some instances there has been inadequate recognition and disclosure of the domestic arrears. The variances between the reported figures in the financial statements and the amounts verified by Internal Auditor General formed a basis of my qualification of consolidated GOU financial statements for the year ended 30th June 2016.

Consequently, domestic arrears were considered a key audit matter which needed to be investigated to establish the trend, the underlying factors and thereby make recommendations. During audit planning, I majorly focused on domestic arrears in regard to goods and services, statutory deductions like NSSF and PAYE, and VAT. I undertook the following procedures; a trend analysis over a period of three years, review of the budget and commitment control procedures and accounting treatment for the domestic arrears. I also engaged the accounting officer to enable me arrive at the audit conclusions.

Based on the procedure performed, I observed that domestic arrears amounting to UGX.48,263,340,641 arising from trade payables, VAT arrears, utility arrears and rent arrears remained outstanding at the close of the financial year. Statutory deductions amounting to UGX.18,727,079,533 account for 39% of the total domestic arrears.

There has been an overall increase in domestic arrears over the period of three years. Whereas there was a decrease from UGX.39,411,695,704 in 2014/15 to UGX.36,911,444,249 in 2015/16, there was a significant increase to and UGX.48,263,340,641 in the 2016/17. This makes the trend unsustainable. I further observed that there was no budget provision for settlement of domestic arrears totalling to UGX.29,421,116,747 posing a risk of diversion of funds for settling the obligations.

Accruing domestic arrears without clearing previous domestic arrears is a violation of the law and may lead to nugatory expenditure in form of litigation costs in case suppliers sue the Ministry for delayed payments.

According to Management payment of domestic arrears was constrained by the unplanned drawings of UGX.13bn from revenue collection accounts due to Garnishee orders from courts of Law and shortfall in NTR collections of UGX.23.9bn. Management is also implementing a directive by MoFPED to have all NTR collected through URA revenue collection accounts to avoid garnishee enforcements from NTR collection accounts.

I advised the Accounting officer to ensure that revenue enhancement collection measures are in place and clear some arrears. I further advised management to continue implementing the directive with a view of stopping garnishees

Emphasis of Matter

Without qualifying my opinion, I draw attention to the following matters described in notes 4, 10, 12, 25 and L1 of the financial statements.

- **Outstanding trade and other receivables**

The trade and other receivables presented in the statement of financial position decreased from UGX.53,014,155,403 to UGX.47,156,334,104 (representing 11% decrease from the previous year's balance). Out of the stated receivables it was noted that property rates decreased from UGX.42,043,077,310 to UGX.38,764,388,235 while ground rent decreased from UGX.13,469,029,766 to UGX.13,160,468,157. Although there was a decrease in receivables, most of these have been outstanding for a long time.

Some of the outstanding receivables may necessitate writing off the debts thus causing financial loss to the Authority.

Management explained that KCCA is currently undertaking a number of interventions to improve arrears management and these include grant of instalments payment option to clients, interest amnesty, identification of inactive accounts and profiling all such cases for write off, streamlining communication with KDLB and forwarding all non-compliant ground rent (lease account) holders to Kampala District Land Board (KDLB) for enforcement of collections.

I await the outcome of Management's efforts to increase debt collection.

- **Accumulation of legal costs**

During the year under review, the Authority budgeted UGX.16,325,999,995 for legal costs. However, the entity spent funds totaling UGX.27,813,517,819 as reflected in note 26 of the financial statements. This was mainly attributed to Garnishee orders from court amounting to UGX.13bn.

I further noted that Management made a provision of legal costs UGX.17,533,623,980 mainly arising from court judgment made in the prior years and disclosed contingent liabilities (Note L1) amounting to UGX.57,730,258,293 in the financial statements, an indication that legal costs are likely to escalate further.

Delays by the Authority to offset interest bearing judgments in a timely manner may lead to nugatory expenditure resulting from accumulated interests.

Management explained that the delay to settle interest bearing judgments in a timely manner was mainly on account of the long court process and inadequate funding provisions.

I advised Management to prioritize payments for legal costs which have interest clause in order to avoid nugatory expenditure.

Other Matter

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

- **Under-collection of revenue**

The Uganda Government Financial regulations, 2003 section 2.15.1 (i) requires the Accounting officer to ensure that there are efficient and effective arrangements for revenue collection from the public.

