24th December, 2018

The Rt. Hon. Speaker of Parliament
Parliament of Uganda
Kampala

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT (PROJECT NO. 125590; LOAN NO. 54340) FOR THE YEAR ENDED 30TH JUNE, 2018

In accordance with Article 163, (4) of the Constitution of Uganda 1995 (as amended), I forward herewith audited Financial Statements of North Eastern Road Corridor Asset Management Project) (Project No. 125590; Loan No. 54340) for the period ended 30th June 2018 together with my report and opinion thereon.

John F.S. Muwanga
AUDITOR GENERAL

Copy to: The Hon. Minister of Works and Transport
        The Hon. Minister of Ethics and Integrity
        The Inspector General of Government
        The Permanent Secretary/Secretary to the Treasury
        Ministry of Finance, Planning and Economic Development
        The Permanent Secretary, Ministry of Works and Transport
        The Executive Director, UNRA
        Country Director, World Bank
        Project Manager, North Eastern Road Corridor Asset Management,Project
        KPMG, Certified Public Accountants

Member of the international Organisation of Supreme Audit Institutions (INTOSAI)
Member of the Africa Organisation of Supreme Audit Institutions (AFROSAI)
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT
(PROJECT No: 125590; LOAN No.54340)
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA
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THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the financial statements of the North Eastern Road-Corridor Asset Management Project (the “Project”), which comprise the statement of fund balance as at 30th June 2018, statement of receipts and payments, and notes, comprising significant accounting policies as set out on pages 12 to 17.

In my opinion, the accompanying financial statements of the North Eastern Road-Corridor Asset Management Project for the year ended 30 June 2018 are prepared, in all material respects, in accordance with the accounting policies and guidelines of NERAMP described in Note 10.1.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the financial statements section of my report. I am independent of the Project in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

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
I draw your attention to Note 10.1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the project in complying with the financing agreement financial requirements and the accounting policies on note 10.1. As a result, the financial statements may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Other Matter
I consider it necessary to communicate the following matter other than those presented or disclosed in the Financial Statements:

Section 7.5.1 of the Project Implementation Plan stipulates that the following bank accounts will be maintained in Bank of Uganda for the purposes of implementing the project;

i. Designated Account (DA): Denominated in US dollars; disbursements from the IDA Credit will be deposited on this account.

ii. Project Account: This will be denominated in local currency; Counterpart funds, other donors and transfers from the Designated Account (for payment of transactions in local currency) will be deposited on this account in accordance with project objectives.

However, I noted that the project only maintains one bank account denominated in United States Dollars with Bank of Uganda. This may result in foreign exchange exposures. I advised management to open a Uganda shillings account with Bank of Uganda in line with the provisions of the project implementation plan.

Responsibilities of management for the financial statements
Management is responsible for the preparation of the financial statements in accordance with the provisions of the accounting policies and guidelines of NERAMP described in note 10.1, and for such internal control as management determine 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 project'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 intend
to cease project operations, or have no realistic alternative but to do so.

**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 auditors’ 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 ISAs 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 ISAs, 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 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 management.
- Conclude on the appropriateness of the 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.
I communicate with management and those charged with 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.

John F.S. Muwanga
AUDITOR GENERAL

KAMPALA

24th December, 2018
REPORT OF THE AUDITOR GENERAL ON THE STATEMENT OF SPECIAL DESIGNATED ACTIVITY ACCOUNT OF NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT (NERAMP)

Opinion
I have audited the Statement of Special Designated Activity Account of the North Eastern Road-Corridor Asset Management Project (the “Project”) for the year ended 30th June 2018 set out on page 21 of the Financial Statements.

In my opinion, the Statement of Special Designated Activity Account of the North Eastern Road-Corridor Asset Management Project is prepared, in all material respects, in accordance with the accounting policies and guidelines of NERAMP described in Note 10.1.

Basis for Opinion
I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Statement of Special Designated Activity Account section of my report. I am independent of the Project in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. 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 Statement of Special Designated Activity Account of the current period. I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter
I draw your attention to note 10.1 to the financial statements, which describes the basis of accounting. The Statement of Special Designated Activity Account is prepared to assist the project in complying with the financing agreement financial requirements and the accounting policies on note 10.1. As a result, the Statement of Special Designated Activity
Account may not be suitable for another purpose. My opinion is not modified in respect of this matter.

**Responsibilities of management for the Statement of Special Designated Activity Account**

Management is responsible for the preparation of the Statement of Special Designated Activity Account in accordance with the accounting policies and guidelines of NERAMP described in note 10.1, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Statement of Special Designated Activity Account, management is responsible for assessing the project’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 intend to cease project operations, or have no realistic alternative but to do so.

