



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA NATIONAL ROADS AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA NATIONAL ROADS 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 Uganda National Roads Authority for the year ended 30th June 2017. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements of the Uganda National Roads Authority for the year ended 30th June 2017 are prepared, in all material respects, in accordance with Section 51 of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2008.

Basis for Qualified Opinion

• **Mischarge of Expenditure –UGX.60,521,959,235**

The entity charged wrong expenditure codes to a tune of UGX.60,521,959,235. This constituted 3.9% of total expenditure for Uganda National Roads Authority. Mischarges undermine the importance of the budgeting process as well as the intentions of the appropriating authority and lead to misleading reporting.

Management explained that at the end of the financial year, UNRA had some unspent funds but at the same time had some outstanding debts. Following the challenge faced, UNRA sought and obtained administrative concurrence from the Minister of Finance to use the available funds to clear outstanding debt.

I advised the Accounting officer to streamline the budget process to ensure that sufficient funds are allocated to each account. Further, authority should be timely sought for any reallocations.

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 Statement's 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. In addition to the matters described in the basis for qualified opinion, I have determined the matters described below to be the key audit matters communicated in my report.

- **Inadequate Controls Surrounding Management of 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 examined to assess: the appropriateness of recording, recognition and disclosure of domestic arrears; the trend and the underlying factors; and the adequacy of the internal controls surrounding management of domestic arrears.

During audit planning, I focused on examination of domestic arrears in regard to goods and services, salaries and wages, and pension and gratuity. I undertook the following procedures in relation to domestic arrears: a trend analysis over a period of three years to ascertain the underlying causes of accumulation; reviewed budget and commitment control procedures to assess their effectiveness;_ascertained the authenticity of the supporting documentation and assessed the appropriateness of the accounting treatment. I also engaged the Accounting Officer to enable me arrive at the audit conclusions.

Based on the procedure performed, I observed that an amount of UGX.288,712,880,023 was irregularly incurred as domestic arrears outside the approved estimates appropriated by Parliament. Consequently, there has been an increase in domestic arrears over the period of three years from UGX.239,445,624,894 in 2014/15, to UGX.283,726,052,476 in 2015/16, and UGX.288,712,880,023 in 2016/17. This makes the trend unsustainable. I further observed that there was no budget provision for settlement of domestic arrears totaling to UGX.280,287,002,115 posing a risk of diversion of funds for settling the obligations. This may be as a result of existence of a weak and ineffective internal control system over the control and management of domestic arrears, such as failure to adhere to the Government commitment control system.

The Accounting Officer explained that the annual MTEF ceiling allocated to UNRA is inadequate to meet all its project cash flow demands and in addition the quarterly cash limits set for UNRA are too low to pay all the approved certificates and invoices in the quarter which creates a cyclic cash flow shortage that results into accumulation of debt and penalty charges in form of interest on delayed payments.

I advised the Accounting Officer should liaise with PSST for the need for programme Based Budgeting for road projects given that road project span is more than one year and their dependence on land acquisition before commencement of construction works needs to be given attention.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter described in note 19 of the financial statements.

- **Outstanding Advances to Contractors – UGX.563,229,373,730**

Receivables due to UNRA to the tune of UGX.563,229,373,730 in form of advance payments to contractors remained outstanding at the close of the financial year. It was noted that some of these receivables have been outstanding for more than two years

which is a reflection of slow moving projects. Outstanding receivables relating to advance payments tie up UNRA funds in slow moving projects that would have been utilized for clearance of outstanding certificates.

Management indicated that they had instituted reforms in effective management of advances for works by reducing advance rates from 20% to 15% for GOU funded projects, reduction of recovery period and payment of advance in two installments.

I advised the Accounting Officer to follow up all slow moving contractors and ensure full recovery of outstanding advance payments from these projects. Further, on recovery of advance payment at 60% works achievement, Management should consider setting up a minimum recovery period within which it should be undertaken to encourage fast tracking of projects by contractors.

