



THE REPUBLIC OF UGANDA

UGANDA NATIONAL ROADS AUTHORITY

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
ROAD SECTOR SUPPORT PROJECT 4 (RSSP- 4)
KIGUMBA – MASINDI – HOIMA – KABWOYA ROAD PROJECT
ADF LOAN – PROJECT ID NO P-UG-DB0-021
FOR THE YEAR ENDED 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL

UGANDA

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THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Road Sector Support Project 4 (upgrading of the Kigumba – Masindi – Hoima – Kabwoya Road Project) for the year ended 30th June 2017. The financial statements comprise of; statement of receipts and payments; statements of fund balance and notes to the financial statements including a summary of significant accounting policies adopted.

In my opinion, the financial statements present fairly in all material respects Uganda National Roads Authority – RSSP 4 statement of receipts and expenditure, and statement of fund balance for the year ended 30th June 2017 in accordance with the terms and conditions of the ADF funding agreement and the cash basis of accounting under section 8 of the financial statements.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). 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 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 matter described below as a key audit matter to be communicated in my report;

- **Compensation to the Project Affected People (PAPs)**

Section 42 of The Land Act (1998) empowers the Government to acquire land for public interest in exchange for compensation of owners or tenant's compensation based upon Market Value of land plus disturbance allowance. Section 42 (7) b of the Land Act, 1998 states that no person from whom land is to be acquired shall be required to vacate that land until he/she has received compensation awarded to or agreed by them. Section 5.02 (b) of the conditions of the loan agreement between the Republic of Uganda and the African Development Fund, required the borrower to provide evidence, in form and substance acceptable to the fund, confirming that prior to commencement of construction on any section of any lot of the civil works, all Project Affected Persons have been compensated and/or resettled with respect to the relevant section of the relevant lot in accordance with the Resettlement Action Plan (RAP) and any updates to the RAP as well as the Works and Compensation Schedule'. Good practice also requires that after the change of ownership the land should be registered in the name of Uganda Land Commission. Government has on several occasions attributed delayed construction projects, low funds absorption and fraudulent activities on the land acquisition process, that is; identification of land owners (Ownership), valuation of land, payments to owners and final acquisition of the compensated land (titling).

The Government of Uganda has been implementing a number of infrastructure development projects across sectors. The Government of Uganda (GoU) received financing support from the African Development Bank (AfDB) to implement the Road Sector Support Project 4 (RSSP4). RSSP4 comprises of among other components the upgrading from gravel to bitumen standard of the Kigumba – Masindi – Hoima – Kabwoya Road (135km) and consulting services for technical and financial audits; compensation and resettlement. Before implementing this project, and in accordance with the laws of Uganda, Government has to acquire land rights by valuation of project affected persons (PAP) land, compensating the project affected persons and finally demarcation of the right of way.

The area was identified during the risk assessment of the Project, at the preliminary stage of the planning, as a significant service delivery point, directly impacting on its mandate and an area of high stakeholder concern on the operational efficiency of the Project. I designed specific programmes for execution to ascertain whether all valuations are done in accordance with the applicable law, regulations and best practice, ascertain whether the compensation process is fair, just and complete, ascertain whether the persons compensated are the bonafide owners of the land and establish procedures and action taken after compensations of PAPs.

I obtained and examined the requirements of the loan Agreement especially section 5.02b, obtained and reviewed information relating to the status of compensation to the PAPS, interviewed some of the affected PAPS who had not been compensated, obtained and reviewed the contract that UNRA signed with surveyors for land acquisition consultancy and visited the site to establish the status of work done under the contract.

I noted concerns on land acquisition as outlined below;

➤ **Poor land acquisition consultancy services contract**

UNRA signed a land Acquisition and Consultancy Services agreement with two consultancy firms for 15 months first and then 24 months second phase after start of civil works. I noted that the contract expired and yet the consultant's staffs were still on site. UNRA has also decided to terminate the contract due to failure to deliver. I also noted that there was no professional indemnity insurance for UGX.659,797,590 and UNRA proceeded to pay UGX 32,867,177 which raises concerns of value for money given that UNRA staff are performing duties for which a consultant has been contracted to perform and has contributed to delay in start of the civil works. As a result of this there is a risk of legal action against UNRA by the firm for terminating of the second phase of the contract and a social risk of confusing the PAPs on the eligible person to deal with.

Management explained that they are taking action to address the concern by terminating and appraising the consultant.

➤ **Delayed payment to Project Affected People (PAPs)**

I noted that Five Hundred Twenty Five (525) PAPs worth an estimated Uganda Shillings Two Billion Three Hundred Fourteen Million One Hundred Sixty Six Thousand Five

Hundred Ninety Six (UGX.2,314,166,596) had not been compensated by the time of the audit contrary to section 5.02 (b) of the loan agreement that requires UNRA to compensate and/or resettle all Project Affected Persons prior to commencement of construction on any section of any lot of the civil works. Non-settlement of PAPs' claims before commencement of construction exposes the project to a risk of the Donors withdrawal of funding and litigation costs by the PAP's.

