



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAM –
PROJECT 3 (CAIP-3 – ADB) – MINISTRY OF LOCAL GOVERNMENT
FOR THE YEAR ENDED 30TH JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

ADB	African Development Bank
CAIIP	Community Agricultural Infrastructure Improvement Programme
GOU	Government of Uganda
IDB	Islamic Development Bank
SDR	Special Drawing Rights
UA	Unit of Account
UG	Uganda
UGX	Uganda Shillings
USD	United States Dollar

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAM -
PROJECT 3 (CAIIP-3) ADB LOAN NO 2100150024294 AND IDB LOAN UG0081 FOR
THE FINANCIAL YEAR ENDED 30TH JUNE 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Community Agricultural Infrastructure Improvement Program - Project 3 (CAIIP-3) for the year ended 30th June 2018. The financial statements set out on pages 13 to 29 comprise of;

- Statement of receipts and payments
- Statement of fund balance
- Statement of cash flows
- Statement of special designated Account Activity
- Notes to the financial statements including a summary of accounting policies used.

In my opinion, the project financial statements present fairly in all material respects the financial position of the Community Agricultural Infrastructure Improvement Program - Project 3 (CAIIP-3) component for the year ended 30th June 2018 and the receipts and payments for the period then ended in accordance with the ADB and IDB guidelines and the basis of accounting described in 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 statement's 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 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 Matter

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 to be key audit matters communicated in my report.

- **Implementation of Budget approved by Parliament**

Section 45 (3) of the Public Finance Management Act, 2015 states that “ An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under section 13 (15)” of the said Act.

It has been observed over years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery. Planning, budgeting and implementation of planned activities was taken as a thematic area during the audit.

In the overall office wide planning, I assessed risks such as inadequate release of funds and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities.

Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing

consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

Based on the procedures performed, I observed that the project approved budget was UGX.34,454,313,500, and actual release amounted to only UGX.30,382,621,139. Out of the funds released, UGX.30,382,621,139 was spent leaving an unspent balance of UGX.189,412,266.

In implementing the project objective of enhancing farmers' access to markets, attracting competitive prices and increasing household incomes through investments in rural infrastructure and their sustainable management by mobilising communities, Project management implemented a number of planned activities during the year. Implemented activities included; construction of 2922.7km (2,547.5km under AFDB Loan and 375.2km under the IsDB loan), procuring and installing 79 assorted Agricultural Processing Facilities (2 rice hullers, 30 maize mills, 33 coffee hullers and 14 milk coolers), and providing employment to 210 people.

However, I noted that some of the planned activities such as construction work in western region, provision of grid power to 2 Agricultural Processing Facilities (APF), installation of meters to 18 APFs and operationalization of the APFS were not implemented which has impacted on the achievement of CAIIP III project objectives. **Appendix 1** shows the status of implementation of planned activities, and the related Management responses.

I advised the accounting Officer to follow up on the incomplete works such as power connection to APFs so as to fully achieve the objectives of the project.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters described in notes 6.10 of the financial statements.

- **Accumulated VAT arrears**

According to the Circular issued by MoFPED to Accounting Officers dated 7th August 2017, donor funded projects were required to budget for VAT arrears accumulated prior to 1st July 2017 and settle the VAT due to the contractors.

I noted that the project had outstanding VAT arrears of UGX.18.3 bn accumulated prior to 1st July 2017 that had not yet been settled. Of this, UGX.16.8 bn relates to contracts under ADB funding and UGX.1.5 bn to contracts under IsDB funding. Failure to pay VAT /taxes attracts penalties and interest which may adversely affect the operations of the entity as funds have to be diverted from core activities to settle the tax obligations.

The Accounting Officer explained that ministerial budget ceiling for the financial year was only UGX15.8 bn which was too low to accommodate all the arrears. The Accounting Officer further explained that a request was submitted to the Ministry of Finance for additional funding to clear the arrears upon which verification was commissioned before the funds are released. The Ministry was still awaiting the outcome of the verification.