Other Matter

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

- **Land compensation anomalies**

- **Lack of register for land titles received from PAPs**

Management did not maintain a land titles register for PAPs after valuations and compensation exercise on Kampala Northern Bypass (KNBP). The land titles were under the custody of the 2 consultants who undertook the evaluation exercise at different periods of time and handling valuation in succession. The first consultants acknowledged being in possession of 16 titles for 3 PAPs who was compensated 2.171 acres and 0.263 hectares. However UNRA acknowledged receipt and availability of only 7 out of the 14 titles relating to one of the PAP. The 7 titles could not be accounted for.

Similarly, it was noted that in the 2nd Phase of the project, the consultant requested UNRA to provide 38 land titles of PAPs due for compensation however UNRA acknowledged possession of only 17 leaving a balance of 21 titles unaccounted for.

This is an indication that UNRA does not have an updated database of land titles from PAPs after valuations and compensation exercise. There is a potential risk that some of the land titles initially surrendered to UNRA may be untraceable and the risk of double compensation cannot be ruled out in the circumstances.

Management explained that before October 2015, there was no clear register for land titles received from PAPs since this role was performed by compensation consultants. After October 2015, all consultants were requested to hand over land titles received from PAPs. By April 2016, a majority of the compensation consultants had handed over and a stock taking exercise commenced for all land titles as received from compensation consultants. Management has since continued receiving land titles and a register is kept both in hard (Register book) and soft (Excel files) format. This reconciliation is still work in progress and the exercise will be concluded in June 2018.

I advised the Accounting Officer to fast track its efforts of updating the register for all the titles in its possession and account for all the untraceable titles.

➤ **Non utilization of Right of Way Management Information System (ROWMIS)**

Management procured a Right of Way Management Information System (ROWMIS), an integrated GIS based system to enhance planning, preparation, implementation and monitoring of the Resettlement Action Plan (RAP) processes at a price of UGX.469,745,548 and USD.1,295,595. The system was meant to handle all the process under land acquisition as well as data storage hence providing a significant saving on record management and paper utilization.

The ROWMIS contract was entered into on 8th April 2014 between UNRA and Sivan Design D.S Ltd to run for a period of 30 months which ended on 8th April 2017. Training had been provided to all users of the system by the consultant.

It was however noted that the system had not been fully embraced and adopted for use by the land acquisition team yet maintenance period ended on 8th April 2017. Only 3 projects had started using the system namely Kampala - Jinja Express way, Kampala flyover and the Southern bypass. The organization may not benefit from the investment since its full potential is not fully realized.

Management explained that effective utilization was hindered by inadequacy of computers. The process of acquiring more computers is ongoing to improve effective utilization of the system.

I advised the Accounting Officer to ensure that they fast track the implementation of ROWMIS if the organization is to benefit from the investment and also improve on the current land compensation process.

➤ **Backlog in titling of land acquired**

UNRA is required to obtain titles for land acquired and return them to the land owners after mutation. In February 2016 UNRA formed a team of 5 members to handle the backlog of titling. Due to the backlog, in July 2016 Management recruited temporarily surveyors and 13 land Valuer's to handle the exercise.

It was noted that the team received 2500 titles at the start and at the time of audit the titles had increased to 2,882. As at 2nd December 2016 the Authority had only 18 titles ready to be returned and 84 titles were under process with various land offices countrywide. This translates into a progress of approximately 4% yet the growth in the number of new titles received was at 13%. Continuous accumulation of unreturned titles may cost the organization in terms of litigation and public image.

Management explained that a program has been drawn, resources allocated and engagements made with the Permanent Secretary (PS) of Lands Ministry to enable clearance of backlog of titles by June 2018.

I advised the Accounting Officer to redefine the resource requirements and timelines to accomplish the backlog.

➤ **Delays in possession of land by UNRA after compensation of 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 (15% or 30%) as per the Land Act sec.77 (2).