It was observed that the Authority planned to collect UGX.112,699,000,000 during the year under review. However, only UGX.88,894,496,280 was collected representing a revenue shortfall of UGX.23,804,503,720 (21%). Under collection of revenue affects the Authority's ability to undertake the planned activities.

Management explained that under collection was due to the non-operationalization of some proposed interventions for example UGX.4.5bn expected to be realized from the conclusion of the Central Division valuation roll was not realized due to delays in commencement of valuation exercise, delays in approval of street parking fees and delayed implementation of Business Licensing Act 2015.

I advised Management to expedite the implementation of revenue enhancement strategies to increase revenue collection.

- **Staffing**

Out of the approved 1423 posts, only 1234 are filled and 189 posts unfilled representing 13% understaffing. I noted that the Authority appointed 724 staff including managers to perform duties in various departments on temporary basis where contracts are renewable every three to four months thus may negatively affecting the performance of staff.

Having a number of temporary staff especially at senior levels may result into low commitment and less motivation as they are not certain of the future.

Management explained that the staffing gap in the Authority is due to the inadequate wage budget. The Ministry of Finance, Planning and Economic Development has been engaged to increase the wage budget allocation, but with little success for the last 4 years. Management further explained that the Authority has maintained temporary staff to bridge the gaps in manpower created by lack of funds to recruit all the required staff as per the approved structure on permanent terms. All temporary staff are recruited on four months contract. The plan is that when the Authority is not assured of funding they do not renew the contract, which arrangement cannot work with permanent staff.

I advised the Accounting Officer to continue liaising with MOFPED and Public Service Commission to have staffing gaps filled.

- **Lack of detailed lower level Physical Development Plans**

It was noted that although the Kampala Physical Development plan was approved in April 2013, KCCA had not undertaken detailed physical planning to develop a comprehensive and integrated area specific development plan that would cover lower urban councils. In

absence of a detailed structural plan, there is a risk that developments undertaken at the lower level may not be properly aligned to Kampala Physical Development plan.

Management explained that the main challenge with preparation of detailed plans has been limited funding in the physical planning area. However, KCCA has been actively lobbying Central government and other Development partners for dedicated funding towards this area for the past 5 years with little success. Management further explained that in December 2016, KCCA received a grant from the European Union (EU) worth Euros 951,504 to support KCCA in implementation of its climate change action strategy and part of the funding is earmarked for preparation of detailed neighbourhood plans for selected pilot precincts of Nakasero, Kololo, Mulago and Makerere. In a related effort, KCCA has prepared another application soliciting for support towards detailed neighbourhood planning under the JICA Integrated Urban development Program.

I await Managements effort in developing detailed lower level plans to guide the appraisal and approval of Developments in the city as soon as funding is granted.

- **Enforcement of physical planning guidelines**

I observed that a number of cases where implementation of removal or demolition of illegal developments due to non-compliance issues like construction without approved plans, irregular modifications of approved plans etc. takes long or does not take place at all.

I observed that in the my previous year report for the FY 2014/2015 the Authority had promised to engage the services of a contractor to carry out demolitions but this has not been done. I also observed that the Authority lacks stringent by-laws to mitigate some of the illegalities and there are only 4 building inspectors and 12 planners serving five divisions. Failure to implement the necessary action at the appropriate time encourages other illegal developers to emerge.

Management explained that the failure to demolish was partly due to political interference. Management further explained that except for Central Division, the Divisions are not adequately planned thus it is difficult to access construction sites/building structures during inspections.

I advised the Accounting officer to sensitize the stakeholders so as to remove any impediments in the enforcing the physical Planning guidelines.

- **Land titles for Government Grant Aided Primary Schools under KCCA**

A review of the status of land titles for all the 79 Government Grant Aided Primary Schools in the Authority revealed that 55 school titles are not under the control of the Authority but are controlled by Faith Based Institutions, Government institutions, Non-Governmental agencies and Private entities.

I observed that KCCA had undertaken steps to ensure MOUs are signed with the respective landlords in order to guarantee the use of the land for purposes of the school. However, 39 schools were still prone to change of use or removal. There is a risk of losing the schools land if the pending issues are not resolved in favour of KCCA.

