



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
URBAN MARKETS AND MARKETING DEVELOPMENT OF AGRICULTURAL
PRODUCTS FOR THE YEAR ENDED 30th JUNE, 2018**

OFFICE OF THE AUDITOR GENERAL
UGANDA

TABLE OF CONTENTS

LIST OF ACRONYMS	2
Opinion	3
Basis of Opinion	3
Key Audit Matters	4
• Implementation of Budget approved by Parliament.....	4
Emphasis of Matters.....	5
• Outstanding VAT arrears -UGX. UGX.6,184,417,820	5
• Diversion of project funds	6
Other Matter.....	6
• Delayed completion of additional civil works for Nyendo Market.....	6
Other Information	7
Responsibilities of the Accounting Officer for the Financial Statements	7
Auditor’s Responsibilities for the Audit of the Financial Statements.....	8
Other Reporting Responsibilities.....	9
REPORT ON COMPLIANCE WITH LEGISLATION AND FUNDING REQUIREMENTS	9
• Performance as per the logical framework.....	10
THE INTERNAL CONTROL STRUCTURE OF URBAN MARKETS AND MARKETING DEVELOPMENT OF AGRICULTURAL PRODUCTS PROJECT (UMMDAP)- BADEA LOAN No. 650	
Management Responsibility	12
Auditor’s Responsibility.....	12
THE SPECIAL ACCOUNT OPERATIONS OF URBAN MARKETS AND MARKETING DEVELOPMENT OF AGRICULTURAL PRODUCTS PROJECT (UMMDAP)- BADEA LOAN No. 650	14

LIST OF ACRONYMS

BADEA	Arab Bank for Economic Development in Africa
GoU	Government of Uganda
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
UGX	Uganda Shillings
UMMDAP	Urban Markets and Marketing Development of Agricultural Products Project
US \$	United States Dollar

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF URBAN
MARKETS AND MARKETING DEVELOPMENT OF AGRICULTURAL PRODUCTS
PROJECT BADEA LOAN NO. 650
FOR THE 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 Urban Markets and Marketing Development of Agricultural Products Project for the year ended 30th June, 2018. The financial statements set out on pages 10 to 20 comprise of;

- Statement of receipts and payments
- Statement of comparative budget and actual performance
- Statement of BADEA disbursements
- Statement of BADEA 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 Urban Markets and Marketing Development of Agricultural Products Project (UMMDAP) for the year ended 30th June 2018 and the receipts and payments for the period then ended in accordance with the BADEA guidelines and the cash basis of accounting described under note 6.1 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 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 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 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 an area of focus for 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 a total of UGX.8,643,060,906 was budgeted to cater for the project activities. However, by the close of the financial year, 43% of the approved budget, UGX.3,752,015,744 had been released resulting into a budget under release of UGX.4,891,045,162 (57%). Most affected was the civil works category that registered only 18% performance.

In implementing the project objective of enhancing and developing agricultural sector by providing an outlet for the agricultural products and availing opportunities for smallholder farmers, management implemented some of the planned activities during the year. Implemented activities included construction of 2 markets of Busega and Nyendo and supervision of works.

However, I noted that some of the planned activities such as completion of works that were varied , reviewing of market management guidelines, re-orientation of vendors on market management and carrying out a mini project impact study were not or were partially implemented, which is likely to impact on the achievement of the Project objectives.

The Accounting Officer explained that the procurement process for the additional works was completed in October 2017 and March 2018 for Busega and Nyendo respectively. Certifications for the works were done towards the end of the financial year and the payments made in the subsequent year. The additional works have since been completed in Busega. **Appendix 1** shows the status of implementation of planned activities and the related Management responses.

I advised the Accounting Officer to expedite the process of completing the unimplemented activities to avoid additional costs on supervision and monitoring.

Emphasis of Matters

Without qualifying my opinion, I draw your attention to the following matter reflected in note 6.9 of the financial statements.

