



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
THE INTERCONNECTION OF ELECTRICAL GRIDS OF NILE EQUATORIAL LAKES  
COUNTRIES (NELSAP) UGANDA PART FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

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

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## **LIST OF ACRONYMS**

<b>Acronym</b>	<b>Meaning</b>
F/Y	Financial Year
GOU	Government of Uganda
ISSAI	International Standards of Supreme Audit Institution
MOFPED	Ministry of Finance, Planning and Economic Development
NELSAP	Interconnection of Electrical Grids of Nile Equatorial Lakes Countries
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 Interconnection of Electrical Grids of Nile Equatorial Lakes Countries (NELSAP) Uganda part for the year ended 30<sup>th</sup> 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 Interconnection of Electrical Grids of Nile Equatorial Lakes Countries (NELSAP) Uganda part for the year ended 30<sup>th</sup> 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 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.

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 4.3.9 and 4.3.11 in the financial statements.

- **Under absorption of Funds**

Disclosed under note 4.3.9 is an amount of USD.2,029,494 relating to Resettlement Action Plan(RAP) activities. It was noted that this amount remained unspent at the year end.

It was further noted, that by the final disbursement dates of December 2017 and 30<sup>th</sup> June 2018, the amounts of JPY 538,408,890 under the JICA Loan and UA 5,840,000,- Supplementary under ADF loan, had not been disbursement to the project. This was contrary to Section 2(2) and Section 5.02 of the JICA and ADF loan agreements respectively.

Management explained that the Contractors for Lot A and C under the project were terminated and as a result the funds could not be released within timelines of the financing agreements.

I advised management to ensure that construction works are expedited, to enable funds disbursement. Additionally management should expedite the process of compensating PAPs.

- **Receivables / Advance payments.**

Disclosed under note 4.3.11 is an amount of USD 981,333, which includes USD 231,330 and USD 255,110 relating to 20% advance payment made to contractors Jyoti structures limited and Insolux Ingenieria respectively.

It was noted that, at the time of termination of the contractors, UETCL had not recovered advance payments worth USD 486,440 despite the expiry of the advance payment securities. Failure to recover the advance payments may result into loss of project funds.

Management explained that the unrecovered advance will be offset from the contractors' retained funds.

Management is advised to ensure recovery of the advance payments made to the contractors.

### **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**

The objective of the NELSAP project is to improve access to electricity in the Nile Equatorial Lakes (NEL) countries through increased cross border sharing of energy and power. The project comprises;

- Construction of 220kV double circuit transmission line from Bujagali via Tororo substation to the Uganda/ Kenya -Lot A
- Construction of 220kV double circuit transmission line from Mbarara North substation in Uganda to the Rwanda border - Lot B
- Extension of sub stations at Tororo and New Mbarara - Lot C
- New 220/132/33kV substation at Mirama.

It was however noted, that with the exception of Lot B, most components of the project were not complete, irrespective of the numerous completion date extensions. The table below refers;

<b>Contract/Lot</b>	<b>Contractor</b>	<b>Date of commencement</b>	<b>Date of completion</b>	<b>No. of extensions</b>	<b>Overall Status of works%</b>	<b>Comment</b>
<b>Lot A</b>	Jyoti Structures Limited	12.07.2013	12.01.2015	10 (Ten)	88%	Contract terminated
<b>Lot B</b>	Jyoti Structures Limited	12.07.2013	12.01.2015	11 (Ten)	100%	Contract terminated
<b>Lot C</b>	Insolux Ingeneria S.A	19.08.2013	18.02.2015	9 (Nine)	84.4%	Contract terminated
<b>Supervising Engineer</b>	AECOM Consultants Inc.	8.11.2011	8.05.2014	7 (seven)	90.8%	Contractor rejected another extension

This was attributed to the failure to access Right of Way and the termination of contracts for Lot A and C.

Failure to complete the project within the contract period results into escalation of project costs and undermines achievement of the project goals outlined in the power purchasing agreements between Kenya, Uganda and Rwanda.

Management explained that the works were delayed due to right of way challenges and termination of contractors due to non-performance. The right of way issues were brought to the attention of Government and the Company was evaluating bids for completion of works.

Management is advised to ensure that contract work resumes and is expeditiously completed.

### **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 NELSAP 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 NELSAP 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 NELSAP 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.

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

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John F.S. Muwanga

**AUDITOR GENERAL**

17<sup>th</sup> December 2018