I advised the Accounting officer to refer to the PS/ST circular on taxes relating to Development Partner funded Projects so as to ensure that this liability is addressed in line with the circular.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover other information and I do not express an audit opinion or 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 consistent 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.

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 Community Agricultural Infrastructure Improvement Program - Project 3.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, IDB/IDB guidelines and the basis of accounting described the financial statements, 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 Project's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Community Agricultural Infrastructure Improvement Program - Project 3 , and using the ADB/IDB Guidelines unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Project'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 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 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.
- 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.

Other Reporting Responsibilities

In accordance with sections 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 matters raised in the compliance with legislation and funding requirements section below, and whose effect has been considered in forming my opinion on the 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 COMPLIANCE WITH LEGISLATION AND FUNDING REQUIREMENTS

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

- **Performance as per Logical Framework**

According to the Project Completion report (March 2018), the project achieved substantially all project targets by the time of project closure. It was also noted that the project promoted value addition to primary agricultural products through provision of Agro processing facilities and improved storage and marketing by constructing bulk marketing centers/stores. Furthermore the project has recorded improvement in farmers' access to markets.

However, I reviewed the internal audit report, project completion reports and conducted field inspections and noted that there were incomplete road works and un-commissioned

project facilities due to lack of power installations, operational challenges affecting agro-processing facilities and insufficient funds for road maintenance. Details are shown in **Appendix 2.**

The inadequate maintenance of roads and non-functional agro-processing facilities casts doubts to the sustainability of the project after closure and affects delivery of the intended objectives.

The Accounting Office explained that;

- It was true that at the time of the inspection some of the works were incomplete. However, the works have since been completed and handed over to the recipient districts for operation and maintenance.
- Training of key stakeholders was undertaken shortly before project closure to ensure sustainability and proper maintenance of the facilities. The training undertaken focused on warehouse receipt system, export promotion, creating linkages for sustainability, management, resource mobilization and leadership in cooperatives.
- In regard to power connection to Bwesumbu APF in Kasese District, the Ministry was denied access to the Kasese Cobalt Company Ltd line which had earlier been envisaged as the grid source to the APF. Due to the Project closure in December 2017, alternative energy sources could not be provided but the district has taken it up with the Rural Electrification Agency (REA). The surveys were done and works are expected to start in October 2018.

I advised the Accounting Officer to ensure that the deficiencies identified on the audit inspection are addressed.



John F.S. Muwanga

AUDITOR GENERAL

20th December, 2018

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNTS OPERATIONS OF
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-
PROJECT III (CAIIP III) ADB LOAN NO 2100150024294 AND IDB LOAN. UG0081
FOR THE YEAR ENDED 30TH JUNE 2018**

Opinion

I have audited the Special Accounts Statements of the Community Agricultural Infrastructure Improvement Programme-Project III, (CAIIP III) ADB Loan No. 2100150024294 and IDB Loan NO.UG0081 for the year ended 30th June 2018 which are set out on pages 19 and 20 of the financial statements respectively.

In my opinion, Programme Management complied in all material respects with loan rules and procedures and the Special Accounts Statements for the Community Agricultural Infrastructure Improvement Programme-Project (CAIIP III) ADB LOAN No. 2100150024294 and IDB Loan NO.UG0081 present 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 special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations, and loan (ADF and IsDB) guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the special account statement based on my audit. I conducted my audit in accordance with ISSAIs and the ADB and IsDB guidelines. 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 'John F.S. Muwanga', with a long horizontal flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

20th December 2018

**REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL OF
COMMUNITY AGRICULTURAL INFRASTRUCTURE IMPROVEMENT PROGRAMME-
PROJECT III (CAIIP III) - ADB LOAN NO 2100150024294 AND IDB LOAN UG0081
STRUCTURE FOR THE YEAR ENDED 30TH JUNE 2018**

Opinion

I have audited the financial statements of the Community Agricultural Infrastructure Improvement Programme-Project III (CAIIP III) ADB Loan No.2100150024294 and IDB Loan NO.UG0081, and reviewed the Internal Control procedures relevant to generation of accounting information presented in the financial statements, and those relevant to control over programme finances and the safeguard of its assets. I obtained all the information and explanation I considered necessary for the audit.

