



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
ELECTRICITY REGULATORY AUTHORITY
FOR THE YEAR ENDED 30TH JUNE 2022**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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LIST OF ACRONYMS

Acronym	Meaning
BECS	Bundibugyo Energy Cooperative Society
Bn	Billions
COVID-19	Corona Virus Disease of 2019
DISCOs	Distribution Companies
ECP	Electricity Connections Policy
ERA	Electricity Regulatory Authority
FY	Financial Year
HPP	Hydro Power Plant
ICT	Information Communication Technology
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards for Supreme Audit Institutions
KIL	Kilembe Investment Limited
KIS	Kalangala Infrastructure Services
MEMD	Ministry of Energy and Mineral Development
MoFPED	Ministry of Finance, Planning & Economic Development
PACMECS	Pader/Abim Community Multipurpose Energy Cooperative Society
QoS	Quality of service standards
UEDCL	Uganda Electricity Distribution Company Limited
UEGCL	Uganda Electricity Generation Company
UETCL	Uganda Electricity Transmission Company
UGX	Uganda Shillings
USD	US Dollars
WENRECO	West Nile Rural Electrification Company

**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS
OF ELECTRICITY REGULATORY AUTHORITY
FOR THE YEAR ENDED 30TH JUNE, 2022**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Electricity Regulatory Authority which comprise the statement of Financial Position as at 30th June 2022, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with other accompanying statements for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Electricity Regulatory Authority as at 30th June 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), and Section 51 of the Public Finance Management Act, 2015.

Basis for Opinion

I conducted my audit in accordance with the 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 Authority 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 Matter

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. I have determined the matters described below to be key audit matters communicated in my report.

1.0 Implementation of the approved budget

Over the years, I have observed improvements in the performance regarding implementation of the budget but entities still face a number of challenges including COVID, which continue to affect implementation of activities, service delivery and credibility of the budget. It is against this background that budget performance was considered a key audit area during the office-wide planning. I reviewed documents such as work plans, performance reports, conducted interviews and physical inspection in arriving at my findings.

The Electricity Regulatory Authority is mandated to supervise all licensed companies within the Electricity sub-Sector, to ensure that they comply with the Electricity Act, 1999 as amended, Regulations thereto and the terms and conditions of their respective licenses, and to safeguard all stakeholders' competing interests.

To achieve this mandate, ERA planned to implement and achieve a number of deliverables under various departments. A review of the entity's work plan and budgets revealed that the entity had an approved budget of UGX.30,432,156,109 out of which UGX.30,045,661,674 was realised.

The Authority had an approved corporate work plan for the FY 2021/2022 which set out the annual targets to be achieved. Audit reviewed the implementation of the approved 2021/2022 budget by the entity and noted the following.

No	Observation	Recommendation																												
1.1	<u>Revenue Performance</u> According to the Approved Budget the entity was to receive revenue of UGX 30.43Bn, out of which UGX.30.04Bn was realized representing performance of 99%. The funding gap was mainly noted under Generation Levy and Installation licenses at 14% and 3% respectively. The performance of each revenue source is summarized in the table below. <u>Table: Revenue Performance</u> <table><tr><th>Income</th><th>YTD Actual</th><th>YTD Budget</th><th>Revenue gap</th></tr><tr><td>License Fees</td><td>23,170,917,940</td><td>22,827,239,571</td><td>2%</td></tr><tr><td>Generation Levy</td><td>5,852,718,328</td><td>6,823,326,453</td><td>(14%)</td></tr><tr><td>Application Fees</td><td>632,205,711</td><td>381,303,315</td><td>66%</td></tr><tr><td>Installation Licenses</td><td>255,337,976</td><td>264,086,770</td><td>(3%)</td></tr><tr><td>Other income</td><td>134,481,718</td><td>136,200,000</td><td>(1%)</td></tr><tr><td>Total Revenue</td><td>30,045,661,673</td><td>30,432,156,109</td><td>(1%)</td></tr></table> Management explained that it was engaging Government in its advisory capacity on a wide range of initiatives to increase energy demand including rebate policy, activation of industrial parks, Electricity Connections Policy, charcoal-to-power amongst others.	Income	YTD Actual	YTD Budget	Revenue gap	License Fees	23,170,917,940	22,827,239,571	2%	Generation Levy	5,852,718,328	6,823,326,453	(14%)	Application Fees	632,205,711	381,303,315	66%	Installation Licenses	255,337,976	264,086,770	(3%)	Other income	134,481,718	136,200,000	(1%)	Total Revenue	30,045,661,673	30,432,156,109	(1%)	I advised the Accounting Officer to continue liaising with other sub-sector stakeholders to explore possible avenues to increase energy demand which could consequently improve revenue performance.
Income	YTD Actual	YTD Budget	Revenue gap																											
License Fees	23,170,917,940	22,827,239,571	2%																											
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Total Revenue	30,045,661,673	30,432,156,109	(1%)																											
1.2	<u>Absorption of funds</u> Out of the total revenue of UGX. 30.045bn received during the financial year, UGX. 30.159bn (UGX. 29.832bn recurrent and UGX. 0.327bn capital) was spent representing an absorption level of 100%.	The Accounting officer is commended for fully absorbing funds availed to run the Authority activities.																												
1.3	<u>Implementation of outputs and activities</u> I noted that the entity used the Balanced Scorecard monitoring	I advised the Accounting Officer to ensure full																												