Management explained that KCCA continues to engage different stakeholders to secure KCCA land for example secured lease agreements for Buganda Road P/S, Nakasero P/S and Old Kampala P/S with ULC and will continue to engage ULC for the other remaining schools where KCCA has lease offers.

I await Managements effort in safeguarding the existence of the primary schools.

- **Management and recovery of YLP funds**

According to YLP Programme Document funds are advanced to the youth in form of revolving funds and recovery is supposed to be effected within one year after which a service fee of 5% is charged on the outstanding loan after one year for a period not exceeding 3 years.

The Authority made disbursements of UGX. 2,302,146,610 to 281 Youth Interest Groups between 2014/2015 and 2016/17, however, UGX. 927,599,277 had not been recovered from the beneficiaries by the end of the year. Of concern were Loans amounting to UGX. 828,261,200 (89% of the unrecovered loan) which had exceeded the 3 years loan recovery period.

I also observed that the Authority lacks robust strategies to ensure recovery of monies to interest groups whose payment loan periods expired and the loan processing periods are long as for some projects it took between 7 to 15 months to access funds.

Absence of robust strategies denies the Authority recovery of monies from interest groups whose payment loan periods expired. Furthermore the long loan processing period has a negative impact on group dynamics as group members may move to other areas as the planned investment may no longer be viable thus affecting utilization of funds and the recovery rate of the loan.

Management explained that recovery of YLP funds is low but the procedures provided for default handling have been followed. Joint monitoring visits were conducted to groups that were in arrears, in other cases guarantors were engaged, demand letters were issued, and also arrests were made.

I advised the Accounting officer to liaise with the Ministry of Gender Labour and Social Development to have Youth Livelihood Programme guidelines reviewed in order to enhance achievements of the project objectives.

- **Budget Performance – implementation of planned activities**

Section 45 (3) of the Public Finance and Accountability Act, 2015 requires the Accounting Officer to enter into an annual budget performance contract with the Secretary to the Treasury as a commitment to deliver on the activities in the work plan of the vote for a financial year. Furthermore, Section 13 (15) states that budget estimates are based on outputs to be achieved for the financial year and during implementation, effort is required to be made to achieve the agreed objectives or targets or targets of the entity within the availed resources.

A review of the budget performance for the year under review revealed that some targets were partially or not achieved despite release of funds to the vote functions. Refer to Appendix 1. This was caused by management's delays in procurement and delays in executing some activities. Service delivery is hampered and the appropriating authority's objectives are not met.

I advised management to ensure that activities are implemented as planned, and adequate supervision of the authority activities is undertaken.

- **Technical audit of road and bridge construction contracts implemented by KCCA IN 2016-17**

Section 40 of the National Audit Act 2008, further empowers the Auditor General to engage the services of or work in consultation with Professional or Technical Experts or consultants whether in the public service or not; to enhance the performance of the Office of the Auditor General (OAG).

Accordingly, a team of consultants was engaged by the Office of the Auditor General OAG to work closely with the OAG Engineering and Financial audit staff to undertake an Engineering Audit of a sample of road and drainage construction contracts, which were being implemented by Kampala Capital City Authority (KCCA) in the FY 2016/17.

The specific objectives of the Engineering Audit were:

- i) To evaluate the existence and effectiveness of internal controls, which are required for the application of sound engineering principles and practices
- ii) To obtain reasonable assurance, that the constructed and rehabilitated/maintained roads, during the stages of planning, design, construction and maintenance, were actually done with reasonable quality, and in accordance with sound engineering principles, practice, technical management policies and specifications
- iii) Review the process of procurement for the supervision consultant and contractor to evaluate whether this was carried out in accordance with the relevant procurement guidelines

A total of five road contracts and one drainage contract were selected for the audit whose contracts amounted to UGX.206,796,759,349 representing 70.6% of the total value of the projects; of the five the road contracts, one (Kafumbe - Mukasa Road) was included for a follow up audit. The selected contracts included; Three (3) road contracts for Design Update, Reconstruction and/or Upgrading, one contract for Roads and/or Junction Improvement Works and one contract for design update and construction of selected drainage systems.