- **Outstanding VAT arrears - UGX.6,184,417,820**

I noted that the project had outstanding VAT arrears payable of UGX.6,184,417,820 from the previous years as indicated in note 6.9 of liabilities as at 30th June 2018. Non-payment of VAT to contractors on civil works risks the project to unwarranted costs in form of litigation costs and interest as a result of delayed payment of VAT.

The Accounting Officer explained that the arrears outstanding at the end of the financial year were due to the limited budget ceiling of the Ministry to accommodate all the Project counterpart financing requirements. A follow up was made with MoFPED on the outstanding VAT however the Ministry instituted a verification exercise on domestic arrears which on completion, the funds for arrears will be released.

I await the outcome of the Accounting officer's efforts to have these arrears cleared.

- **Diversion of project funds**

According to the Provisions of the Loan Agreement, Government of Uganda (GOU) is required to contribute funds towards the implementation of Program activities.

A review of the project budget revealed that a total of UGX.2,723,280,481 was released as GOU counterpart funding during the year under review. I noted that out of the total GOU expenditure of UGX.2,704,617,855, a total of UGX.40,563,582 was diverted to fund non-project activities relating to the line Ministry activities and CAIIP III project. Such a practice undermines the full implementation of project activities.

Management explained that the funds were spent on project related activities which were crosscutting between the Project and the Ministry.

The Accounting Officer is advised to endeavor and implement activities according to work plans and also ensure that the diverted funds are refunded to the project.

Other Matter

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

- **Delayed completion of additional civil works for Nyendo Market**

The contract for construction of additional civil works for Nyendo market was signed between the Ministry and a contractor for a contract sum of UGX.2,595,508,780 on 15th March 2018. These works were supposed to be completed in three (3) months ending 15th June, 2018.

I carried out field inspections on 4th December 2018 and noted that additional works for Nyendo market had stalled as the contractor had abandoned the site in September, 2018 due to non-payment of certificate of works submitted in July 2018. Delayed civil works results into additional costs in form of supervision costs.

The Accounting Officer explained that there was delayed commencement of additional works on Nyendo market arising from failure by Government to avail funds to cover contractors' arrears. Part payment was made to the contractor and the works for

Nyendo Market are at 89% completion. There was also a re-scoping of the works which required more time specifically for approvals and the completion date which was revised to 30th November 2018.

I advised the Accounting Officer to continuously follow up with MoFPED so that project funds are released and received in time to ensure that project implementation is fully undertaken within the agreed timelines.

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 Urban Markets and Marketing Development of Agricultural Products Project.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, BADEA guidelines and the cash basis of accounting described in note 6.1.2 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 Project's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Urban Markets and Marketing Development of Agricultural Products Project, and using the BADEA 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. 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 Urban Markets and Marketing Development of Agricultural Products Project 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:

- **Performance as per the logical framework**

The Project commenced in 2015 with funding from the BADEA loan and is set to close on 31st October 2018.

An evaluation of the project performance to assess its achievements in line with the set objectives revealed delays in the implementation of some activities and inadequate effectiveness in the implementation of the project activities as shown in the table below;

_Component	Activity	Status update as June 30, 2018	Management Comments	Audit Remarks(Status at December 4, 2018)	Management Response
Market Infrastructure Development	Execute additional works for Nyendo Market comprising of the Bulk Agricultural Delivery and Auction Centre, shelters for matooke vendors and rain water harvesting facilities.	A contract (addendum) was signed for execution of additional works for Nyendo Market comprising of the Bulk Agricultural Delivery and Auction Centre, shelters for matooke vendors and rain water harvesting facilities. Works were executed up to 55% physical progress by the end of the reporting period.	Works are expected to be completed by 31st August 2018	From inspections carried out on 4/12/2018, I noted that additional works for Nyendo market had stalled as the contractor abandoned the site in September, 2018 due to non-payment of the certificate issued in July, 2018.	Nyendo is in final stages but will be completed by end of October 2018. Delays were partly due to nonpayment by Government but funds were partly availed and the works are on course
Program Management and Coordination	Monitoring construction of additional works on Busega Market Phase 1 and Nyendo Market	Monitoring of activities was carried out by PFT and other stakeholders	Activity was ongoing		
	Supervision, inspection and monitoring of on-going works in Busega and Nyendo markets	Supervision, inspection and monitoring of activities were done by the project manager and contract manager	Activity was ongoing		

Outstanding planned activities at the project completion date result into non-attainment of the project objectives and adversely affect service delivery to the intended beneficiaries.

