



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**THE ELECTRICITY SECTOR DEVELOPMENT PROJECT (ESDP)**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

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## **LIST OF ACRONYMS**

<b>F/Y</b>	<b>Financial Year</b>
ESDP	Electricity Sector Development Project
GEF	Grant Environment Facility
GOU	Government of Uganda
IDA	International Development Agency
INTOSAI	International Organization of Supreme Audit Institution
ISSAI	International Standards of Supreme Audit Institution
MEMD	Ministry of Energy and Mineral Development
PFMA	Public Finance Management Act
UGX	Uganda Shillings

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS  
OF THE ELECTRICITY SECTOR DEVELOPMENT PROJECT (ESDP)  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

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

**REPORT ON THE AUDIT OF FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of ESDP for the year ending 30<sup>th</sup> June 2018. These financial statements comprise the Statement of Sources & Uses of Funds, the Statement of Fund Balance, and Special Account Reconciliation statement together with other accompanying statements, notes and accounting policies as set out on pages 7 to 12.

In my opinion, the financial statements of ESDP for the year ended 30<sup>th</sup> June 2018 are prepared, in all material respects in accordance with the cash basis of cash accounting and in conformity with the donor reporting guidelines and terms and conditions.

**Basis of Opinion**

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period.

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

### **Emphasis of Matter**

Without qualifying my opinion, I draw your attention to Note 5 in the financial statements.

- **Budget Shortfall**

A review of Note 5 to the financial statements indicated that out of the budgeted revenue receipts from World Bank of USD 4,926,295.9, only USD 1,800,000 (37%) was realized, resulting in a shortfall of USD 3,126,295.91 (63%). Additionally under GOU, out of the total approved budget of UGX 4,672,000,000, only UGX 3,408,990,000 (73%) was received resulting in a shortfall of UGX 1,263,010,000.

As a result, project activities such as household connections by UMEME were not completed. Out of 6,990 planned connections, 4,515 (65%) were undertaken, leaving pending connections of 1,533.

Management explained that the shortfall was mainly attributed to delayed implementation of the main contract for peri-urban electrification works hence performance certificates could not be issued to enable the World Bank release funds. They added that communications were since made to the contractor and significant progress of works has been registered.

I advised management to fast track the implementation of the main contract to enable timely release of funds by the World Bank. Additionally, management should liaise with the Ministry of Energy and Mineral Development (MEMD) and the Ministry of Finance on the GOU counterpart contribution.

### **Other Matter**

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

- **Unauthorised excess expenditure**

I noted from a review of the statement of sources and uses of funds that UGX 1,032,940,000 was spent over and above the budgeted amounts on specific items contrary to the established commitment control system that requires management to commit the entities where funding was appropriated and has been confirmed.

This was attributed to costs related to resettlement activities which were not included in the project work plan. Spending over and above budgeted items without authority is irregular and also affects the implementation of other budgeted amounts.

Management explained that the major variance was due to an unexpected training for one of the staff members and expenditure on unimplemented activities from the previous financial year.

I advised the Accounting officer to ensure that activities undertaken are in line with approved project budgets or else seek for authority to spend over and above the budget the budget line items.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the project manager 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 management is accountable to Parliament for the funds and resources of the Electricity Sector Development Project.

Management is also responsible for the preparation of financial statements in accordance with the cash basis of Accounting and in conformity with the donor reporting guidelines and terms and conditions, 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, management 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 Electricity Sector Development Project, and using the donor reporting 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 aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

I communicate with 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 them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Other Reporting Responsibilities**

In accordance with 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 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.

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

John F.S. Muwanga  
**AUDITOR GENERAL**