A list of the road and drainage projects worth UGX. 206,796,759,349 selected for auditing is shown in the table below:

S/No	Project Name	Contractor	Supervisor	Contract Amount	Physical Progress
1	Signalizing Bwaise Junction, Signalizing Fairway Junction, Dualling Makerere Hill Road, Dualling Kira Road, Dualling Bakuli-Nakulabye Road, Upgrading Mambule Road	China 7 th Group	Korea Engineering Consultant Corporation (KECC)	88,585,529,217	31%
2	Lot-2; Design update and construction of roads in the City; Reconstruction and/or Upgrading of Jakaana - 0.65km, Nsooba-0.75km, Kafeero-0.8km, Lumasi-0.55km, Muganzi-Awongera-1.6km, and Waligo- 4.2km in Kawempe division AND Bakuli market lane-1.0km, Nakibinge-Bawalakata-2.9km, Mackay-1.6km and Sembera-1.5km, Concrete Box Culvert at Sembule and Nalukolongo Channel	M/s. Energo Projekt Niskogradnja A.D	In-house,with PROME Consultants as Project Manager's Representative	54,876,070,942	13%
3	Lot-1; Design update and construction of roads in the City; Namirembe-Luwuum-1.9km, Archer-0.75km, Mengo hill-0.75km, Nakivubo channel-0.5km, Mpabaana-0.75km, Luzige-0.3km , Mutebi-0.45km, and Semugooma-0.4km	M/s. Stirling Civil Engineering Ltd	In-house, with Professional Engineering Consultants (PEC) as Project Manager's Representative	18,186,487,766	21%
4	Lot-4; Design update and construction of roads in the City; Reconstruction and/or Upgrading of Magambo-0.9km, Dembe-Kilowoza-3.0km, Kiziri-0.75km, Kigoowa-1.9km, Kimera-1.4km, Kisalita-0.7km, Kisonkole-1.0km, and Robert Mugabe-1.8km	M/s. Stirling Civil Engineering Ltd	In-house, with Professional Engineering Consultants (PEC) as Project Manager's Representative	34,499,288,380	18%
5	Lot-1; [(a)Lubuga I, Lubuga II, Kanakulya, Mugerwa, Ganafa, St. Benedict & Kabungu Close, and Kibuye-Police-Hollywood in Makindye Division; (b) Nte	M/S China Jiangxi Corporation for International Economic	In-house, with UB Consulting Engineers as Project Manager's Representative	10,649,383,044	48%

	Yaffa, Chwa II "Nakulabye", Chwa II "Namungoona", Kiwunya roadside RHS & LHS, and Kiwunya-Nasma in Lubaga Division; and (c) Kawempe - Ttula road - 1 (crossing near Mpererwe), Kawempe - Ttula road - 2 (Saulo - Tributaries I & II), and Kaddugala in Kawempe Division]	and Technical Cooperation (U) Limited			
6	Follow up of Kafumbe Mukasa Road	Stirling Civil Engineering Ltd	Professional Engineering Consultants Ltd		100%
Total				206,796,759,349	

The key audit findings resulting from the engineering audit performed are presented below:

➤ **Unjustifiable Lump sum Prices for Some Items in the Activity Schedules (UGX.4,430,009,188 Minimum)**

It was observed that KCCA signed Lump sum contracts for Design Update and Construction of Roads in Lots 1, 2 and 4. The activity schedules for the lump-sum contracts that provide for detailed breakdowns of the activities revealed lump sum prices that are unreasonable and unjustifiable for some roads. The prices are built up from quantities that cannot be practically executed on some of the roads. Audit noted that for these contracts, payments were made on percentage completion of the lump sum items in the activity schedules, without any breakdowns. This method of payment is inconsistent with PPDA Regulations 2014 (15)(3) which states "Payment for a lump sum contract shall be linked to clearly specified outputs or deliverables, which include deliveries of supplies, evidenced by the appropriate delivery documentation, reports, drawings, bills of quantities, activity schedules and any other outputs or deliverables appropriate to a contract. The total cost of increased lump sum prices, arising out of impractical/unjustifiable quantities, is UGX.4,430,009,188.