From the sample of projects reviewed, it was observed that some PAPs did not relocate even after receiving all their entitlements. For instance on Muyembe - Nakapiripirit road, approximately 1,524 PAPs had been paid representing 70% of entire stretch however they had not vacated/relocated by the time of writing this report. Similarly, on Kamwege – Fortportal road project, separate compensation was made for land in 2011 and later for buildings in 2016 where PAPS went ahead to construct on the assessed land. Delayed possession of compensated property may

result into disputes and future costs that arise from eviction such as litigation and claims for under valuation.

Management explained that all these projects have been taken over by Road Infrastructure Protection to secure all acquired ROW.

I advised the Accounting Officer to ensure that all project land is immediately taken over after compensation has been made and right- of- way cleared after the lapse of the notice period.

➤ **Lack of accountability provided by RAP Consultant for cash payments to PAPs**

It was noted that the RAP consultants receive accountable advance for PAPs whose compensation is below UGX.200,000.

Review of cash payment related to this activity revealed that accountability for advanced amounts to Consultants had not been made. Further, on a sample taken along Muyembe-Nakapiripirit road some PAPs claimed not to have received the money which was paid out to the consultant. It was also noted that the RAP consultant of Hoima-Kiboga-Busunju has not handed over accountability yet PAPs claim not to have received any compensation. There is a risk of financial loss resulting from double payment of PAPs.

Management explained that RAP consultants make accountability for received accountable advance.

I advised the Accounting Officer to ensure that the Head Land Acquisition enforces accountability on a monthly basis for cash advanced to RAP consultants.

- **Budget performance for 2016/2017**

Out of the budgeted revenue of UGX.3,300,581,036,794, the Authority received only UGX.2,359,380,108,413 (71.5%) resulting into a shortfall of UGX.941,200,928,381 (28.5%). It was also noted that out of the released UGX.2,359,380,108,413 only UGX.2,084,193,626,417 was spent leaving unspent balances of UGX.275,186,481,996. Details are in the **Table** below:

ENTITY	Year: 2016-2017				
	APPROVED ESTIMATE (A)	RELEASES (B)	VARIANCE C= (A-B)	EXPENDITURE (D)	UNSPENT (B-D)
UNRA	3,300,581,036,794	2,359,380,108,413	941,200,928,381	2,084,193,626,417	275,186,481,996

As a result of the non-release and under absorption of funds, I noted that a number of planned outputs were not implemented as indicated in **Appendix I**.

The most greatly affected outputs included acquisition of 50 hectares of land for Hoima - Butiaba – Wanseko road, 50 hectares of land acquired for Soroti – Katakwi, construction of Hoima-Wanseko Road and underfunding the upgrade of Gulu - Atiak - Bibia/ Nimule road.

Failure to implement activities denies service to the beneficiary communities and defeats the purpose for which budgeting and budgetary controls are instituted.

Management explained that the failure to implement all the planned activities was largely attributed to cancellation and suspension of funding by World Bank, procurement administrative reviews, delays by contractors to submit advance guarantees and delays in land acquisition.

I advised the Accounting Officer to prioritize adherence to donor conditions to avoid scenarios of suspending funding and ensure timely implementation of government programmes.

- **Failure to withhold tax from Joint Venture contractors-UGX.4,128,164,027**
UNRA paid UGX.68,802,733,789 to a joint venture contractor during the period without withholding taxes amounting to UGX.4,128,164,027 contrary to section 120 (1) of the Income Tax Act. The entity is exposed to a risk of penalties and fines from URA.

I advised the Accounting Officer to verify tax status before processing any payments and engage URA for guidance on joint ventures tax exemptions. In the meantime, the recovery is awaited.

- **Maintenance Funds**

- **Non-compliance to performance agreement**

Clause 6 (a) (i) and 7 (c) of the Performance agreement between UNRA and URF for 2016/17 requires that the sum re-allocated by the designated agency shall not exceed 10% of the disbursement installment and the designated agency shall not be at liberty to amend it without the prior approval of URF.

