



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
MARKETS AND AGRICULTURAL TRADE IMPROVEMENT PROGRAMME II (MATIP-II)  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

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## **LIST OF ACRONYMS**

ADB	African Development Bank
GOU	Government of Uganda
MATIP	Markets and Agricultural Improvement Programme
UG	Uganda
USD	United States Dollars
SHS	Uganda Shillings
ISA	International Standards on Auditing
ISSAIs	International Standards of Supreme Audit Institutions
IESBA	International Ethics Standards Board for Accountants
MOFPED	Ministry of Finance, Planning and Economic Development

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
MARKETS AND AGRICULTURAL TRADE IMPROVEMENT PROGRAMME II (MATIP-II) -  
ADB LOAN NO.2000130013632  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of the Markets and Agricultural Trade Improvement Programme II (MATIP II) for the year ended 30<sup>th</sup> June 2018. The financial statements set out on pages 11 to 19 comprise of;

- Statement of receipts and payments
- Statement of fund balance
- Statement of cash flows
- Statement of ADB special account movement
- Statement of ADB loan balances
- 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 performance of the Markets and Agricultural Trade Improvement Programme II (MATIP II) for the year ended 30<sup>th</sup> June 2018 and the receipts and payments for the period then ended in accordance with the Programme Funding guidelines and accounting policies stated on pages 19 and 20 under note 6 to 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 programme in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the

International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined that there are no Key Audit Matters to communicate 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 and budget implemented was taken as a thematic area of 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 approved Programme expenditure estimates for the financial year 2017/18 amounted to UGX.39,493,622,163. However, only UGX.22,152,720,840 was spent during the year, representing an absorption capacity of 56%.

In implementing the project objective of contributing to poverty reduction and economic growth in Uganda through enhanced commercialization of agricultural produce and other merchandise, management carried out construction of markets in Busia, Arua, Mbarara, Kasese, Soroti, Lopeduru, Masaka, Tororo, Kitooro, Lugazi and Kitgum.

However, I noted that some of the planned market construction at Masaka central market, Lugazi central market and Tororo main market were behind scheduled in terms of physical progress of works. **Appendix 1** shows the status of implementation of planned activities and the related management responses. Unimplemented activities imply that the expected service to the beneficiary communities is not fully attained.

The accounting Officer explained that the under absorption of the budget for the financial year was partly attributed to the lengthy procurement process for the contractors for the civil works. Over 90% of the budget was for advance payments to contractors but some opted not to request for it, while others, especially Joint Ventures were only able to receive the advance in the following financial year. The works are now progressing steadily and the Project activities will be implemented within the scheduled timelines.

I advised the Accounting Officer to ensure timely procurements and utilisation of budgeted funds. Adequate supervision of the projects should be undertaken in order to absorb all funds within the limited extended timeline.

### **Other Matter**

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

- **Construction of Markets**

From the review of the Programme Implementation Plan, I noted that the expected target of works at the close of the financial year was supposed to be at 15% of total works for all the markets. However the project progress report as at the 30<sup>th</sup> October 2018 indicated that the average physical progress of civil works stood at 20.1% for the ten Markets.

S/No.	Market Name	Time Progress (%)	Physical Progress (%)	Audit Remarks	Management Response
1	Lugazi Central Market	10%	1%	Contractor is behind schedule as per the work programme due to inadequate labor force on site and poor scheduling of activities	Following a Management meeting with the Contractor, requisite equipment, personnel and materials were mobilized and now works are on course with performance expected to improve tremendously.
2	Kitoro Market	20%	10%	Works behind schedule due to initial slow start, However progress on ground to date is promising.	The initial activities involving mobilization, site establishment, sourcing, testing and approval of construction materials which consume initial construction period have very minimal impact on physical progress.
3	Tororo Main Market	20%	4%	Contractor is behind schedule due to massive excavation of the entire market site but has put in place measures to catch up by accelerating works	The initial excavation was completed and the works are now at super structure level. The contractor has deployed extensively and works are on course.
4	Busia Main Market	10%	10%	The contractor is behind schedule.	There were delays in mobilization by the contractor which included setting up the site and acquiring key equipment. The site is now set and it's expected to catch up with lost time.
5	Kasese Central Market	17.9%	10.79%	Works are behind schedule as per the programme, but there is good progress on ground	On course
6	Masaka Central Market	20%	4%	Project is behind schedule due to delayed implementation which has been mainly caused	Contractor has been summoned to fully mobilise and a Management meeting with