Management explained that their choice of the Lump sum contracts holistically took into account risks faced by both the contractor and Client (KCCA) where the risk of estimation

of quantities was on the side of the bidders implying there may be cases where quantities are above requirement and others where they are below requirement; this was contractor's risk. They further stated that when administering a lump sum contract, any quantities which may be set out in the detailed price schedule are estimated quantities and are not to be taken as the actual and correct quantities of the Works which the contractor is required to execute. Management also explained that so far the expected additional costs to be incurred by the contractor undertaking Lot 1 contract is UGX.5,989,243,221. On Lot 2 contract the additional work executed is UGX.239,544,861. These costs have to be absorbed by the contractors and cannot get payment from the employer as these are lump sum contracts, thus compensating for the overpriced lump sums.

I have advised management of the KCCA Authority to ensure that

- Adequate and realistic designs are supplied to bidders at bidding stage to minimize the risks of allowing the contractors to determine the quantities to be executed. Designs tendered out should be given thorough scrutiny and a reasonable tender period should be given to bidders. For the ongoing projects where significant variations are projected, KCCA should undertake a review of the expected works and accordingly engage the contractors.
- They develop a form of standardization in the process of adopting usage of lump-sum contracts and work closely with UNRA with a view of improving this area.
- All the relevant Provisions of the law are followed when adopting and executing contracts. Guidance should be sought from PPDA regarding execution of contracts tendered out using PPDA Procedures that are not commonly used such as lump sum contracts.

➤ **Double Payments for Some Items (UGX.101,464,550)**

In the Contract for Lot 2, Item 14.06 (d) required establishment of horizontal control (UTM with Arc 1960) ellipsoid) and vertical control (measured as heights above sea level) preparation of a strip map, production of construction drawings for approval including longitudinal profile, cross sections at 25m chainage intervals, taking invert levels of drains, setting out the road reserve and drains, taking levels of road formation, sub-base, base and paved surface, production of as-built drawings and preparation of a final survey report at a provisional sum cost of Shs 202,929,100 of which Shs 101,464,550 has been paid. These activities are part of a contractor's routine works, and more so for a design and build contract, as they provide a basis for design and construction. This payment is

therefore considered a double payment, considering the fact that the contractor was paid design fees, and the Consultant paid design review fees. There was no record of the authorisation to use the provisional sum availed to audit to justify the double payment.

Management explained that this was not a double payment as surveys conducted as part of the design are completely different from the surveys that are performed during construction to control the works which is continuous activity from beginning to completion of the works. The contractor is at liberty to cost survey works under design and those under works implementation separately.

However, it is important to note that the activities explained by management such as "Establishment of horizontal control (UTM with Arc1960 as ellipsoid) and vertical control (measured as heights above sea level)" are largely a design activity and cannot be construed as a purely implementation activity. Its cost is expected to be embedded in the design price

Management should therefore critically study the payments being made to guard against potential double payments and comply with PPDA Regulations 2014 (15) (3) and Regulation 48 regarding payments and payment documentation for lump sum contracts to avoid ambiguity regarding what has been paid for.

➤ **Loss of Key KCCA assets in some contracts**

It was observed that for some of the contracts executed in many of the contracts, KCCA will lose out on a number of assets that would have reverted to the Authority after conclusion of the projects; these are in relation to;

- For instance, in the improvement of junctions' project undertaken by China Railways Seventh Group (CRSG), KCCA signed a contract which results in loss of assets worth UGX.3,780,000,000. These include; surveying equipment worth Shs 50,000,000; Laboratory equipment for the Engineer worth UGX.130,000,000 and fully furnished and equipped offices for the Engineer worth UGX.3,600,000,000.
- KCCA stated in the contract documents that these items will revert to the contractor after the project. This is inconsistent with the contract provisions detailed in GCC 1.1.5 (Works and Goods). These items do not fall under items listed as "Contractor's Equipment" and are categorically excluded.

Management explained that both bills for the KIIDP project Survey Equipment and also for the Laboratory Equipment were erroneously included in the works Contract even though

all the equipment were to return to the Contractor upon completion of the Contract. Accordingly this anomaly was raised with the Consultant and only sub-item part (b) is being certified for payment as shown in all the IPCs certified to-date. They also indicated that a memo has already been written to PDU requesting for approval to delete the redundant Bill Items.