I noted that UGX.11.94bn (21%) was re-allocated from UGX.56.605bn of quarter three (3) of the FY 2016/17 in violation of the agreement exceeding the allowed 10%. Further, there was no evidence availed indicating that UNRA applied to URF for approval of change in the annual road maintenance and as such, payments made for changed priorities to periodic works (UGX.3.104bn) and term maintenance (UGX 8.835bn) contracts were made in total disregard of the performance agreement. Non-compliance with the performance agreement may distort the annual road maintenance programme and set targets thus affecting the annual performance of the programme.

I advised the Accounting Officer to ensure that due processes are strictly followed and approval is sought for re-allocation of funds from URF.

- **Diversion of Maintenance Funds for Capital expenditure**

Article 9 (a) of the Performance agreement between UNRA and URF for 2016/17 states that "Unless the Fund (URF) otherwise agrees, the designated Agency in this case UNRA shall apply the finance sum only for road maintenance. UNRA shall ensure that the whole amount of the finance sum is utilized during the financial year and applied exclusively for road maintenance in accordance with the annual road maintenance programme." However, the following anomalies were noted;

- ❖ **Diversion of Maintenance Funds for Land acquisition**

UGX.300 million was re-allocated from operational expenses under UNRA support services in quarter 3 to pay for two (2) acres of land for the newly created Ibanda Station in the Southern Region.

Purchase of this land was not planned and does not fall within the approved annual road maintenance plan for FY 2016/17. Furthermore, there was no evidence availed to enable me confirm whether URF was formally notified as per Clause (9) of the performance agreement.

❖ **Diversion of Maintenance Funds for acquisition of Ford ranger pick-ups**

Similarly, I noted that, UNRA procured six (6) Ford ranger 4WD base cabin pick-ups from Cooper Motors Corporation at UGX.788,316,996 using road maintenance funds without any evidence of approval from URF. The six vehicles were not included in the approved procurement work plan for financial year 2016/17.

Diversion of maintenance funds for capital expenditure leads to non-implementation of planned budgeted activities in the annual work plan of the maintenance fund and the intentions for financing of road maintenance may not have been achieved fully and is in disregard of the agreement with URF.

Management explained that UGX.1bn for vehicles was in the approved plan for 2014/15 but the actual delivery was done in FY 2015/16 and payment made in FY 2016/17. This was due to a prolonged procurement process that was unexpected resulting from the restructuring of UNRA among others. Program adjustment was made on the UNRA operational expenses, under support services- short term consultancy services for remodeling of 8 stations and payment was effected in FY 2016/17.

I advised the Accounting Officer to follow the road maintenance management manual and guidelines and comply the performance agreement signed between UNRA and URF. In case of any reallocation, prior approval from URF should be sought.

• **Engineering audit of a Selected Sample of Road and Bridge Contracts Implemented by Uganda National Roads Authority during the financial year 2016/17**

In the financial year 2016/17, UNRA implemented 152 infrastructure projects worth UGX.22,279,165,590,447 of which, 18 were road development projects whose contracts amounted to UGX.19,839,591,348,788; 16 were road rehabilitation projects whose contracts amounted to UGX. 1,236,612,066,257; 101 were maintenance projects whose contracts amounted to UGX.617,500,741,337 and 17 were bridge projects whose contracts amounted to UGX.585,461,434,065.

As part of the annual audit of the financial statements for the year ended 30th June 2017, a sample of six road/bridge projects were selected for a technical audit.

Key audit findings resulting from the engineering audit performed are presented below.

(a) Inadequate Document Management System

It was observed that UNRA did not maintain a structured project filing system which enables documents to be accessed easily. The filing of hard copies of documents does not have a standard classification system. There is no official e-filing system.

Management should ensure that the classification system is suitable for technical projects and has appropriate sub-classification levels. The procedures must also be clear as to the personnel responsible for assignment of received documents to their various classes. Management explained that the E-filing system is being revamped under EDMS following acquisition of sufficient storage infrastructure.

