



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
ELECTRICITY REGULATORY AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2018.**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

Acronym	Meaning
ERA	Electricity Regulatory Authority
GOU	Government of Uganda
IAS	International Auditing Standards
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MDA	Ministry, Department, and other Agencies
PFMA	Public Finance Management Act, 2015
QOS	Quality of Service
UGX	Uganda Shillings

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ELECTRICITY REGULATORY AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Electricity Regulatory Authority for the year ended 30th June 2018. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies as set out on pages 34 to 58.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Electricity Regulatory Authority as at 30th June 2018, its financial performance and cash flows for the period then ended, in accordance with the International Financial Reporting Standards (IFRS) and Section 51 of the Public Finance Management Act, 2015.

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 Authority in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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

Other Matter

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

- **Nugatory Expenditure**

According to section 19 (1) of the Income Tax Act Chapter 320 (as amended), terminal benefits are taxable as income derived from employment and the paying party has the responsibility of declaring the benefits to Uganda Revenue Authority (URA), withholding tax on the benefits and remitting the tax to URA. Contrary to the provision of the Act, Electricity Regulatory Authority (ERA) failed to remit to URA Pay as You Earn (PAYE) on terminal benefits for employees who left the organization in the Financial Year 2015/16. Similarly, the Authority under declared the terminal benefits for the few employees for whom the benefits were declared to URA.

Consequently, management paid a penalty of UGX 108,389,948 to URA as a result of the non-remittance and the under declaration. The expenditure could have been avoided with proper adherence to the Income Tax Act.

Management explained that the irregularity was due to miscalculations of the PAYE due on gratuity at the time.

I advised management to ensure adequate adherence to statutory requirements as this would save the entity from unnecessary costs.

- **Prepayment Meter conversion targets of UMEME**

The Electricity Regulatory Authority is supposed to monitor the implementation of the 7 year Prepayment meter Roll-out Plan presented by UMEME Ltd. The Plan requires connection of a total of 863,000 customers both retrofitted and new customers from 2013 to 2018. UMEME's target is to have all domestic and small commercial installations

retrofitted by 2018 and the progress of conversion submitted to ERA through annual compliance reports.

Although the roll out had been on-going for five years, by September 2018 a total of actual conversion for retrofitted customers was 302,837(58%) out of the targeted 521,000. Audit further noted that in the Financial Year 2017/18, only 12,182 customers were converted to the pre-paid system compared to 44,633 customers in the previous financial year. Failure to meet the conversion targets has hindered UMEME from achieving the intended objectives of reducing losses, costs, as well as increasing connections and improving customer services.

Management explained that UMEME's underperformance was due to Government Ministries, Departments and Agencies (MDAs) which are not yet fully retrofitted including premises of Uganda Police, UPDF, Uganda Prisons and State House which have cited security reasons for not allowing UMEME staff to conduct the conversions.

I advised Management to engage the relevant agencies and UMEME to ensure that the objectives of the Prepayment meter Roll-out Plan are met.

- **Methodology for verifying costs**

Review of the performance assessment report of 2017/18, indicated that ERA had planned to develop a standard costing methodology for all investments. Best practice requires approval of the costs in line with the arms length Principle.

I observed that the development of the methodology on verification of costs had not been completed.

There is a risk of approving Investment costs that are not economical.

Management explained that the Authority was in the process of putting in place a standard costing methodology for accounting for already approved investments and planned to complete the activity in the Financial Year 2018/19.

I await the outcome of the management's action in this regard.

- **Energy losses in the service territories**

The Electricity Regulatory Authority allows a distribution energy loss of up to 20% for tariff recovery. However, I noted high energy losses above 20% in the various service territories namely; Kyegegwa Rural Electrification Cooperative Society (KRECS), UEDCL(Uganda Electricity Distribution Company Limited) Mid-west service territory, UEDCL South Service territory and Kilembe Investment Limited of 30%, 37%, 36% and 27% respectively.

This was attributed to both technical and commercial losses as a result of power theft or poor networks.

The energy losses result in high operational costs since the losses over and above the threshold will not be recovered through the tariff.

Management stated that due to sparse population of rural areas accompanied by minimal consumption level, power is moved for long distances with no effective demand and as a result, a lot of electrons are lost on the way.

I advised management to investigate further the causes of such high losses for the poor performing service providers and devise means to keep the losses to a minimum since the ceiling of 20% was determined as a policy measure.

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 Electricity Regulatory Authority.

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

In preparing the financial statements, the Accounting Officer is responsible for assessing the Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Electricity Regulatory Authority, and using the International Financial Reporting Standards and the Financial Reporting Guide, 2018, unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Authority's financial reporting process.

Auditor 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 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to deliver its mandate. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Electricity Regulatory Authority to fail to deliver its mandate.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Accounting Officer, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare

circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 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 THE AUDIT OF COMPLIANCE WITH LEGISLATION

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

- **Non-compliances to Quality of Standards by UMEME**

Section 10 (i) of the Electricity Act 1999, mandates ERA to develop and enforce performance standards for generation, transmission and distribution of electricity to protect the interests of consumers in respect to the quality and reliability of the electricity supply services. All licensees are required to report to ERA on a quarterly basis regarding their performance on the Quality of Service Standards (QOS) with regard to access to electricity supply, customer service and Network operation to ensure reliability of electricity supply.

However, UMEME recorded a declining performance over the year with connection periods going beyond the standard 10 days and service calls being answered beyond 30 seconds. The declining performance was attributed to inadequate stock of new connection materials and an increased traffic in the call centre due to the numerous breakdown of the current vending system.

ERA acknowledged the constraints and attributed them to a lack of penalty clauses for non-compliance with Quality of Service targets in the UMEME license.

I advised management to intensify monitoring and supervision of UMEME to so as to ensure adherence to the requirements of the license.

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

14th December 2018