and performance evaluation framework to measure the outcome or results of all activities undertaken through the implementation of the institutional and individual work plans. The authority had 6 Core focus areas/Organizational priorities with pre-determined outcome targets in form of scorecards with a specific emphasis on power supply reliability and quality of service by Licensees.

I reviewed the ERA annual performance report for the FY2021/2022 to assess the extent of achievement of its performance targets. The following were noted;

- **Extent of achievement of target outcomes**

All the six (6) core focus areas (outputs) with a total of fifty-two (52) intended outcomes and a budget of UGX 30,432,156,109 were assessed.

I noted that out of the fifty-two (52) outcomes under the six (6) core focus areas, twenty (20) outcomes had been fully achieved, thirty-one (31) were partially achieved while one (1) outcome under accelerating electricity access was not achieved as summarized in the table below. The details are indicated under **Appendix 1.**

Table Showing level of implementation of core focus areas

Summary of Performance by focus area				Outcome details-Analysis				
Core focus area (output)	No of outputs	% Of implementation	Expenditure UGX Bn	Total no of outcomes	No of Fully achieved outcomes	No. Of partially achieved outcomes	No of outcomes that were not achieved	Extent of achievement of outcomes per category of focus area %
Fully implemented outputs	1	16.7	30.432	3	3	0	0	100
Partially Implemented outputs	5	83.3		49	17	31	1	34.7
Outputs Not Implemented	0	-		0	0	0	0	0
Total	6	100	30.432	52	20	31	1	

In terms of scorecard performance, the above analysis corresponds to management's assessed overall average score of 84% for the FY2021/22. This good performance is on account of extent of the 31 partially achieved outcomes 13 of which had their targets achieved by over 80%. However, 12 out of the remaining 18 outcomes had their targets achievement at less than 65%. The 80% performance led to ERA being crowned the best regulator in Africa for the 4th time in the African Development Bank electricity regulatory index.

implementation of pending activities and service delivery

- **Implementation of Work plan activities**

I noted that the entity undertakes a separate assessment of the implementation of work plan activities. Out of a total of 342 activities planned to be implemented under the nine (9) departments, 263 activities (76.9%) were completed by the end of the FY. Seventy three (73) activities (21.3%) were still in progress while six (6) activities (1.8%) were not executed. This translates into a work plan performance of 93% against the annual set target of 95%. The table below refers;

Department	Total activities	Complete	In-progress	Not executed	% Completion
Corporate & Consumer Affairs	49	38	10	1	95%
Economic Regulation	44	38	6		97%
Financial Services	46	32	14		92%
HR & Administration	28	25	3		97%
ICT	5	2	3		85%
Internal Audit	36	29	5	2	91%
Legal Services	33	26	5	2	90%
Procurement & Disposal Unit	29	23	6		95%
Technical Regulation	72	50	21	1	91%
Total	342	263	73	6	93%

The unimplemented activities include;

- Develop a regulatory framework for target setting, monitoring and auditing of electricity quality of supply and service. (World bank projects),
- Develop quality of service standards for off- grid systems,
- Develop a framework for private sector investment in transmission,
- Implement the Electricity (Acquisition and use of wooden poles in the Electricity Industry guidelines 2020),
- Improve Visibility on reliability at Low Voltage network (development of a web portal), and
- Develop a business continuity strategy for the sector, among others.