(b) Project Planning

Poor coordination and cooperation between UNRA, state enterprises and local entities resulted in delays in granting Contractors access to site in a number of cases.

It was also observed that some projects experienced significant increases in quantities that would have had a potential increase in the contract price like Gulu-Acholibur by over 30% but which did not. In this particular project the quantities increased by UGX.48bn yet no variation had been approved by the Client for the quantities. This illustrates an overestimation of the contract price at bidding if such substantial increases in quantities can be within the contract price.

Management should ensure that contract price is reflective of the items in the bills of quantities and variations with potential increase on the contract price must be approved.

(c) Land Acquisition delays

Delayed land acquisition processes resulted in delays on all the eight projects audited. The process is bureaucratic, offers compensation rates which are unattractive to the PAPs leading to numerous objections and appeals. The delays resulted or are leading to increased project costs as Contractors claim Extension of Time with costs.

- For Gulu-Acholibur Road project despite the time progress of works being over 90%, some 772 PAPs were yet to be compensated. This delay by the Employer to meet their obligation towards granting right of access to the Contractor risks delays to project completion and possible claims from the Contractor.
- For Acholibur-Kitgum-Musingo Road project; uncertainties introduced by the ongoing delays in land acquisition led to the contractor not drawing up a reasonable programme of works.
- For Mukono-Katosi Road project a number of PAPs are still to be relocated to free up the road reserve. One PAP especially at Km12+800 RHS raised major objections on their cases and this is causing delays
- For Nyalit and Seretyo Bridge projects; there was no study undertaken to examine the land acquisition issues during the feasibility study or detailed design stages, the aspect was attended to only after award of the works contract. This led to the delay in full possession of the site by the Contractor due to issues arising from delayed compensation of PAPs. There is also currently a dispute at Seretyo Bridge regarding graves on the Namalu side hindering works on the approach.

Management explained that previously Land Acquisition was mainly carried out by consultants and compensation payments were made in isolation and since October 2015, UNRA has built in-house capacity and now compensation payments are done continuously in smaller sections to allow hand over of free access to site to the Contractor. The Accounting Officer further indicated that they have also developed a working MOU with Ministry of Lands, Housing and Urban Development whereof the office of CGV has allocated specific Government valuers to UNRA Projects so as to ensure expeditious approval of Valuation reports.

Management should ensure that the land acquisition process is undertaken well in advance of the works; and where the timing coincides with the works, concerted efforts must be made to accelerate the process of access of site to the Contractors to mitigate delays to project completion.

(d) Inadequate Projects Designs

In a number of projects, it was found that the designs were not adequate and much had to be done during the design review processes to correct the deficiencies. The design review processes were being done when the contractors had been awarded contracts which were based on inadequate designs. This led to increased scope of works and in most cases extended the contract durations.

For Acholibur – Kitgum – Musingo road project the detailed design overlooked the unsafe situations that will arise through providing uncovered drains in town areas.

Some better and cost effective modifications were proposed like changing the alignment along diverting the traffic away from Kitgum town along Acholibur-Kitgum-Musingo road which the Employer never took up. This would have reduced the project cost by over 1.2Bn considering the other savings from reduced compensation.

Management explained that an Instruction was given to the Contractor to construct protection kerbs at the shoulder break. Additionally the said diversion away from Kitgum town is a municipality road which could not just be taken over by UNRA. UNRA opted to follow its existing network in the design.

Management should ensure that for the town areas without covered drains, the drains are covered to enhance safety.

(e) Delayed Procurement of Supervision Consultants

Supervision consultants were occasionally engaged well after the Contractor had been appointed. In many cases the supervising consultants are required to undertake a design review and in certain instances their Terms of Reference did not fully cater for the detailed design that would be needed as the works progressed. Good practice is to engage Supervision Consultants ahead of Contractors. If there is a necessity to carry out review of the design then sufficient time should be allowed for the Consultants to finalize the design review and prepare tender documents based on the revised design.