Management of KCCA should undertake a more thorough due diligence of documents before signing contracts that disadvantage the authority and lead to loss of assets.

➤ **Undocumented Changes in Priced Activity Schedule and Designs**

It was observed that in the contract for Lot 2 and Lot 4 there were undocumented changes in the priced activity schedules for these contracts;

- Lot 2 contract by Energo Projekt Niskogradnja, had the activity schedules priced culverts laid on Class A bedding, instead of Class B bedding on Waligo Road.
- Lot 4 implemented by Sterling Civil Engineering Ltd, had a number of stone pitching cross sections showed vertical instead of the designed slopes
- On Mengo Hill Road, most of the manholes have not been constructed to the right shapes and reinforcement was not placed at the designed positions.

Management should ensure that any changes to works are clearly documented on all official submissions, including on activity schedules and documents relating to payments.

➤ **Avoidable Expenditures (UGX.60,000,000)**

Three (03) of the lump-sum contracts, required the Contractor to provide a four-wheel drive double-cab pickup vehicle for the Employer at costs varying from of UGX.129,000,000 -155,000,000. Although under best practices, vehicles for the Employer do not constitute part of "Contractors equipment", KCCA allowed the successful bidder, at negotiation stage, to front an argument that he thought the vehicles would belong to him after the end of the contract. The result is that KCCA committed to incur an additional UGX.30,000,000 for each of two vehicles, a cost which could have been avoided, if best practices had been followed. The bidder should have sought clarification at bidding stage, not at negotiation stage. KCCA incurred an additional obligation of UGX.60,000,000 for the vehicles for the Employer during negotiations, which could have been avoided.

Management explained that the employer's requirements in the Bid document was for provision of a 4wd pickup as transport to Client staff whose rate shall include provision of

a pickup driver, fuel and servicing. At time of negotiation the contractor stated that the statement of requirements didn't state that the vehicle would revert to the employer. KCCA eventually expressed interest in the car and during negotiations agreed to pay the contractor the handling fees of 30m UGX for the vehicle to return to the employer at the end of contract.

Management should in future be explicit in stating its full requirements when drafting contracts

➤ **Lack of Detailed/Accurate Engineer's Estimates**

For Contracts (Lot 1, 2 and 4), detailed Engineer's Estimates were not availed to the audit team, despite the request for them. Where these have been filled on the PP Form for the Estimates, there are no detailed breakdowns and the majority have significant variances from the signed contracts, suggesting that they may not have been prepared well. This is the case even Lot 2; where the current Project Manager's Representative was commissioned eight (08) months earlier to undertake full designs for the roads constituting this lot.

Management explained that the Estimates on the PP Form 5 were developed by the Client based on an average unit cost per Km for existing recently completed contracts under KCCA. These are the estimates on the Form 5 and are exclusive of Design costs and VAT. Management should make efforts to improve on their existing capacity to generate reasonable Engineer's Estimates to aid planning and budgeting.

➤ **Interest on Delayed Payments (UGX.427,767,009)**

For most of the Contracts, payments were delayed, leading to huge interest costs incurred on the contracts. The total interest costs incurred so far on Lot 4 is UGX.200,710,496 while for Lot 1 is 227,056,513.

Management attributed the delayed payments for works executed on the contracts to challenges with cash flow on the part of the employer occasioned by a higher than expected work rate by the contractors which is not matched with the cash flow. Management of KCCA management is advised to explore ways to mitigate these circumstances.

➤ **Delayed Execution of Projects**

It was observed that none of the five contracts audited will be completed on time as stipulated in the contracts period for execution of works.

Management attributed delayed completion to delayed payments to the Contractor and delays in acquisition of right of way making it difficult to have full site possession for some roads. KCCA has been able to extend the contract durations for some contracts and also implemented a staged site handover.

Management is advised to ensure that land acquisition for right of way be undertaken in advance and negotiated early prior to start of works to mitigate delays in project completion.

➤ **Defective Works**

During physical investigations, the audit team noted a number of defects in the on-going works. These included scouring of drainage channels for the drainage projects, cracks in stone pitching, collapsed headwalls, honeycombing to some concrete members including haunches and damaged road signage to mention but a few.

