

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE REGIONAL COMMUNICATIONS INFRASTRUCTURE PROGRAM (RCIP)-IDA LOAN
NO.5635-UG**

FOR THE YEAR ENDED 30TH JUNE 2018

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

| | |
|----------------|--|
| CAS | Country Assistance Strategy |
| GDP | Gross Domestic Product |
| GOU | Government of Uganda |
| ICT | Information Communication Technology |
| IDA | International Development Association |
| IESBA | International Ethics Standards Board for Accountants |
| INTOSAI | International Organization of Supreme Audit Institutions |
| ISSAIs | International Standards of Supreme Audit Institutions |
| MDAs | Ministries Departments and Agencies |
| NAA | National Audit Act |
| NDP | National Development Plan |
| NISF | National Information Security Framework |
| NITA U | National Information Technology Authority Uganda |
| PPDA | Public Procurement and Disposal Authority |
| RCIP | Regional Communication Infrastructure Program |
| RIAS | Regional Integration Assistance Strategy |
| UGX | Uganda Shilling |
| UN | United Nations |
| USD | United States Dollar |

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF THE REGIONAL COMMUNICATIONS INFRASTRUCTURE PROGRAM (RCIP)-IDA LOAN NO.5635-UG FOR THE YEAR ENDED 30TH JUNE, 2018 AND COMPLIANCE MATTERS
THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Regional Communication Infrastructure Program (RCIP)-IDA Loan NO.56350-UG for the year ended 30th June, 2018. These financial statements comprise of Statement of receipts and payments, Statement of Fund Balance, Statement of Cash flows, Statement of comparison of budget and actual amounts, Designated Account Activity Statement and Notes to the accounts which contain a summary of significant accounting policies.

In my opinion, the Project financial statements present fairly in all material respects, the fund balances of the Regional Communication Infrastructure Program-IDA Loan NO.5635-UG for the year ended 30th June, 2018 and the receipts and payments for the year then ended in accordance with the accounting policies stated under note 8 on pages 15 to 20 of the financial statements.

Basis of Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Project in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), 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.

I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Project Management is responsible for the other information. The other information comprises the general information about the reporting entity and RCIP, as well as the statement of management's responsibilities, but does not include the financial statements and my auditors' opinion thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Other Matter

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

- **Project Revenue Performance**

Whereas an amount of UGX.36,253,256,188 was budgeted to be received as revenue during the year under review, only UGX.24,587,323,987 was actually received during the year, resulting into a funding gap of UGX.11,665,932,201 (32%) as detailed in the table below;

Table showing revenue budget performance

| | Approved budget (UGX) | Release for the period (UGX) | Variance (UGX) | Funding gap percentage |
|--------------|------------------------------|-------------------------------------|-----------------------|-------------------------------|
| GOU | 1,914,479,000 | 1,372,858,623 | 541,620,377 | 28% |
| Donor | 34,338,777,188 | 23,214,465,364 | 11,124,311,824 | 32% |
| TOTAL | 36,253,256,188 | 24,587,323,987 | 11,665,932,201 | 32% |

Source: RCIP financial Statements as at 30th June, 2018, NITA U financial statements as at 30th June, 2018, NITA U Approved estimates for FY 2017/2018

Management attributed this to delayed uptake of previous funds disbursed to the project. Failure to receive all the budgeted funds can affect the implementation pace of planned activities which may lead to a delay in attainment of the project objectives.

The Accounting Officer in his response pledged that management was to engage the responsible stakeholders to ensure that funds are released as budgeted.

I advised the Accounting Officer to expedite this action so as to ensure that funds planned for are received on time.

- **Low level of Funds Absorption**

During the audit, I noted that the project had a total of USD.16,421,619 available for utilization on various project activities during the period as shown in the table below;

Table showing absorption of available funds during the year 2017/2018

| Details | Amounts (USD) | | |
|---|-------------------|----------------|-------------------|
| | IDA | GOU | TOTALS |
| Balances B/F as at 1/7/18 (A) | 9,769,194 | - | 9,769,194 |
| Amount released in 2017/18 (B) | 6,274,112 | 378,313 | 6,652,425 |
| Total funds available (C=A+B) | 16,043,306 | 378,313 | 16,421,619 |
| Amount utilized during 2017/18 (D) | 6,772,961 | 378,313 | 7,151,274 |
| Balances c/f 30/6/2018 (E=C-D) | 9,270,345 | - | 9,270,345 |
| Percentage utilization of available funds (F=D/C) | 42% | 100% | 44% |

Source: RCIP financial Statements as at 30th June, 2018 and work plans for the FY 2017/18

However, only USD.7,151,274 was utilized during FY 2017/2018 leaving an outstanding balance of USD.9,270,344.82 unspent (representing about 44% of the available resources). Underutilization of funds affects project progress and as such deprives intended end-users of the services. Furthermore it may lead to diversion of project funds to non-project related activities.