Three projects had a delay of over two months namely Acholibur-Kitgum-Musingo, Gulu-Acholibur and Olwiyo-Gulu.

Management explained that the procurement process for the consultants took longer than was planned and so the procurement of the civil works Contractor was completed before the consultancy. In order to mitigate the risk, UNRA appointed a supervision team as a stop gap measure as the procurement process was finalized.

Management should ensure that supervisors are always in place prior to procurement of the Contractor.

(f) Procurement of Contractors

The method used for procurement of contractors was competitive bidding except on the Access Road to the National Radar project on Sungira Hill where a single source direct procurement method was used. The justification was that it would save on the costs for mobilization, site establishment and setting up of Engineer's facilities and laboratory as the Contractor was on another project in the vicinity of the subject project. There were no significant savings realized by adopting this method because the project was over UGX.3 billion over the estimates which does not reflect value for money.

The management of UNRA explained that the proposed method of direct procurement was chosen considering that it would save on the costs for mobilization, site establishment, setting up of Engineer's facilities and laboratory since the Contractor was on another project in the vicinity of the subject project.

Management should ensure that single sourcing method is only used in circumstances as allowed for in the PPDA. In this particular case the savings mentioned could only be realized by making a comparison amongst multiple bids given that the accepted tender sum exceeded the engineer's estimate by UGX.3bn.

(g) Change in Scope of Works/Variation Orders

There are cases where changes to scope of works / materials had to be made to address un-expected incidences. The ordering of use of a new material (modified G15) on the Acholibur – Kitgum – Musingo road project resulted in the introduction of a new pay item without approval of the proposed rate and this may result in a dispute if the approval is not granted.

Management explained that proposals to provide an integrated unit rate for the finished subbase were undergoing the final approval process.

Management should ensure that payments made through various pay items as a substitute to the pay item for the new material are avoided. The delay in obtaining applicable rates for new items for works should not be allowed to happen in any project.

(h) Measurement and Payments (IPCs) for the works

It was established that the measurement of dump rock had tolerances outside the recommended error for a weighbridge resulting in errors in measurement of some items

of works executed on the Gulu-Acholibur road project. This affected measurement of the quantities worth over UGX.36bn involving 32 trucks. A review of a sample of 12 trucks used for measurement revealed errors equivalent to UGX.112,744,998. Management should ensure that a more precise way of measuring quantities is adopted. The measurement of quantities paid for under items 36.02h for Gulu –Acholibur road project should be recalculated and the overpayments that were made recovered.

Additionally, an item for temporary accommodation for the Engineer was utilized beyond the stipulated contract duration of three months resulting in the payment of UGX 1,401,450,000 for extra 934 man months. Management explained that the Contractor was to provide temporary accommodation for 6 months. He was also to build permanent houses on land which was to be provided by UNRA after which the temporary arrangement would stop. Due to challenges of ownership of land in the region, UNRA was not able to acquire the land against which the temporary accommodation arrangement was maintained. UNRA has a proposal to use actual rental charges with a mark up to the Contractor.

Management should ensure that UNRA pays for temporary accommodation for only three months as provided for in the contract terms. Paying rent for the Engineers accommodation instead of putting up the permanent accommodation as contractually provided for means UNRA will lose the buildings that could have served other purposes after project end. In addition any new compensation based on the proposed rental charges should be well evaluated on the basis of man months from the Engineer as per the contract.

There are delays in processing payments of IPCs on a number of projects. While Variation of Prices formula is being applied correctly on most of the projects; for all projects with contractors from China, the data for revising cost of expatriate labor was unavailable.

(i) Quality of Works

Most of the works inspected were found to have quality that met the specifications although there are very few cases where the quality of works was not to expectation. Quality control and quality assurance should be enhanced to ensure good quality of works.

(j) Non-renewal or Extension of Supervising Consultants

Most of the projects audited were under the supervision consultants whose contractual time inputs were nearing exhaustion. UNRA will not extend most of the contracts and will use in-house teams to supervise the project. The risks associated with this approach have to be assessed.