S/No.	Market Name	Time Progress (%)	Physical Progress (%)	Audit Remarks	Management Response
				by heavy rains and inadequate working space (site is constrained).	the contractor is planned for early November 2018.
7	Mbarara Main Market	20%	14%	Implementation of the project is behind schedule due to heavy rains, Inadequate site space which requires rotations of works and delays in supply of sand since sand was changed into a mineral.	On course
8	Lopeduru Market	10%	10%	The contractor is behind schedule	Performance has improved following the completion of the mobilization activities which had stalled progress.
9	Soroti Main Market	20%	15%	Construction works behind schedule due to the initial slow start	Mobilization activities are complete and works are expected to improve
10	Arua Main Market	20%	12%	Works are behind schedule due to initial slow start, However progress on ground to date is promising.	Contractor faced delays in payments due to inconsistencies in Bank Account details but is now on course.

The markets may not be completed within the project period resulting into additional costs such as supervision and monitoring.

The Accounting Officer explained that physical progress for the civil works was behind schedule as at the end of the financial year as stated due to the lengthy procurement process for the contractors. Whereas the plan was to have the process completed by October 2017, it was not completed until February 2018 for 7 markets and April 2018 for 3 markets. The mobilization and site clearance were the major activities which had significant effects on the overall physical progress.

I advised the Accounting Officer to intensify on supervision and monitoring to ensure that project implementation is fully undertaken within the agreed timelines.

- **Diversion of Programme Funds: UGX.127,538,713**

It was also noted that GOU counterpart funding amounting to UGX.127,538,713 was diverted by the Ministry to fund non-project activities such as monitoring and supervision of CAIIP 3 programmes and other Ministry activities. Diversion of funds has a direct impact on successful implementation of project activities and affects the timelines of the project and the overall objective. This may result into additional costs such as increased supervision and monitoring allowances, salaries, consultancy fees and fuel which would have been avoided.

I advised the Accounting Officer to implement activities according to the planned work plan. Diverted funds should be refunded to the project.

### **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 the 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 Markets and Agricultural Trade Improvement Project II (MATIP-II).

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, ADB guidelines and the basis of accounting described in note 6.6 to 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 Programme's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Markets and Agricultural Trade Improvement Programme II (MATIP-II), and using the ADB Guidelines unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Programme'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 Programme'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 Programme'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 Markets and Agricultural Trade Improvement Programme II (MATIP-II) 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.

### **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;

- **Shortfall in GOU counterpart funding**

According to the programme appraisal document and Financing Agreement, GOU was to contribute 10.3% as counterpart funding to support the project activities in addition to paying for VAT in each financial year.

I noted that a sum of UGX.2,818,398,331 was budgeted as GOU counterpart funding. However UGX.1,084,180,000 was released resulting into a shortfall of UGX.1,734,218,331 (62%). Failure to provide counterpart funding as budgeted for is a violation of the Programme Financing Agreement. Besides, underfunding hinders the smooth implementation of the programme activities.

Management explained that over 75% of the budgeted amount of UGX. 2.8 bn was for VAT arising on the contracts for civil works and consultancies. However, VAT on Aid Funded Projects for invoices dated effective 1<sup>st</sup> July 2017 was considered as deemed paid in line with the Government circular of August 17, 2017. The funds were therefore not allocated since the bulk of the budgeted amount was deemed paid.

I advised the Accounting Officer to liaise with MoFPED to ensure that counterpart funding obligations are fully met.

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

17<sup>th</sup> December, 2018

**REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL OF  
MARKETS AND AGRICULTURAL TRADE IMPROVEMENT PROJECT II (MATIP-II) ADB  
LOAN NO.2000130013632 FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**Opinion**

I have audited the financial statements of the Markets and Agricultural Trade Improvement Project II (MATIP II) ADF Loan No.2000130013632, 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 30<sup>th</sup> June 2018.

**Management Responsibility**

Management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgment are required to assess the expected benefits and related costs of internal control structure policies and procedures.

