



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
KAMPALA SANITATION PROGRAM-(PHASE 1) - AFDB FUNDING
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

IESBA	International Ethics Standards Board for Accountants
CGV	Chief Government Valuer
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
KSP	Kampala Sanitation Program
LVP	Lake Victoria Protection Project
NAA	National Audit Act
NWSC	National Water and Sewerage Corporation
PAPs	Project Affected Persons
UGX	Uganda Shillings

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS
OF KAMPALA SANITATION PROGRAM PHASE 1-AFDB FUNDING
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 Kampala Sanitation Program Phase I - Lake Victoria Protection Project Phase II (KSP I – LVP II), implemented by National Water and Sewerage Corporation (NWSC), for the year ended 30th June 2018. These financial statements comprise the Statement of Financial Position as at 30th June 2018, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, accompanying schedules and a summary of significant accounting policies and other explanatory notes, as set out on pages 16 to 28.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kampala Sanitation Program Phase I - Lake Victoria Protection Project Phase II (KSP I - LVP II), as at 30th June 2018 and its financial performance and cash flows for the period then ended, in accordance with the requirements of the loan agreement between Africa Development Fund and the Government of Uganda and complies with the basis of accounting.

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 project in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act (NAA), 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.

Other Matter

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

- **Delay to pay contractors by GoU**

I noted a number of contractor invoices that had remained outstanding as at 30th June 2018. The overall outstanding amount was Euros 11,545,508.55 of which Euros 7,266,462.72 (equivalent to UGX.31,158,540,457) was due to Sogea-Satom for the Nakivubo - Kinawataka Sewer. The failure to pay certified invoices on time is likely to result in interest on contractual claims and affects contractors' cash flows.

I advised management to continue engaging the Ministry of Finance to settle the outstanding claims to avoid litigations from the contractor or suspension of works.

- **Impending Legal Suits on Disputed Compensation Offers/claims**

I noted from the Valuation report that the project had some disputed compensation offers with some of the Project Affected Persons (PAPs) having intentions to sue NWSC. The affected persons and the amounts claimed are highlighted below;

Name of affected Person	Location	Compensation by CGV (UGX)	Amount claimed by affected person (UGX)	Works status
Kiryia Hillary	Mutungo Zone 3	33,999,160	220,000,000	completed
Okeya Jude	Mutungo Zone 3	4,617,810	25,000,000	Works ongoing
Meera investments	Banda	77,000,000	1,150,856,789	completed
Total		115,616,970	1,395,856,789	

In the circumstances, the legal claims against NWSC for compensation could increase the project costs.

I advised management to engage the PAPs/claimants through the available grievance redress mechanism so that the issue is resolved and thus avoid litigations.

Other Information

Management is responsible for the other information. The other information comprises information included in the project report and background, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express 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 inconsistent with the financial statements or in 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.

Management Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of AfDB loan agreement, Government of Uganda counter funding guidelines and generally acceptable accounting principles, 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, selecting and applying appropriate accounting policies and making estimates that are reasonable in the circumstances.

In preparing the financial statements, management is responsible for assessing the project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

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 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 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 management 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 management 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 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

I report to you based on my audit, that:

- I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit;
- In my opinion proper books of account have been kept by the project, so far as appears from my examination of those books;
- The project complied fully with the AfDB funding terms and conditions and the other relevant laws of Uganda;
- The project maintains adequate internal controls; and
- The Financial Statements are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

12th December 2018