Various reasons were put forward for this and Management indicated that they had taken action to address the issue by involving their staff in the compensation activities and making arrangements to deposit the money in courts for cases of a legal nature.

➤ **Signed transfer forms for titled properties before payment**

I noted that PAPS with titled properties sign transfer forms and surrender their titles before receipt of compensation. All the transfer forms reviewed did not indicate the transferee and the size of the land to be transferred. This is in addition to signing UNRA's Transfer (Assignment) Form C for untitled plots which is also an explicit acknowledgement of receipt of compensation by the Project Affected Person (PAP). Project affected persons titles had not been returned to them by the time of the audit as the process of subdivision and transfer had not been completed. I also noted lax security arrangement at the offices of the land consultant (Stanfield) where there were no security guards and the land purchase agreements and titles were not kept in fire proof cabinets before forwarding them to the Kampala offices. Project affected person's acknowledgement of receipt for compensation before actual compensation exposes the process to manipulation and reputational risks to UNRA. There is also risk of physical damage and loss of land purchase agreements and titles as a result of inadequate security thus exposing UNRA to extra claims from the PAPs.

Management explained that Form C has been changed to read 'accepted' and not 'received' in the revised template and documents bearing 'received' are being phased out while the acreage compensated is indicated.

I advised management to enforce the filling provision of transfer forms by indicating the transferee and the acreage that the PAP has been compensated for after the PAPs have actually been compensated. I also advised management to enhance Security for the PAP's land titles and purchase agreements.

Other Matter

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

- **Implemented Design**

A verification of the design review report revealed that the Engineer recommended an increase in the crushed stone base course layer thickness from 150mm (as per the contract) to 225mm and the sub-base course layer thickness from 150mm to 275mm. The pavement layer thicknesses in the contract documents reflect the initial design by another firm of 150mm. In a communication from UNRA to the Engineer, the initial firm's pavement structural design was pronounced inadequate and the Engineer instructed to adopt a base course layer thickness of 250mm and a sub-base course layer thickness of 250mm and instructions were also given to re-do sections of the road already constructed that is; 20km stretch of Hoima-Bulima as per the contract layer thicknesses whereby the African Development Bank expressed reservation on the revised design. My site inspection revealed the following;

- The completed section on the Hoima-Bulima was not re-done as per instructions from UNRA.
- I was informed that the design by the initial firm (original pavement structural design) will indeed be used for the 20km stretch from Hoima to Bulima.
- The drawings on the site show that the UNRA design (base course layer thickness of 250mm and a sub-base course layer thickness 250mm) is being implemented on the remaining sections of the road.
- I noted that no formal approval for the UNRA design had been given to the contractor, despite being implemented. There is an indication that Uganda shillings Twenty One Billion One Hundred Twenty Five Million Four Hundred Seventeen Thousand Three Hundred Eighty Nine (UGX 21,125,417,389/=) (representing a 14.88% percentage variation) will be required for this change. This variation is also yet to be communicated to the contractor.

As a result of the above, the Engineer has not owned the design being used on both stretches of the road and a design that was considered inadequate by UNRA has now been implemented on a bigger part of the Bulima-Hoima section. Further, the above proposals have an effect on the final liability requirements for the completed road.

Management explained that the design review report was reviewed and UNRA provided comments on the pavement structure which are expected to be considered and the review consultant will take responsibility of the constructed design.

I advised Management to clarify as to who carries the design risks and responsibility for the completed road.

- **Contractor mobilization**

At the time of the audit, the contractor was already mobilized on ground, in terms of machinery, plant, equipment, human resource and materials. I reviewed the consultant's monthly reports, especially report no.19 that summarized activities up to the end of the month of June 2017 and the following issues were noted with regards to personnel and equipment.

- **Personnel**

The Contractor had mobilized 18 key staff, but the project manager and the health & safety officer were dismissed on 18th June 2017 and had not been replaced at the time of writing this report in November 2017. Seven expatriate staff were employed on the project as at 30th June 2017, however, their work permits were not availed for review. Lack of contractor's key staff could be a cause for the noted delays in overall project implementation, and employing expatriate staff without work permits exposes UNRA to a reputation risk.

Management explained that the dismissed staff positions were currently being occupied by other persons with the necessary competences in acting capacity as they await for the Contractor's submission of the substantive replacements and all the Contractor's staff that were lacking Working permits were no longer on the project with the exception of one whose permit expired on 19 September 2017 and for which an extension was applied for.

I advised Management to immediately replace the dismissed staff and the consultant, together with UNRA to make sure that all expatriate staff employed on the project have legalized their stay in Uganda.