Management explained that the UNRA In-house Construction Supervision team is already on the ground supervising Acholibur-Musingo and work is moving on well. The decision to extend or not depends on availability of funds for extra services, performance of the consultant during the contract, and the scope of work pending at the time of expiry of the contracts.

Management should ensure that the transition from the external supervisors to the in-house supervision team should be smooth and not delay the progress of works; furthermore associated risks in using this approach should be assessed.

Responsibilities of the Accounting Officer for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the Ministry.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, and the Financial Reporting Guide, 2008, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Authority, and using the Financial Reporting Guide 2008 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is 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 Authority'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 deliver its mandate. 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 fail to deliver 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 the Accounting Officer 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 Accounting Officer 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 Accounting Officer, 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 'John F.S. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

22nd December 2017

APPENDIX 1

Vote Function output	Item Description	Planned Output/ Quantity	Amount Budgeted (UGX) (000')	Amount Released (UGX) (000')	Variance (UGX) (000')	Audit Remarks
0952 Design Masaka-Bukakata road	0952 Acquisition of Land by Government	100 hectares and properties Therein procured.	5,000,000	5,000,000	0	Audit noted that 688 PAPs were paid rather than 857 as reported by management.
0954 Design Muyembe-Moroto - Kotido (290km)	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	100% of additional works for town roads completed.	66,650,000	66,650,000	0	UNRA management did not pay all the money to the project. UGX105,514,087 was diverted and paid as legal fees, SBI under Mukono-Kalagi and Monitoring and supervision under Mubende and Kakumiro projects
0955 Upgrade Nyakahita-Ibanda- Fort Portal (208km)	045171 Acquisition of Land by Government	40 hectares of land and property therein acquired.	7,000,000	7,000,000	0	Reviews revealed that UGX.1,160,882,172 was paid for other recurrent activities and capital expenditures elsewhere but charged under the code of Nyakahita-Ibanda-Fortportal project. This diversion constitutes 17% of the releases diverted.
0957 Design the New Nile Bridge at Jinja	045174 Major Bridges	35% of the works completed, cumulative 70%	35,100,000	23,500,000	11,600,000	UNRA paid in total UGX 23,620,849,904 under the Nile Bridge Project. An extra 120,849,904 whose source of funds was not explained by management. Management also paid UGX1, 291,682,207 as PAYE for the staff of

						contractor to URA under the project code. This expenditure has been capitalized as Roads and Bridges when actually it is not a capital expenditure.
1031 Upgrade Gulu - Atiak - Bibia/ Nimule (104km)	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	Atiak-Nimule: 15% of works completed; cumulative target 100%	4,680,000,000	587,027,134	4,092,972,866	The project was underfunded by UGX4,092,972,866. The UGX 4Bn was not released because the contractor failed to rectify identified defects within agreed timeline.
1032 Upgrade Vurra - Arua - Koboko - Oraba (92km)	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	6.9km of town roads in Koboko and Maracha completed	18,540,000	18,540,000	0	Out of the UGX.18,196,546,697 paid, UGX.2,859,938,014 was diverted and paid to China Henan International Corporation as advance for Rushere-Nshwerenkye and UGX584,586,033 to CCCC for IPC 42 Mubende-Kakumiro
1035 Design Mpigi-Kabulasoka-Maddu (135 km)	045171 Acquisition of Land by Government	100 hectares of land and properties therein procured	9,000,000	9,000,000	0	A detailed review of these payments shows that UGX221,848,472 was diverted to other recurrent expenses like allowances and other related recurrent costs
1038 Design Ntungamo-Mirama Hills (37km)	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	20% of works completed; cumulative 20%.	17,640,000	17,640,000	0	Out of the UGX17,696,475,436 spent, UGX4,696,369,188 was diverted to pay road project in Mubende-Kakumiro which constitutes 26.5% diversion of project fund to another project.
1040 Design Kapchorwa-Suam road (77km)	045171 Acquisition of Land by	Procure RAP implementation consultant and pay	2,200,000	50,000	2,150,000	UNRA spent UGX50,000,000 on this project but about 15% was diverted and paid