**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.

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

John F. S. Muwanga

**AUDITOR GENERAL**

KAMPALA

17<sup>th</sup> December 2018

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF  
THE MARKETS AND AGRICULTURAL TRADE IMPROVEMENT PROJECT II (MATIP-II)  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

**Opinion**

I have audited the special account statement of the Markets and Agricultural Trade Improvement Project II (MATIP II) ADF Loan No.2000130013632 for the year ended 30<sup>th</sup> June, 2018 which is set out on page 16 of the financial statements.

In my opinion, Project Management complied in all material respects with ADB rules and procedures and that the Special Account Statement for the Markets and Agricultural Trade Improvement Project II (MATIPII)-ADF loan no.2000130013632 for the year ended 30<sup>th</sup> June, 2018 presents fairly in all material respects the account transactions and the closing balance as at 30<sup>th</sup> 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 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 responsibility is to express an opinion on the Special Account Statement based on my audit. I conducted the audit in accordance with International Standards on Auditing and the ADB guidelines on auditing. Those standards and guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the Special Account statement is free from material misstatements. I believe that the audit provides a reasonable basis for my opinion.



John F. S. Muwanga

**AUDITOR GENERAL**

17<sup>th</sup> 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
Market Infrastructure Development	Civil Works	Construction of 11 markets - civil works and advance payments	15% of total works	35,100,000,000	18,077,452,036	Advance released for 5 of the 10 markets planned for construction. The rest claimed advance in the Following financial year after fulfilling bank terms and conditions for guarantees.	<ul style="list-style-type: none"> <li>15% of civil works was not reached.</li> <li>Management commenced construction of 10 markets out of the 11 planned markets</li> </ul>	Due to the lengthy procurement process, the funds were earmarked for advance payment to the contractors. The amount was for Mobilisation activities which had minimal effect on the Physical Progress.
	Designs & Supervision	Preparation of Designs and Supervision of civil works to 10% completion	Designs, Bids, Supervision and progress reports	2,050,000,000	1,878,735,978	Designs for 10 of the 11 markets completed. The 11 <sup>th</sup> Market, Kitgum Market was under procurement for a Design and Supervision Consultant.	<ul style="list-style-type: none"> <li>Ten out of the planned 11 market were designed</li> </ul>	The Consultant for Kitgum Market was procured after the completion of the process for the 10 markets. This is because it was a repeat procurement and therefore the designs were delivered later than the rest. However, the designs were completed and the Procurement for the Contractor is at final stages.
Capacity Building and Project Management	Knowledge Management	Documentation of case studies & Project documents	Reports	25,000,000	-	Physical Progress was Nil and therefore no documentation was done.	<ul style="list-style-type: none"> <li>Documentation was not done due to absence of physical progress</li> </ul>	The works intensified later in the following Financial Year.

Component	Category	Activity task	Indicator/ Target	Budget (UGX)	Actual Released (UGX)	Actual outputs as per management	Audit remarks	Management response
	Supervision & Monitoring	Routine support supervision and Monitoring by various stakeholders & PFT	1 visit per quarter	190,000,000	160,000,000	10 market sites handed over to contractors following the award of the contracts.	<ul style="list-style-type: none"> <li>Field visits per quarter were not conducted.</li> </ul>	Due to the lengthy procurement process, the Major activity was site handover and commissioning of sites since Works were minimal.
		Routine support supervision and Monitoring by PFT and stakeholders, ground breaking ceremonies	Monthly Monitoring and supervision reports				<ul style="list-style-type: none"> <li>Monthly supervision was not done as planned</li> </ul>	
		Facilitate supervision missions	Aide memoirs			Two Supervision Missions were fielded in the year.	<ul style="list-style-type: none"> <li>Two Supervision Missions were implemented</li> </ul>	
	Goods and Equipment	Procure office furniture	Furniture	170,000,000	-	Office Equipment not delivered	<ul style="list-style-type: none"> <li>Procurement of office furniture not done</li> </ul>	As at end of the Financial Year, the Procurement Process was still ongoing. The Equipment was delivered in the Following Financial Year and payment effected.
		Procure assorted computer equipment	Computers and Electronics				<ul style="list-style-type: none"> <li>Procurement of assorted computer equipment not done</li> </ul>	