- **Equipment**

As per the contract, the contractor should have mobilized 119 pieces of equipment, however at the time of the audit, the Engineer reported that 126 pieces had been mobilized of which 92 pieces were as per the mobilization schedule in the Contract. Information obtained from the site visit indicated that a key equipment, the Paver, had

broken down on several occasions and that the number of dump trucks in working condition do not measure up to the task at hand. Deficits in the mobilization of equipment were noted as Dozer (3), Wheel Loader (9), Low Loader (1), Dump Trucks (10), Concrete Truck (5), Concrete Batching Plant (1), Concrete Pump (2), Smooth Wheeled Roller (3), Sheep Foot Compactor (2), Pneumatic Tyred Roller (5), Grader 170HP (1), Bitumen Distributor (2), Bitumen Sprayer (3), Mobile Crane (1), Hydraulic Hammer (1) and Chippings Spreader (1). Delay in equipment mobilization may slow the progress of works, resulting in failure to complete works within the specified period.

Management's explained that delays caused by absence of the required equipment are being recorded and will form part of the basis of an evaluation in the event the contractor requests for extension of time and the Contractor had also been reminded to fully mobilize the required recourses in accordance with the Contract.

I advised management to instruct and reminded the contractor of the consequences for late mobilization of equipment and to check the continued breakdown of key equipment. The remaining pieces of equipment should be mobilized as per the mobilization schedule in the Contract.

- **Swamp treatment method and target quantities**

Site inspections revealed that many swamp crossings and adjoining sections had not been worked on and the delay was attributed to lack of a final design decision on how swamps will be treated. The original design of filling rock fill to a depth of one meter was disputed by both the contractor and Engineer as structurally inadequate and subsequently UNRA came up with a design that uses "surcharging" for swamp treatment in order that rock fill quantities can be lowered which has been communicated to the consultant. The engineer has not fully owned this new design, and there is little indication on site that implementation is going on. These proposals have an effect on the final liability requirements for the completed swamp crossings because the increment in rock quantities that is; 120,000m³ (required by the contractor) visa vi 32,670m³ (in the bill of quantities) will attract a variation of UGX.24,239,881,800 (17.08%) if implemented. It is also not clear or indicated how long the "surcharging" will take to fully consolidate the soils so as not to jeopardize the structural integrity of the pavement.

Management explained that they reviewed the swamp treatment proposals recommended by the Design Review Consultant and comments were made indicating possible swamps treatment options that would optimize costs.

I advised Management to ensure that adequate measures are undertaken so that costs don't escalate beyond available funds.

- **Cost Control**

A review of documents indicates that UGX.2,681,238,087 will be required to relocate water and power lines along the designed route against UGX 574,982,000 provided for in the contract bill of quantities implying that the cost of relocating services will overshoot by UGX.2,106,256,087. Further, my review of the engineer's report no.19 indicated that the contractor is claiming an extra UGX.706,687,899 as interest on delayed payments on IPCs no. 1 to no.9. In addition there is uncertainty whether the UGX.21,125,417,389 requested in the variation due to revision of the pavement structure will suffice given that the contract only included UGX.9,253,053,476 to cater for physical variation. Delays to settle contractor's claims may increase project costs and the increments will surpass the allowable variation percentages under PPDA regulations.

Management explained that a significant delay in payment is attributed to slow processes by the DFID and they had requested ADB, who are the administrators of the DFID grant, to quicken the process of payment of the DFID component. Further, Management indicated that value engineering had been undertaken for the major cost drivers while Cost control is being implemented by identifying and flagging items which will exceed the Contract quantities and then adopt necessary optimization measures.

I advised management to pay the contractor timely and ensure that accurate cost controls are in place so that the project doesn't overshoot the budget.

- **Inter-Project Re-allocations**

During the year under review, UGX.16,473,104,716 was reallocated from project funds to fund other projects. I was not provided with approval of the amount of funds reallocated. Review of Minutes of the meeting held with the Minister of Finance revealed that UNRA was advised to proceed with spending the funds but also provide reasons why the funds for reallocation could not be absorbed on the respective budget lines. A copy of the justification as per the meeting was not provided for review. The inter

project funds reallocation is an indicator of under absorption of project funds which negatively affect the implementation of the project.

Management' explained that this was a joint decision by the Minister of Finance and UNRA management to administratively reallocate the funds which were unutilized by this project to pay off debt on other projects and the reallocation did not cause shortage of funding for the project activities during the year as the project had Surplus Funds as at year end.

I advised Management to ensure that adequate supervision of the project is undertaken to enhance absorption capacity.

Management's Responsibility for the financial Statements

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with Government of Uganda and African Development Bank 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 misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making estimates that are reasonable in the circumstances.

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 ISAs 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 ISAs, 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.

Other Reporting Requirements

I report based on my audit, that;

- UNRA complied with the loan agreement covenants. In particular UNRA complied with the Bank's rules and policies, the loan covenants relating to procurement of goods and services. I have obtained all the information and explanations, and all expenses were eligible.
- As part of my audit scope and in accordance with International Standards on Auditing. I considered internal controls relevant to UNRA in the preparation and fair presentation of RSSP 4 financial statements in order to design audit procedures that are appropriate. Other than the matters referred to in this report, the Internal Control structure for RSSP 4 was found to be appropriate



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

21st November, 2017

APPENDIX I

FINANCIAL STATEMENTS