	Government	advance				to SBI on the Mukono-Kalagi road project.
1041 Design Kyenjojo-Hoima-Masindi-Kigumba (238km)	045171 Acquisition of Land by Government	300 hectares of land and properties therein acquired	9,000,000	9,000,000	0	Out of the UGX8,989,289,832 spent, UGX5,171,679,446 was diverted for paying other road project IPCs and allowances/facilitations. This constituted a diversion of 57%
	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	Kigumba- Bulima (20%) and Bulima- Kabwoya (35%) works completed	20,250,000	20,250,000	0	Detailed review of these payments shows that UGX10,925,973,843 was diverted to pay IPCs under Mukono-Kalagi project, UGX695,428,932 was diverted to pay other IPCs including Mubende-Kakumiro project. The total diversion was UGX11,621,402,775 constituting 57%.
1042 Design Nyendo - Sembabule (48km)	045171 Acquisition of Land by Government	100 hectares of land and property therein acquired	4,500,000	4,500,000	0	Some of the payments indicated as land were actually not land but facilitation and other costs worth UGX324,608,977.
1044 Design Ishaka-Kagamba (35km)	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	70% completed of works on Kashenyi - Mitooma section completed.	18,000,000,000	18,000,000,000	0	UNRA paid a total UGX20,615,234,218 under the project and excess expenditure was UGX2,615,234,218 which is 15% more than the approved budget.
1056 Transport Corridor Project	045171 Acquisition of Land by Government	50 hectares and properties therein procured comprising Kampala-Masaka	50,670,000	11,000,000	39,670,000	UNRA spent UGX 11,000,000,000 under the project of which UGX1,693,836,092 was diverted to other recurrent

		road (30h), Masaka-Mbarara road (10h) and Busega-Mi tyana road (10h)				expenses like allowances, fuel and others	
	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	various roads	204,918,319	204,918,319	0	UNRA spent a total of UGX210,083,643,292 more than the approved budget provision by UGX5,165,323,871.	
1104 Selected (BADEA)	Construct Bridges	041574 Major Bridges	various bridges	35,874,000	10,000,000	25,874,000	UNRA spent UGX10, 931,990,723 more than the funds released for the project by UGX931, 990,723. The extra funds spent may have been diverted from other projects.
1176 Wanseko (83Km)	Hoima- Road	045171 Acquisition of Land by Government	50 hectares of land acquired for Hoima - Butiaba - Wanseko road. 50 hectares of land acquired for Soroti - Katakwi -	5,000,000	165,000	4,835,000	Only 3.3% of funds for the project was released.
	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	various roads	4,000,000	0	(4,000,000,)	No funds were released for this project. The procurement for the contractor is still ongoing. The first procurement was cancelled because the best evaluated bidder asked for lot of money which UNRA could not afford.	
1180 Entebbe Highway	Kampala Express	045171 Acquisition of Land by Government	160 hectares and properties therein procured.	160,522,300	160,522,300	0	UNRA spent UGX158,447,037,056 under the land acquisition on project. Further tests also reveal that

						UGX24,367,435,461 was diverted from Land acquisition on Kla_Ebb expressway to pay Road works under Mukono-Kalagi (UGX 15,322,897,361) and Land Property Compensations (LPCs) on Busega-Nsangi (UGX9,044,538,100).
	045180 National Road Construction/ Rehabilitation (Bitumen Standard)	30% completed, cumulative 90%	63,000,000	54,124,033	8,875,966	The project was underfunded by UGX8, 875,966,783 which constitutes 14% of the project not funded. UNRA diverted UGX3, 915,118,525 out of the funds under the project to pay other projects like Mukono-Kalagi, Kirandongo and other facilitation allowances.

APPENDIX 2

FINANCIAL STATEMENTS