



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MBARARA-NKENDA AND TORORO-LIRA TRANSMISSION LINES PROJECT UNDER
ADF NO P-UG-FAO-004 FOR THE YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

Acronym	Meaning
ADB	African Development Bank
EPC	Engineering Procurement and Construction
F/Y	Financial Year
GOU	Government of Uganda
ISSAI	International Standards of Supreme Audit Institution
MOFPED	Ministry of Finance, Planning and Economic Development
PAPs	Project Affected Persons
PFMA	Public Finance Management Act
RAP	Resettlement Action Plan
RoW	Right of Way
UETCL	Uganda Electricity Transmission Company Ltd
UGX	Uganda Shillings
USD	United States Dollar

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THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Mbarara-Nkenda and Tororo-Lira Transmission Lines Project under ADF no P-UG-FA0-004 for the year ended 30th June 2018. These financial statements comprise of the statement of financial position and the statement of cash receipts and payments, together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Mbarara-Nkenda and Tororo-Lira Transmission Lines Project under ADF no P-UG_FA0-004 for the year ended 30th June 2018 are prepared, in all material respects, in accordance with the basis of accounting set out in note 3.2.2 to the financial statements 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 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.

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 3.2.12 in the financial statements.

- **Contract Cost Escalation**

Disclosed under Note 3.2.12 is a sum of USD 9,936,215.1 and UGX.5,076,700,788 relating to additional costs and interest charges claimed by the contractor. This resulted from standing time costs incurred by the contractor due to delayed acquisition of rights of way (ROW).

The Terms and Procedures of payments for both contracts states that payments shall be made within 45 days from the date of issue of each certificate for payment by the consultant and in the event that employer (UETCL) fails to make any payment by its respective due date, the entity shall pay to the contractor interest on the amount of such delayed payment at 0.50% per month (USD) and 1.50% per month (UGX) for the period of delay until payment has been made in full.

Audit noted that in several cases the actual payment date was later than the agreed timeline. The non-compliance with the payment terms and delayed acquisition of right of way, resulted into escalation of projects costs.

Management explained that they noted the delays that emerged in the processing of payments and had instituted corrective measures. The additional costs presented due to the right of way issues were being assessed and had asked the Contractor to avail supporting evidence for his claims in order to conclude their authentication and quantification.

I advised management to engage the relevant stakeholders especially the Office of the Solicitor General for guidance on acquisition of Right of way as a measure to mitigate escalation of project costs.

Other Matter

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

- **Delayed implementation of contracts**

On 29th November 2012, UETCL signed a contract to construct a 260 Km 132kV double circuit Tororo-Lira Transmission line. The contract had an 18 months implementation timeline with a contractual completion date of 25th July 2014.

I noted that the project had not been completed by the contractual date and was 51 months behind schedule by the time of the audit.

Additionally, On 29th November 2012, UETCL signed a contract to construct a 160 Km 132kV double circuit Mbarara-Nkenda Transmission line and associated substations. The contract had an 18 months implementation timeline with a contractual completion date of 8th September 2014. I also noted that the project had not been completed by the contractual date and was 50 months behind schedule by the time of the audit.

Failure to complete project implementation in time constrains achievement of the project objectives and leads to loss of benefits to intended beneficiaries.

Management attributed the delays to persistent right of way challenges in the project area, court injunctions and unresolved court cases that have restrained the contractor from proceeding with the works mainly for the Tororo-Lira transmission line. For Mbarara-Nkenda all the right of way issues were resolved and pre-commissioning of the completed segments of the line are under way.

I advised management to expedite compensations and intensify its engagement with the project affected Persons (PAPs) in consultation with the Solicitor General such that right of way is obtained to enable completion of the overhead Transmission Lines.

- **Supervising consultant cost escalations**

UETCL signed a contract with a consultant for Project management and supervision of Mbarara-Nkenda and Tororo-Lira Transmission lines. The contract had a 32 months implementation timeline/contractual completion date of 27th June 2013.