Failure to fully implement the planned activities implies that the intended service delivery outcomes were not achieved.

	Management explained that the pending activities were carried over into the work plan for FY 2022/23 to ensure their full execution.	
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Other matter

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

2.0 Staffing gaps

According to the Organizational Score Card in the Authority's Strategic Plan 2020-2025, the target to fill ERA structure with competent staff was at 93%. A review of the Annual Performance Assessment Report 2021/22 revealed that the total staff establishment was at 92 and only 63 (68%) positions had been filled. The table below refers;

Table showing Level of staffing at ERA

Department	Approved	Filled	Vacant	% Filled
Corporate and Consumer Affairs	12	9	3	75%
Economic Regulation	8	6	2	75%
Financial Services	9	8	1	89%
Human Resource and Administration	17	14	3	82%
Information Technology	4	2	2	50%
Internal Audit and Risk	5	2	3	40%
Legal Services	11	7	4	64%
Chief Executive Office	5	3	2	60%
Procurement and Disposal Unit	3	3	0	100%
Technical Regulation	18	9	9	50%
Grand Total	92	63	29	68%

The Authority was unable to make recruitments due to the budget constraints and also terminated four (4) staff due to non-compliance with various employment policies during the period.

Inadequate staffing levels affects execution of the Authority's mandate and may adversely impact on the extent of achievement of the strategic objectives.

The Accounting Officer explained that by end of the financial year 2021/22, recruitment of ten (10) staff had been completed. The headcount now stands at seventy three (73) staffs representing 79.3%. In the year 2022/23 recruitment of nineteen (19) new staff was scheduled and would bring the number of staffs to ninety two (92).

I advised the Accounting Officer to ensure that the approved staff structure is filled according to the strategic plan and in a timely manner, for efficient and effective execution of the Authority's mandate.

3.0 **Quality of service among Rural Electrification concessions**

According to Section 10 & 11(2)(c) of the Electricity Act 1999 (as amended) and the licences issued to distribution companies, the Authority is mandated to develop, enforce and ensure compliance of performance standards for the generation, transmission and distribution of electricity, to; protect the interests of consumers in respect to the quality and reliability of the electricity supply services. In addition, under licence obligations, licensees are mandated to operate with the objective of ensuring high level of quality and reliability of distribution networks services.

Furthermore, ERA developed standards for quality of service and also developed Key performance Indicators (KPIs) for the distribution companies mainly covering; access to electricity supply, customer service, reliability of electricity supply and other network operations. Licensed distributors report quarterly on performance and quality of service.

A review of the quality-of-service compliance reports, the annual performance assessment report and Customer complaints reports for the year 2021/2022, revealed that the annual average performance of distribution companies most especially those operating under rural electrification was at an average of 60%, while that of UMEME was at 90%. This was an indication of inadequate performance on the part of some distribution companies especially those operating rural electrification territories. The table below refers;

Table 1: showing Performance of Distribution companies in regard to Service Quality

Company	Q1 2021 (%)	Q2 2021 (%)	Q3 2021 (%)	Q4 2021 (%)
KIL	65	81	89	88
WENRECO	40	44	63	0
PACMECS	31	15	57	90
KIS	61	31	71	78
KRECS	72	68	88	86
HYDROMAX	61	0	100	89
UEDCL	0	75	70	63
Annual Average	47	45	77	71
UMEME	89	89	92	91

The above inadequate performance was attributed to; low investment in the distribution network, delayed implementation of some rural electrification and transmission projects, challenges of availability of connection materials and funding for implementation of the Electricity Connection Policy and failure to report on and adhere to quality standards set by the regulator.

The quality of distribution services affects not only the regulator's core and strategic objectives of regulating for better quality services in terms of access, quality service and proper network operations, but service delivery performance to the citizens.

Management promised to continue close monitoring of the licensees and ensure improved performance.

I advised the Accounting Officer to continuously engage the Licensees and where necessary enforce punitive regulatory tools aimed at improving quality of supply of electricity to consumers. Additionally, I guided management to engage with the relevant stakeholders to ensure implementation of the ECP is fast tracked and the policy antecedent bottlenecks addressed in a timely manner.