In my opinion, Programme Management maintained an adequate internal control system for the preparation of reliable financial statements, control over finances and safeguard of the programme assets during the year ended 30th June 2018.

Management Responsibility

Project management is responsible for preparation of the special account statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations and IDB/ADB 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 examination was made in accordance with ISSAIs and accordingly included such tests of the accounting records, verification of assets and liabilities and such other auditing procedures I considered necessary in the circumstances.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories:-

- Control over preparation of withdrawal applications for funds from the project account
- Bank and cash Purchases and payments,
- Monitoring, evaluation and reporting.

For all the internal control structure categories listed above, I obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation and I assessed control risk. I believe that the audit 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

KAMPALA

20th December, 2018

Appendix 1-Budget performance

Component	Category	Activity task	Indicator/ Target	Budget (UGX)	Actual Released (UGX)	Actual outputs as per management	Audit remarks	Management response
Rural Infrastructure Component	Civil Works	Rehabilitation of Community Access Roads, Extension of Grid to APFs, Construction of APF Shelters	Handover of CARS	19,679,134,485	17,585,208,768	Grid extended to 100 Km 77 APFs and 2 Bulk Stores completed, 70Km of additional CARS completed , 2775 Km of CARS completed and handed over	<ul style="list-style-type: none"> Construction works not yet completed grid power was is not yet connected to 2 APFs. 18 APF have no meters installed 	All targets met
Goods	Delivery and installation of 79 assorted Agro-processing facilities	50% payment upon testing & commissioning	50% payment upon testing & commissioning	8,499,886,076	8,127,004,443	77 APFs installed, tested and handed over	<ul style="list-style-type: none"> 61 APFs have energy installed and only 75% are operational 	All equipment installed
Supervision and monitoring	Supervision of rehabilitation of community access roads	100% of complete works	100% of complete works	417,760,000	355,407,000	Supervised 375 Km of CARS for IsDB	<ul style="list-style-type: none"> Work completed 	Roads completed and handed over
	Field travel expenses for monitoring and Supervision of works	Monitoring and supervision Progress Reports	Monitoring and supervision Progress Reports	632,000,000	575,734,063	Supervised all project investments		All investments supervised
Training and Capacity Building	Facilitate training of cooperatives and District Technical Teams on APF management and sustainability	Training reports	PFT & Districts	80,000,000	80,000,000	Training	<ul style="list-style-type: none"> Training not yet completed 	Training has now been completed

APPENDIX 2

Activity	Target	Achieved	%age achieved	Audit Remarks
Rehabilitation /construction of Community Access Roads	2,845Km ¹ (2470Km funded by AfDB and 375Km by IDB)	2922.7	102.7%	All completed roads were handed over to the respective LGs for use and maintenance. However noted during inspection that routine maintenance was still a major problem especially in Bundibugyo district arising from inadequate supervision
Construction of APF shelters and produce stores	72 APF shelters and 5 bulk marketing centres	77	100%	The completed shelters now housing the APFs have been handed over save for the produce store in Bundibugyo which is not operational because it hasn't been handed over to the Cooperative union of the beneficiary community and another in Kasese due to Electricity connectivity challenges in the district.
Supply and installation of assorted APF machines	79	79 assorted APF machines	100%	The assorted APFs include; 33 coffee hullers, 14 milk coolers, 2 rice hullers and 30 maize mills
Extension of HEP grid to APF sites	58 APF sites	118Km	100%	Grid extended to provide the power source for the APFs save for the one in Kasese district that was not completed by the time of the inspection
Formation and training of Infrastructure Management Comittees		323 IMCs	100%	323IMCs were formed with 3,146 members of which 1,441 were women, and 1,705 men
Formation and training of Farmer Management Comittees (FMCs)		77 FMCs	100%	77 committees with a membership of 693 (231Females and 462Men) were formed and trained