



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF UGANDA ELECTRICITY TRANSMISSION
COMPANY LIMITED FOR THE YEAR
ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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List of Acronyms

BEL	Bujagali Energy Limited
FPPM	Financial Policies and Procedures Manual
FY	Financial Year
IAS	International Accounting Standard
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
MDAs	Ministries, Departments and Agencies
UETCL	Uganda Electricity Transmission Company Limited
UGX	Uganda Shillings
WIP	Work in Progress

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS
OF UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED
FOR THE YEAR ENDED 30TH JUNE 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Uganda Electricity Transmission Company Limited (UETCL) for the year ending 30th June 2018. These financial statements comprise the Statement of Financial Position as at 30th June 2018, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 59.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Electricity Transmission Company Limited as at 30th June 2018, and of its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and the Company's Act, 2012.

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. 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.

- **Avoidable costs arising from delayed payment of suppliers**

I noted during audit planning that the entity had many suppliers for goods and services, with contracts stipulating payment of surcharges and interest in instances of payment beyond set timelines. The Financial Policies and Procedures Manual (FPPM) as well emphasises timely payments.

Consequently, the payments to suppliers was considered as a key audit matter because of the amounts involved. I needed to assess the timeliness in settling obligations, the surcharges levied and the adequacy of the internal controls surrounding payment of suppliers.

My audit procedures included a review of supplier contracts, analysing respective invoices and verifying payment timelines. The procedures also included testing whether suppliers were paid in accordance with the guidelines of the FPPM as well as contract terms.

Based on the procedures performed, I observed that payments amounting to UGX.1,563,157,283 to suppliers for both goods and services were made beyond the required timelines as per the guidelines of the Financial Policies and Procedures Manual (FPPM) as well as job contracts with suppliers.

Consequently UETCL incurred surcharges for delayed payments to Bujagali Energy Limited (BEL) amounting UGX.391,752,610. These costs would have been avoided had management complied with the policies in place as well as the contract terms with BEL. The late payments affect business relationships with suppliers. While surcharges lead to loss of funds which should have been used to finance other Company's activities.

Management acknowledged the anomaly and stated that the ability to settle BEL (major supplier) is dependent on timely receipts of funds from Umeme Limited. Equally, UETCL charged Umeme UGX 1.046 billion for delay to remit funds, which funds were used to settle BEL's surcharge. UETCL has also renegotiated to move the payment date from the 15th Day to the 20th Day to mitigate the charges with effect from July 2018.

I advised management to institute appropriate cash flow management measures geared towards timely settling its obligations in conformity with guidelines in the FPPM supplier contractual terms to avoid unnecessary costs.

- **Loss arising out of weaknesses in asset management**

I noted the importance of mitigating against vandalism. I therefore considered this to be a key audit matter because the amounts involved were material.

I assessed management's prudence in managing Company assets and I performed the following audit procedures, among others:

- Assessed whether the fixed assets were completely and accurately recorded in the financial system and whether they were still serving their intended purposes;
- Ascertained if depreciation/ amortisation/ impairment expense and gain/loss on disposal had been accurately calculated and appropriately disclosed; and
- Established whether the fixed assets were presented and all disclosures made in accordance with the Companies Act, 2012 and the relevant IASs.
- Checked whether an insurance claim was placed with the insurer for company compensation.

Based on the procedures performed, I noted that UETCL had procured a Tower Protection System at UGX.1,642,486,451 to curb vandalism of company assets. In addition, other parts worth UGX.337,967,755 were supplied to the company. The total cost of UGX1,980,454,206 was not capitalized. The equipment was vandalised one year after installation and was thereafter decommissioned. I noted that management didn't place a claim with the insurance company, yet the equipment was insured.

- **Deemed Energy purchases**

UETCL continues to pay high costs relating to deemed energy purchases, which was also reported in the previous audit reports. This aspect is also topical in the entity given the sums of money that has to be paid.

Consequently, the payment of deemed energy purchases was considered as a key audit matter. Therefore, I set out to establish the extent of deemed energy purchases and the trend. I performed the audit procedures below:

- Tested controls over recognition of deemed power purchase costs and evaluating the disclosures made by UETCL in this respect. I also tested the billings and reconciliation processes under the PPAs.