4.0 Un Balanced investment in Generation, Transmission and Distribution Segments.

According to the ERA Corporate Annual Work Plan 2021/22 , the Entity's major interventions and Key activities include; Monitoring and developing Sector plans, Harmonizing sector investments; Facilitate the implementation of projects to evacuate power from the generation plants, Review and approve investments in the transmission and distribution grid.

I noted that whereas the flexible and favourable regulatory policy has facilitated the development of various generation facilities, the investment and growth in generation is not matched in regard to electricity transmission and distribution segments, leading to increased unconsumed surplus generation capacity. The current generation firm capacity is at 900MW, and likely to increase in the short term with the commissioning of the 600MW Karuma HPP. The transmission grid in the year 2021 only grew by 230Kms (6.7%), increasing the transmission total length to 3,430.9Kms, while the National distribution grid grew by 2,206Kms (3.9%), increasing the total length to 55,480 Kms.

Unbalanced investment in the transmission leads to payment for deemed energy and increasing transmission losses resulting from evacuation of facilities over weak and unreliable lines. In addition, limited investment in the Distribution segment is affecting the achievement of electricity connection targets. During the year, only 176,291 (59%) connections were made out of a target of 300,000 new connections. The low uptake keeps the final consumer tariff high due to the untapped demand for power generated.

The anomaly was attributed to inadequacies in integrated planning between generation, transmission and distribution segments, as well as delays in execution of major transmission and rural electrification projects.

As a result, the failure to balance investments and development in the electricity value chain is hindering electricity access, increasing cost of power and curtailing the general development of the sector.

The Accounting officer explained that the amendment of the Electricity Act 1999, Act no.4 of 2022 created a Planning Department at the MEMD to harmonize the planning process across the entire value Chain. The Act has provided for Independent Power Transmission to allow for private players into the transmission network for tariff neutral projects where the benefit out-ways the additional cost to the customer; ERA and MEMD were working on the enabling regulations this financial year. They further stated that as the concession for UMEME comes to an end Government took a decision to increase investment in the distribution segment through UEGCL. The Authority continues to prioritize investments across the value chain through Independent Power Transmission, rebate policy and credit policy.

I advised the Accounting Officer to continue devising strategies and coordinate with the sub-sector stakeholders to ensure mobilisation of adequate investments to expand electricity transmission and distribution capacities.

5.0 License obligations in the Electricity value chain

The ERA corporate work plan 2021/22, requires the Entity's to; Approve Investments on demand growth, access, reliability and Technical Loss reduction. According to Power sale agreements and license obligations, the generators, transmitter and distributors owe each other financial obligations arising from costs of generation, transmission and supply of electricity.

Review of the licensee statutory monitoring reports and other corroborating documents indicated the following;

- As at 30th June 2022, UETCL had not received UGX.14Bn for power sales to UEDCL, of which UGX.7.2Bn was withheld on account of high technical losses incurred on evacuating Nkusi Small Hydro Plant, resulting from failure by UETCL to construct an appropriate transmission line for evacuation of the power.
- In the same period, UETCL had not received payments for power sales to distributors, amounting to UGX.12.7 Bn based on several non-contractual grounds.

The growth of this circular debt in the sector was attributed to limited enforcement of payment guarantee arrangements, as well as delay to operationalize Wheeling Agreements.

This circular debt affects financial sustainability of the sector and could lead to collapse of some distribution companies due to inadequacies in cashflow and also affects the operations of the transmitter and generators.

The Accounting officer explained that the Authority is engaging MEMD to fast-track (through REP) the commissioning of Muzizi 132/33kVA substation which was supposed to evacuate the Nkusi Small Hydro plant. Management had allocated resources to improve the evacuation network in the short run, awaiting the commissioning of the Muzizi 132/33kVA substation. They further stated that ERA would advise Government to pay the outstating debts related to ECP to enable rural DISCOs pay UETCL. ERA would further advise the MEMD to pay the outstanding MDA energy bills to enable financial sustainability of UETCL.

I advised the Accounting Officer to; enforce strict observation of licence obligations in order to protect the financial sustainability of the sector and to continue liaising with the relevant sector players to ensure that the challenges faced by the distribution and transmission companies in complying with the license obligations are resolved.