Management explained that a snag list had been prepared which included most of the identified defects. In the interface with Management, the contract manager indicated that any new identified defects had been noted and communication given to the contractors to make good and that for the partially completed sections the defects were being rectified in the defects liability period. Management also explained that the damaged sign post had been knocked by an errant driver.

Management of KCCA should exercise more vigilance on both the contractors and their supervising consultants and ensure that all defective works are rectified before the end of the defects liability period for the Contracts.

Responsibilities of the Directors for the Financial Statements

The Councilors and the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the Kampala Capital City Authority Act and International Financial Reporting Standards on Accrual basis of accounting and for such internal controls 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 Councilors and the Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

The Councilors and the Directors are responsible for overseeing the Authority'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 Company'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 Authority'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 Authority to cease to continue as a going concern.

- 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 Councilors and the Directors are 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 Councilors and the Directors are 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 Councilors and the Directors are, 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.

Report on other legal requirements

As required by the Kampala Capital city Authority Act (KCCA), 2010 and the National Audit Act, 2008, I report to you, based on my audit, that;

- i. I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit.
- ii. In my opinion, proper books of account have been kept by the Authority so far, as appears from my examination of those books; and

- iii. The statement of financial position and statement of comprehensive financial performance, cash flow statement, statement of comparison of budget and actual amounts are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

22nd December, 2017

Budget Performance

Vote function output	Item description	Planned outputs/Quantity	Amount (UGX) budgeted	Amount released (UGX)	Actual output/Quantity	Management Response
Program:0807 Community health Management	Output:080751 Provision of Urban Health Services	Transfers to NGO hospitals-33 NGO hospitals receiving funds	804,292,563	804,292,563	All the funds were transferred to NGO Hospitals	All the funds were transferred to NGO Hospitals
	Output: 080780 Health Infrastructure Construction	Remodeling and repairs of other Health Centres like Kawaala, Kisenyi, Kitebi and Komamboga. Supervision of the construction of Kawempe and Kiruddu Hospital	806,691,712	806,691,712	Remodeling and repair of the planned health center was done. Kawempe and kiruddu hospitals construction is at 99%	Remodeling and repair of health centers are in defects liability period. KCCA played a supervisory role in the construction of Kawempe and Kiruddu hospital and the works were at 99%.
Programme: 0708 Education and Social Services	Output: 070881 Secondary education infrastructure construction	Completion of Kasanga Seed school Re- roofing of East Kololo P/S	789,700,000	789,700,000	The construction of Kasanga Seed School Works was on-going. The contract for re-roofing of East Kololo P/S work is complete.	The construction of Kasanga Seed School was effected in June 2017 after the conclusion of the procurement process but Works were on-going. The contract for re-roofing of East Kololo P/S (which was blown off after a heavy storm) was in June 2017 and work is complete.

Project: 0115 LGMSD (former LGDP)	Output: 41 Policy, Planning and Legal Services	<ul style="list-style-type: none"> • Establishing Kampala Development Corporation (KDC) • Finalizing project proposals for KDC • Starting setting up activities for KDC 	328,000,000	328,000,000	KDC is in the final stages of registration.	<p>The UGX 328,000,000 was meant to support the Strategy Management Unit of KCCA.</p> <p>Among other activities set out to do were;</p> <ul style="list-style-type: none"> - to facilitate the budgeting and planning processes-UGX 160 million, -Research and consultancies –UGX 85 million Printing of reports-UGX 32 million, -Feasibility studies-UGX 50 million and -the establishment of Kampala Development Corporation(KDC) <p>KDC is in the final stages of registration.</p>
Program: 04 Urban Planning, Security and Land Use	Output:01 Urban planning, policies, laws and strategies	<ul style="list-style-type: none"> • Detailed plan for different city areas prepared. • Neighborhood and open spaces landscaping and beautification promoted • Streets landscaping and beautification done. 	510,045,000	510,045,000	<ul style="list-style-type: none"> • Neighborhood and open spaces landscaping and beautification promoted • Streets landscaping and beautification done. 	Whereas KCCA had planned and budgeted to initiate development of neighborhood plans in the FY 2016/17 we were unable to do this because of cash flow constraints experienced during the financial year. Other activities like Landscaping and beautification were implemented.

APPENDIX 1

FINANCIAL STATEMENTS