- Analysed PPAs with the highest level of deemed energy e.g. Elgon Siti and Hydromaxx and highlighting them for management action.
- Reviewed the statement of comprehensive income (Cost of Sales)

Based on the procedures performed, I noted that during the financial year under review, deemed energy purchases amounted to UGX.5,818,990,000, constituting 8.2% of the energy purchases for seven power purchase agreements. Although there was a reduction in deemed energy purchases compared to the FY 2016/17 where the cost was 34% it is worth noting that deemed energy purchases constrain funds available for working capital requirements and operations.

Management in response stated that deemed energy costs is a challenge to the energy sector especially where there is lack of local demand and weak evacuation networks for embedded power generators operated by distribution companies.

I advised management to engage the regulator and other sector players to address the infrastructural constraints in the transmission networks to ensure more power is evacuated, particularly for the PPAs with the highest level of deemed energy.

- **Increasing impairment and provisions for doubtful debts**

I noted during audit planning that the entity had an increasing provisions figure. This being a risky area, which is always prone to abuse, I considered it a key audit matter. Consequently I designed and undertook procedures, including:

- Reviewing documentation relating to the provisions for bad and doubtful debts.
- Testing controls over receivables by the company and compliance to procedures in place.
- Carrying out analytical review on the provisions.
- Reviewing steps taken by UETCL to recover debts, which have been provided for in the financial statements.
- Recalculating bad and doubtful debts in comparison to Company gross revenue

Based on the procedures performed, I noted that a provision for bad and doubtful debts amounting to UGX 87.9bn was made under Trade and other receivables. The balance brought forward from the financial year (2016/17) was UGX 49.2bn, implying an increase of 38.7bn (79%) in provisions, accounting for 23.2% of Trade receivables of UGX.378.1bn.

I noted that 74% of the provisions relate to Umeme. Under Section 5.3(d) of the Power Purchase Agreements, Umeme is allowed to withhold funds payable to UETCL for the Bulk Power Supply because of Government Ministries, Departments and Agencies (MDAs) failure to pay their electricity bills.

Analysis of the statement of comprehensive income for the Company indicated that bad and doubtful debts constituted 8% of the Gross Revenue, in which 6% was attributable to Umeme. The trend could negatively affect cash flows of the Company.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to Notes 18 to the financial statements;

- **Wayleaves included in Capital Work in Progress**

Included in the financial statements under Property, Plant and Equipment is a figure of UGX.1,657 billion relating to Capital Work in Progress (WIP). The figure comprises Wayleaves (Land and Easement) and related costs valued and paid for at UGX.291 billion and Feasibility studies for projects and EPC Works totalling UGX 1,367 billion. The Wayleaves for various transmission line projects have been cumulatively acquired over time from the year 2012 to 30th June 2018.

The classification of costs for the wayleaves and associated costs under Capital WIP is attributable to delayed demarcation, titling and valuation that involves apportionment of incidental costs which is only possible after the related projects are completed, whereupon correct transfers into wayleaves category would be effected.

The WIP, which accounts for 78.2% of the Net Carrying Amounts for UETCL, needs to be critically looked at, given that there is minimal movement from WIP to other classes on the Property, Plant and Equipment. In the year under review only UGX.64,086 million was reclassified (6 month ended 30th June 2017 – Nil). There is therefore risk of misclassifications, which could mislead the users of the financial statements.

Management stated that the company has not yet obtained certificates of title to the said wayleaves and also cannot correctly value the same till the related projects are completed when no further costs can accrue.

I recommend that management properly examines WIP to determine the cost that relate to completed projects, which should then be reclassified in line with IAS 16, for adequate disclosure and better decision making.

Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs; and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management intends to liquidate the Company, or cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 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 management'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 Company'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 Company 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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

As required by the Uganda Company's Act, 2012, 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 Company, so far as appears from my examination of those books; and
- The Company's Statement of Financial Position and Statement of Comprehensive Income are in agreement with the books of account.

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

20th December 2018