6.0 Operationalization of wheeling agreements between UETCL and power distributors

According to Section 55 and 56 of the Electricity Act 1999 (as amended) and Power Purchasing Agreements, UETCL is licensed as the bulk supplier and system operator and is obligated to transmit power generated to the distributors.

In addition, according to ERA's Annual corporate Plan under the reliability, and quality of Service performance indicator, the Authority is supposed to operationalize wheeling agreements between the Key sector players. Wheeling Agreements in the Electricity sub-sector are legal contracts for the transportation of electricity from one point to another. These agreements create obligations between the parties, and govern their relationship in regard to all aspects of transporting electricity.

I noted that whereas UETCL relies on 33KV infrastructure of UEDCL, REA and UMEME to evacuate generated power, there are no signed wheeling agreements between UETCL and the distributors, making it difficult for the regulator to enforce compliance in relation to the financial obligations resulting from the transportation of electricity over the inappropriate infrastructure.

The failure to create and operationalise wheeling Agreements results in exposure to; transmission losses and grid failures due unreliable evacuation networks

The Accounting Officer explained that ERA planned to enforce and finalise the signing of wheeling agreements between UETCL and DISCOs by end of the financial year 2022/23.

I advised the Accounting Officer to ensure that wheeling Agreements between the Transmission and Distribution companies are operationalized in a timely manner.

7.0 Rebates

Energy rebates in Uganda's electricity supply industry, involve the reimbursement in terms of energy consumed to an eligible person/firm who design, finance and construct electricity distribution infrastructure. The rebate initiatives, begun in 2017 and apply to line constructions, and extensions by Industrial consumers, including medium industrial, large industrial and extra-large industrial consumers. The purpose is to have industries in areas that have no access to electricity.

Currently, there are only two (2) rebate applications being processed, with an expected installed capacity addition of 9.1 MVA. It is likely that there are inadequacies in the awareness of the existence of the rebate policy. This has limited the achievement of the intended objectives/targets.

The Accounting Officer explained that management had planned more awareness and sensitization campaigns during the current financial year and in the subsequent years. The bottlenecks were identified by transmission segment and the same was incorporated into the scheme.

I advised the Accounting Officer to step up the awareness of the rebate policy so that the citizens may enjoy the intended service delivery benefits. In addition, management was further advised to identify the bottlenecks affecting the initiative and then provide adequate solutions.

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.

Management Responsibilities 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 Electricity Regulatory Authority.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the IFRSs and for such internal control as management determines 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, the Accounting Officer is responsible for assessing the Authority'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 the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Authority'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 Authority'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 Authority'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 Authority 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 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 Section 19 (1) of the National Audit Act (NAA), 2008, I report to you, based on my work described on the audit of Financial Statements, that; except for the matter raised in compliance with legislation section below, and whose effect has been considered in forming my opinion on financial statements, 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.

Report on the Audit of Compliance with Legislation

In accordance with Section 19 of the NAA 2008, I have a responsibility to report material findings on the compliance of the Ministry with specific matters in key legislations. I performed procedures primarily to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

8.0 Management of Information Technology (IT) Investments in Government

The Government of Uganda (GOU) is making large investments in Information Technology (IT) systems because of the tremendous benefits that IT can bring to its operations and services. One of the key programmes of NDP.III 2020/21-2024/25 is *Digital Transformation*, in which Government of Uganda, aims to increase Information, Communication Technology (ICT) penetration and use of digital services for enhancing social and economic development.

As a result of national prioritisation of ICT, the Auditor General undertook a thematic audit covering three financial years' expenditure (2019/20 to 2021/22) to scrutinise the management of IT Investments across Government. The overall objective was to assess whether the IT investments in Government are strategically aligned, managed appropriately and focused on achieving the NDP.III objective. The procedures undertaken covered: planning and budgeting; procurement, utilization, maintenance and disposal of IT systems; governance, and financial reporting.

For the current year 2021/2022, the entity budgeted for UGX.967,599,443 for acquisition and implementation of IT systems and equipment and received the entire amount.