**Auditor’s Responsibilities for the Statement of Special Designated Activity Account**

My objectives are to obtain reasonable assurance about whether the Statement of Special Designated Activity Account as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 ISAs 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 this Statement of Special Designated Activity Account.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Statement of Special Designated Activity Account, 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 management.
- Conclude on the appropriateness of the managements’ 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 auditors’ report to the related disclosures in the Statement of Special Designated Activity Account 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.

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.

John F.S. Muwanga  
AUDITOR GENERAL  
KAMPALA  
24th December, 2018
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12. STATEMENT OF SPECIAL DESIGNATED ACTIVITY ACCOUNT FOR THE YEAR ENDED 30 JUNE 2018

2
ACRONYMS

BOU - Bank of Uganda
GoU - Government of Uganda
IDA - International Development Association
NERAMP - North-Eastern Corridor Road Asset Management Project
OAG - Office of the Auditor General
OPRC - Output and Performance-based Road Contract
PIT - Project Implementation Team
UG - Uganda
UGX - Uganda Shillings
UNRA - Uganda National Roads Authority
USD - United States Dollars
Vs - Versus
1. **PROJECT INFORMATION**

1.1. **Project address:**

(Principle place of business) Uganda National Roads Authority
Nakawa Business Center
Plot 3-5 New Port Bell Road
P.O. Box. 28487
Kampala, Uganda

1.2. **The UNRA Board of Directors:**

Hon. Fred Jachan Omach: Chairman
M/s Allen C. Kagina: Executive Director/Secretary
Mrs. Petra Sansa Tenywa: Member
Dr. Joseph Muvawala: Member
Eng. Umaru Bagampadde: Member
Mr. Mbulanuko Laban: Member
Eng. Samson Bagonza: Member

1.3. **Project implementation Team**

Eng. Isaac Wani: Director Network Planning
Mrs. Edna Rugumayo: Director Corporate Services
Eng. Charles Naita: Project Coordinator
Eng. Isaac Menya: Project Engineer (Network Planning)
Eng. Samuel Liki: Project Engineer (Road Maintenance)
Mr. Kwesiga Brazza: Head Finance and Accounts
Ms. Betty Namatovu: Project Accountant

1.4. **Bankers**

Bank of Uganda
P.O. Box 7120
Kampala

1.4.1. **Auditors For and on behalf of the Auditor General:**

KPMG Uganda,
3rd Floor Rwenzori Courts
Plot 2 & 4A Nakasero Road
P O Box 3509
Kampala, Uganda
2. INTRODUCTION

2.1. BACKGROUND

The NERAMP was approved on April 29, 2014 with a total project cost of USD 255 million. The World Bank (IDA)’s share of financing amounts to USD 243.80 million (SDR 157.60 million) which is 95.6% and the remaining USD 11.20 million (4.4 %) is financed by the Government of Uganda (GoU). The Financing Agreement was signed on February 16, 2015 after (i) the project was approved by the parliament, and (ii) the financing agreement was cleared for signature by the Solicitor General.

The North Eastern Road-corridor Asset Management Project (NERAMP) is to introduce long term asset management contracts through Output and Performance based Contracting (OPRC) on a major corridor in Eastern Uganda - the Tororo Mbale-Soroti-Lira-Kamdini Road (340Km). It will support the GoU’s effort of unleashing Uganda’s regional trade potential by facilitating the land bridging across borders, and thus enhancing the regional integration objective of the East African Community (EAC). The NERAMP comprises the following project components: (a) Introduction of OPRC on a Priority Road Corridor; (b) Institutional Support to UNRA. The responsibility for project implementation will be with the Uganda National Roads Authority (UNRA).

2.2. SCOPE OF WORKS OF THE OPRC – TORORO-MBALE-SOROTI-LIRA-KAMDINI ROAD CORRIDOR (340KM)

The scope of works to be executed on the 340 km corridor has been packaged into two lots: - Lot 1: Tororo - Mbale – Soroti – 150.8 km, and - Lot 2: Soroti – Lira – Kamdini – 189.4 km. The planned interventions under this contract will therefore include: (i) Performance-based Routine Maintenance Works (ii) Rehabilitation Works - Strengthening for 20 year design life of the entire project road by Asphalt Concrete (AC) overlays (iii) Rehabilitation Works to certain sections of the Lira-Kamdini Road. The anticipated sectional rehabilitation is generally to include a reworking of the existing base course to serve as sub-base course in the new pavement and then apply new base course of 150mm crushed aggregate base plus 50mm AC surfacing. (iv) Emergency Works (v) Construction of Weigh Bridge Station (vi) Operation and Maintenance of Weigh Bridge Station (for 6 years period).