The Accounting Officer explained that works on Busega market were substantially complete while Nyendo was in final stages and would be completed before end of 2018.

Delays were partly due to non-payment by Government. Funds were partly availed and the works are on course. All the project objectives would be achieved in the FY 2018/19 when Government releases the funds for completion of Busega Market.

An inspection of Nyendo market in December 2018 revealed that additional works for Nyendo market had stalled as the contractor abandoned the site in September, 2018 due to non-payment of the certificate issued. I advised the Accounting Officer to continuously follow up with MoFPED so that project funds are received in time to ensure that project implementation is fully undertaken within the agreed timelines.

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

17th December, 2018.

**REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL STRUCTURE OF
URBAN MARKETS AND MARKETING DEVELOPMENT OF AGRICULTURAL
PRODUCTS PROJECT (UMMDAP)- BADEA LOAN No. 650
FOR THE YEAR ENDED 30TH JUNE 2018**

Opinion

I have audited the financial statements of the Urban Markets and Marketing Development of Agricultural Products Project (UMMDAP)-BADEA LOAN NO. 650, 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, the 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

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 International Standards of Supreme Audit Institutions (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 initial 'J'.

John F. S. Muwanga

AUDITOR GENERAL

KAMPALA

17th December 2018

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT OPERATIONS OF
URBAN MARKETS AND MARKETING DEVELOPMENT OF AGRICULTURAL
PRODUCTS PROJECT (UMMDAP)- BADEA LOAN No. 650
FOR THE YEAR ENDED 30TH JUNE 2018**

Opinion

I have audited the special account statement of the Urban Markets and Marketing Development of Agricultural Products Project (UMMDAP)-BADEA LOAN NO. 650 for the year ended 30th June, 2018 which is set out on page 16 of the financial statements.

In my opinion, Project Management complied in all material respects with BADEA Loan rules and procedures and that the Special Account Statement for the Urban Markets and Marketing Development of Agricultural Products Project (UMMDAP)-BADEA LOAN NO. 650 for the year ended 30th June, 2018 presents fairly in all material respects the account transactions and the closing balance 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 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

17th December, 2018

Appendix 1 – Implementation of planned activities

Component	Category	Activity task	Indicator/ Target	Budget (UGX)	Actual Released (UGX)	Actual outputs as per management	Audit remarks	Management response
Civil Works and ancillaries	Civil Works	Completion of construction of two markets of Busega and Nyendo	10% of total value of works pending	8,098,280,000	3,546,275,270	Works completed on original contracts of Busega & Nyendo	Works completed but payments were not made.	Works were completed but there were delays in payments due to delayed billing.
		Provision for variations on ongoing works	100% of completion works			Additional works on both markets averaged at 55% and 80% for both markets	Additional works were not completed and paid	The variance was due to delays in the Procurement Process for the additional works valued at Ush 4.5 Bn. Process was completed and the Works are now over 90% complete.
Consultancy Services	Designs and Supervision	Design and supervision consultancies and final studies	%age completion	332,780,000	125,740,474	Supervised works to 55% and 80% completion on the Markets	Final studies were not carried out because of uncompleted works	Supervision costs were tagged to completion of works.
Programme Management and Coordination	Supervision and Monitoring	Review of market management guidelines and re-orientation of vendors on market management	Monitoring and supervision reports	50,000,000	0	Not undertaken	Review of market management guidelines and re-orientation of vendors on market management was not conducted	Activity not undertaken due to insufficient releases
	Knowledge Management	Carry out a mini project impact study	Report	50,000,000	0		A mini project impact study was not conducted	Activity not undertaken due to insufficient releases