A review of ICT activities implemented revealed the following;

No	Observation	Recommendation
9.1	<u>Procurement/Development and Use of Software/Licenses (IT Systems) and Equipment</u> The ICT Systems Development Lifecycle (SDLC) requires a systematic approach which includes; initiation, planning and execution. In addition, I made my assessment basing on PS/ST and NITA-U guidance on ICT developments which aim to promote rationalisation and avoid further development of isolated IT systems in MDAs and LGs. During the audit of ERA, I observed the following; i. The 19 IT Systems and applications worth a total of UGX.295,784,350 and USD.40,214 had no clearance from NITA-U. ii. I noted that the IT systems operated by ERA are mainly applications with specific roles whose requirements/specifications do not include integration with other systems within or outside the entity. Integration benefits such as data sharing and reduced communication costs are therefore not achieved. The noted observations may lead to general deviation from	I await the implementation of the recommendations.

No	Observation	Recommendation
	Government's efforts to rationalize resources for better service delivery. The Accounting Officer explained that ERA was not on the list of consolidated entities to seek NITA(U) clearance but promised to comply with the good practice to ensure streamlined investments in IT. On integration of systems, the Accounting Officer promised to ensure that systems acquired can be integrated with existing and future systems.	
9.2	<u>ICT Governance</u> IT governance entails leadership, structures, and processes that enable an organization to make decisions to ensure that its IT sustains and extends its strategies and objectives. However, a review of the ICT governance structure of the entity revealed that; - There were no specific structures that steer and oversee ICT implementation. In addition, there was no evidence of representation in top management. - The entity has 3 (75%) of the 4 positions of ICT staff establishment filled, and all the 3 have the required qualifications. - The Internal Audit had not reviewed the ICT systems that produce financial statements. The team had not received adequate training to enable them interrogate or review the systems. Absence of ICT governance structures hampers formulation of appropriate ICT policies, strategies and real time upgrade of ICT interventions. In addition, it may lead to misalignment of IT investments with the overall entity strategic objectives. The Accounting Officer provided the following explanations; <i>Structure to steer and oversee ICT implementation:</i> that the ICT department is in place headed by Manager ICT who was to be invited to attend top management meetings going forward. The technical subcommittee of the Board handles ICT related matters at the top level. <i>ICT Staffing:</i> that the department will be fully equipped as the ERA revenues increase with demand growth. <i>Internal audit review of IT Systems:</i> that the entity made a provision in the 2023/24 budget for training in the area of Certified Information Systems Auditor (CISA) for all the three internal Audit and Risk staff.	I advised the Accounting Officer to institute governance policies, structures to effectively manage ICT investments in consultation with other stakeholders.



John F. S. Muwanga
AUDITOR GENERAL

APPENDICES

Appendix 1: Extent of achievement of target outcomes

Fully Implemented Out-puts					Partially Implemented Out-Puts							Out-puts not Implemented at all				
No .	Focus area (Out-put)	Total Out-put expenditure UGX '000"	Total No of outcomes	Number of fully achieved outcomes	No .	Focus area (Out-put)	Total Out-put expenditure UGX '000"	Total No of outcomes	Number of fully achieved outcomes	No of partially achieved outcomes	No of outcomes that were not achieved	No .	Focus area (Out-put)	Total Out-put expenditure UGX '000"	Total No of outcomes	No of outcomes that were not achieved
1	Affordable Tariffs	-	3	3	1	Reliable power supply and improved quality of Service	-	4	2	2	0		None			
					2	Accelerate electricity access and grow demand	-	12	0	11	1					
					3	Stakeholder management	-	5	2	3	0					
					4	Strong governance , Risk, and compliance management	-	7	2	5	0					

Fully Implemented Out-puts					Partially Implemented Out-Puts							Out-puts not Implemented at all				
No .	Focus area (Out-put)	Total Out-put expenditure UGX '000"	Total No of outcomes	Number of fully achieved outcomes	No .	Focus area (Out-put)	Total Out-put expenditure UGX '000"	Total No of outcomes	Number of fully achieved outcomes	No of partially achieved outcomes	No of outcomes that were not achieved	No .	Focu s area (Out-put)	Total Out-put expenditure UGX '000"	Total No of outcomes	No of outcomes that were not achieved
					5	People, Processes, and Tools for institutional sustainability	-	21	11	10	0					
	Total		3	3		Total		49	17	31	1		Total		0	0

Note: Budget amounts were not indicated on work plan activities for the entity.

FINANCIAL STATEMENTS