However the project delayed to kick off due to the suspension by the World Bank caused by Transport Sector Development Project failure to comply with appropriate social standards and practices.

2.3. PROJECT COMPONENTS

The NERAMP consists of two project components as follows:

2.3.1. Component 1 - Road Rehabilitation, Operations and Maintenance (USD 241 million).

This component will finance long term OPRC for the Tororo-Mbale-Soroti-Lira-Kamdini road (340 km). This road corridor links South Sudan, parts of the Democratic Republic of Congo, and the northern and eastern Uganda to the port of Mombasa. The works and services under the OPRC contract will include:

(a) The design and rehabilitation of sections of the road corridor;
(b) Routine and periodic maintenance of the whole corridor; and
(c) Operations which will include management of traffic, road safety and axle load control measures, this component will also finance consultancy services for the Project Management Unit that will be responsible for administration and supervising the OPRC contracts.

2.3.2. Component 2-Institutional Support to UNRA (USD 14 million)

This component is to ensure sustainability, technical assistance to UNRA focusing on designing, awarding, and managing OPRC. In addition, local stakeholders, including regulatory bodies, auditors and the local construction industry need support to help build awareness in order to contribute towards the change process in the way the road network is planned, developed and maintained.

2.4. PROJECT COST AND FINANCING

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Components</th>
<th>Total cost (USD million)</th>
<th>% of Total</th>
<th>IDA (USD million) Financing</th>
<th>% IDA Financing</th>
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</thead>
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<td>229.80</td>
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<td>5.5</td>
<td>14.00</td>
<td>5.7</td>
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<td></td>
<td>Total</td>
<td>255.00</td>
<td>100</td>
<td>243.80</td>
<td>100.00</td>
</tr>
</tbody>
</table>

2.5. REPORT OF THE PROJECT IMPLEMENTATION TEAM

The project implementation team through the project implementation Unit submits their report and the financial statements for the year ended 30 June 2018, which disclose the state of affairs of NERAMP for the year ended 30 June 2018.

Reporting entity

The NERAMP is jointly financed by GoU and the International Development Association (IDA) under Development Credit No. 54340-UG made to reduce transport costs, enhance road safety, and improve the road assets sustainably by applying cost effective performance based asset management contracts, along the Tororo- Kamdini Road Corridor.

Results

The financial results of the project are shown in the Statement of Receipts and Payments on page 12.

Project Implementation Team (PMT)

The project Management Team members who held office during the relevant period and to the date of this report are shown on page 4.

3. AUDIT SCOPE

The audit covered transactions recorded from 1 July to 30 June 2018 and is purely an audit of the project financial statements.

Our understanding of the terms of reference is based on the engagement letter signed between KPMG and Uganda National Roads Authority in relation to the NERAMP project and discussion held with management and is set out as follows:
The audit is to be carried out in accordance with International Standards on Auditing and will include such tests and audit procedures as the auditor considers necessary under the circumstances. More specifically, the auditor is required to:

- Confirm that funds were used in accordance with the conditions of funding agreement and only for the purposes for which the funding was provided;
- Undertake an evaluation of a system of internal control, including organisation structure, authority levels, staffing competence, accounting records and supporting documents, separation of duties and monitoring arrangements. Where certain controls are impracticable to implement, appropriate compensating controls should exist;
- To plan for the audit so that there is reasonable expectation of detecting material misstatements in the financial statements resulting from fraud or error.

4. AUDIT METHODOLOGY

The audit methodology principally comprised of:

(b) Audit of the financial statements:
- Reconciled the statement of receipts and expenditure to the underlying records, principally the projects budget and expenditure report;
- Documented findings, observations and recommendations.

(c) Review of the project’s budget and expenditure reports:
- Agreed cash receipts to supporting documents on a 100% basis for donor funds and on a sample basis for internally generated funds if any;
- Agreed expenditure to supporting documents on a sample basis;
- Reviewed the reconciliation of the status of budget to expenditure, ensuring excess or under budgeted expenditure is properly identified; and
- Documented findings, observations and recommendations.

(d) Evaluation of adequacy and effectiveness of the internal control structure:
- We performed a review of the internal control structure of the project; and
- Documented findings, observations and recommendations.