I noted that the initial contract amount was Euros 1,262,451 however due to EPC contractors' delays, numerous time and cost extensions were granted to the consultant. By the time of the audit, the contract value had increased to Euro.2,163,877 (a 72% increment) and a further financing of UGX3,019,220,561 from GOU

There is a risk that the cost for the supervising consultant could escalate further if the project is not fast tracked.

Management explained that extensions to the consultant's contract were necessary to maintain supervision of the works that were continuously delayed by the Right of Way (RoW) persistent and protracted challenges, however promised to fast-track necessary actions to ensure project completion.

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

- **Cancellation of loan by ADB**

On 13th May 2009, Government of Uganda entered into a loan agreement with African Development Bank to borrow UA 52,510,000 for implementation of Mbarara-Nkenda and Tororo-Lira power transmission lines project. The deadline for final disbursement of the loan was set at 31st December 2013.

However due to project delays, the lender (ADB) issued a notice of cancellation on the undisbursed loan balance as at 31st August 2018 after numerous extensions of disbursement deadlines. I noted that by the time of cancellation, only UA 43,238,375 (82%) had been disbursed at a time when works progress stood at 91% for Tororo-Lira and 97% for Mbarara-Nkenda, (94%).

Cancellation of the loan implies that the entity may not have funds to pay the contractors for the outstanding works and may further delay the project hence failing to achieve project objectives.

Management explained that they had requested Ministry of Finance, Planning and Economic Development (MoFPED) to appeal to the borrower for an extension of the deadline up-to December 31, 2018. Management indicated that they still await feedback on the matter.

I advised management to seek alternative financing from GOU in the meantime as they await the outcome of the financier's decision.

- **Delays in land transfer and titling process**

UETCL signed contracts for consultancy services for Resettlement Action Plan (RAP) in relation to the construction of 132KV transmission lines.

The consultants' specific objectives among others relating to the acquisition of the corridor for the transmission line include; processing land titles for the client for the right of way, registering easements for way leaves and return of residual land titles to the land owners.

I noted that the process has been characterized by various delays ranging from receipt of titles from the compensated PAPs, handover of the received titles to the consultants for transfer and titling, consultants delays to process the titles for the entity and handover of residual land titles back to the land owners as summarized in the table below.

Project	RAP Consultant	Expected Titles	Titles received from PAPs	Titles handed over to Consultant (NEK)	Titles returned to UETCL	Titles returned to PAPs
Tororo-Lira	Newplan	20	18	1	0	0
Mbarara-Nkenda	NEK Consults	53	32	24	6	3

Furthermore, no evidence of conversion of customary landholdings (which is held by majority of the PAPS) to free hold for onward transfer to UETCL was availed.

The delay in transferring freehold and conversion of customary land to freehold for onward transfer to UETCL exposes the entity to possible loss of land through encroachments. In addition, the delay in returning residual land titles to the land owners exacerbates the issues of PAPs rejecting compensations.

Management explained that it had engaged the Ministry of Lands and Urban Development, through the Ministry of Energy and Mineral Development, to expedite the processing and return of titles to their rightful owners especially those on Mbarara- Nkenda circuit.

In addition, management also piloted a consultancy to specifically handle the processing of titles for the cases of Project Affected Persons that have been compensated.

I await the outcome of management's actions.

- **Outstanding compensations to Project Affected Persons (PAPs)**

The UETCL financial policies and procedures manual Sec. 12.6.1 states that, before any project can commence, UETCL must first acquire the corridors and or sites required for the project, ensuring all occupants are adequately compensated and or resettled and have effectively vacated these sites.

I noted that from the inception of the compensation process in August 2011 until end of June 2018, only 5,899 PAPs out of 6,509 had been compensated leaving 610 PAPs (9.3%) uncompensated.

Failure to fully compensate PAPs impedes progress of construction of transmission lines.

Management is advised to continue and engage all stakeholders for an expeditious resolution of the disputes and challenges so as to accelerate the compensation process.

I advised management to expedite the compensation process so as to access the corridors and sites, to further avoid further project delays.

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 Mbarara-Nkenda Project.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of 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, 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 Mbarara-Nkenda Project, and using the donor reporting guidelines and terms and conditions 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 Mbarara-Nkenda 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:

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.



John F.S. Muwanga
AUDITOR GENERAL

14th December 2018