A further analysis of project implementation through a three year period (2016-2018), revealed that there has been a slow pace of implementation of the project activities given the level of absorption as shown in the table below;

Table showing RCIP Financial Performance as at 30th June 2018

| | DETAIL | IDA (USD) | GOU (USD) | TOTAL (USD) |
|----------|--|------------|------------|-------------|
| A | Total Project funding | 75,000,000 | 10,000,000 | 85,000,000 |
| B | Cumulative expenditure to FY 2016/17 | 619,838 | 164,918 | 784,756 |
| C | Approved budget for FY 2017/18 | 9,255,734 | 534,696 | 9,790,430 |
| D | Budget Absorption in FY 2017/18 | 6,772,939 | 378,313 | 7,151,274 |
| E | Remaining Budget provision FY 2017/18 (E=C-D) | 2,482,795 | 156,383 | 2,639,178 |
| F | Remaining budget provision for life of the project (F=A-B-D) | 67,607,223 | 9,456,769 | 77,063,992 |
| G | Project Budget Utilization (B+D)/A*100 | 10% | 5% | 9% |

Source: RCIP financial Statements as at 30th June, 2018 and NITA-U RCIP Annual performance report 2017/2018.

The low funds absorption capacity has in turn greatly affected the project implementation pace, leading to delays in achieving project objectives. Management attributed this to delays in procurement processes which involve long turn around periods for approval, longer times for importing equipment (cloud) or greater than anticipated complexity in procurement as well as slow commencement of key project activities.

Management further explained that efforts were made to engage World Bank to resolve procurement delays.

I advised Management to devise measures to ensure timely utilization of project funds for planned activities.

Management Responsibilities for the Financial Statements

The Accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Public Finance Management Act, 2015 and IDA Project Funding Guidelines, and for such internal controls 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 Project'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 the Project's management either intend to liquidate the Project or to cease operations, or have no realistic alternative but to do so.

Auditor General'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 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 judgement 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 my 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 the 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 Company'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 Company 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 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 them 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 Responsibilities

In accordance with Section 19(1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements, that;

- Except for the matter raised in the compliance with legislation section below, and whose effect has been considered in forming my opinion on financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

In accordance with Section 13 of the NAA 2008, I have a responsibility to report material findings on the compliance of Project management with specific matters in key legislations. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Inadequacy in staffing - Failure to Engage a Project Accountant**

Clause 1.1.5 version 0.21 of the Project Implementation Manual 2016 requires that a Project Accountant experienced in Bank financial management will be recruited not later than six (6) months after the project effective date to support the existing staff.

Audit revealed that management had not recruited a project accountant following the resignation of the previous accountant in February, 2018. The role of project accountant was undertaken by other finance staff of NITA-Uganda which compromised on the implementation plans, as they had to split between the project and the Authority activities. This partly explains the delayed implementation of several planned activities.

Management explained that the recruitment process of the project accountant is in progress, although it had delayed due to long approval processes. Management further explained that the Project Accountant is now expected by 1st January, 2019.

I advised Management to expedite the recruitment process of the project accountant so as to have the position filled without further delay.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA

22nd November, 2018

REPORT OF THE AUDITOR GENERAL ON THE DESIGNATED ACCOUNT ACTIVITY STATEMENT OF THE REGIONAL COMMUNICATIONS INFRASTRUCTURE PROGRAM (RCIP) – IDA LOAN NO.5635 – UG FOR THE YEAR ENDED 30th JUNE 2018

Opinion

I have audited the accompanying Designated Account Activity Statement of the Regional Communications Infrastructure Program (RCIP)-IDA Loan NO.5635-UG for the year ended 30th June, 2018.

In my opinion, Programme management complied in all material respects with loan rules and procedures and the Designated Account Activity Statement for the Regional Communications Infrastructure Program (RCIP)-IDA Loan NO.5635-UG presents fairly in all material respects the accounts transactions and the closing balances as at 30th June, 2018.

Management Responsibility for the Special Account Statement

Project management is responsible for preparation of the Designated Account Activity statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations, and loan (IDA) guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the Designated Account Activity statement based on my audit.

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and IDA guidelines on auditing. Those standards and the loan guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the special account statement is free from material misstatement. I believe that the audit evidence I have obtained provides a reasonable basis for my opinion.

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

John F.S. Muwanga
AUDITOR GENERAL
22nd November, 2018.