(e) To provide reasonable assurance for detecting material errors, irregularities and illegal acts:
- Considered the audit risks as may be apparent from any weaknesses in the internal control structure, our assessment of the project management attitude and our exercise of professional judgment regarding perceived audit risks;
- Focused on specific areas that we considered to be high risk; and

To identify and bring to light at the earliest stage any actions which appear to be violations of Government laws and regulations, provisions of the agreements with the donors and other relevant directives.
5. STATEMENT OF MANAGERS’ RESPONSIBILITIES

Management is responsible for the preparation and presentation of the NERAMP (the “Project”), financial statements for the year ended 30 June 2018 set out on pages 12 to 17 and the statement of special designated activity account on page 21, which present in all material respects, the fund balance, the receipts and expenditure and special designated activity account, in accordance with the accounting policies and guidelines of NERAMP, described in note 10.1.

Management’s responsibility includes: determining that the basis of accounting and accounting policies described in note 10.1 are an acceptable basis for preparing and presenting the financial statements and the statement of special designated activity account, and for such internal control as NERAMP management determines is necessary to enable the preparation of financial statements and the statement of special designated activity account that are free from material misstatements, whether due to fraud or error.

Management is also required to prepare financial statements and the statement of special designated activity account which present in all material respects, the state of affairs of NERAMP at the end of the reporting period. Management is also required to maintain proper accounting records which disclose with reasonable accuracy the Fund Balance of NERAMP.

Management accepts responsibility for the financial statements set out on pages 12 to 17 and the statement of special designated activity account on page 21 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with accounting policies and guidelines of NERAMP described in note 10.1. Management is of the opinion that the financial statements and the statement of special designated activity account present, in all material respects, the state of financial affairs of NERAMP for the year ended 30 June 2018.

Management further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements and the statement of special designated activity account, as well as adequate systems of internal financial control.

Management made an assessment of the NERAMP’s ability to continue as a going concern and have no reason to believe that the project will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements and the statement of special designated activity account of NERAMP were approved by management on 22.12.2018 and were signed on its behalf by:

Executive Director
Uganda National Roads Authority

Date: 22.12.2018

Director Corporate Services
Uganda National Roads Authority

Date: 22.12.2018
6. REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL OF THE REPUBLIC OF UGANDA REGARDING THE NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT (NERAMP)

Report on the Audit of the financial statements

Under the terms of section 13(1, a) of the National Audit Act, 2008, the Auditor General is required to audit and report on all the public accounts of Uganda and of all public offices. In accordance with section 23 of the same Act, the Auditor General appointed M/s KPMG Certified Public Accountants to audit the financial statements of the project on his behalf and report to him to enable him report to the Parliament of Uganda in accordance with Article 163 (4) of The Constitution of the Republic of Uganda.

Opinion

We have audited the financial statements of the North Eastern Road-Corridor Asset Management Project (the “Project”), which comprise the statement of fund balance as at 30 June 2018, statement of receipts and payments, and notes, comprising significant accounting policies as set out on pages 12 to 17.

In our opinion, the accompanying financial statements of the North Eastern Road-Corridor Asset Management Project for the year ended 30 June 2018 are prepared, in all material respects, in accordance with the accounting policies and guidelines of NERAMP described in note 10.1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the financial statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw your attention to note 10.1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the project in complying with the financing agreement financial requirements and the accounting policies specified under note 10.1. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.
REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL OF THE REPUBLIC OF UGANDA REGARDING THE NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT (NERAMP) - CONTINUED

Other information
Management is responsible for the other information. The other information comprises the information included in the project information; introduction section; report of the project implementation team, statement of managements' responsibilities, the budget and the variance amounts in the statement of comparison of the budget and actual amount, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements
Management is responsible for the preparation of the financial statements in accordance with the accounting policies and guidelines of NERAMP described in note 10.1, and for such internal control as management determine 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 project’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 intend to cease project operations, or have no realistic alternative but to do so.

Management responsible for overseeing the project’s financial reporting process.

Auditors' Responsibilities for the Audit of the financial statements
Our 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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.
REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL
OF THE REPUBLIC OF UGANDA REGARDING THE NORTH EASTERN ROAD-
CORRIDOR ASSET MANAGEMENT PROJECT (NERAMP) - CONTINUED

• 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 the 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 we conclude that a material uncertainty exists, we are required to draw
attention in our auditors' report to the related disclosures in the financial statements or, if such
disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit
evidence obtained up to the date of our auditors’ report. However, future events or conditions
may cause the project to cease to continue as a going concern.

We 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
we identify during our audit.

The engagement partner on the audit resulting in this independent auditors’ report is CPA Asad
Lukwago – P0365

KPMG
Certified Public Accountants
3rd Floor, Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P.O. Box 3509
Kampala, Uganda

Date: 27th December 2018
### STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2018

<table>
<thead>
<tr>
<th>Notes</th>
<th>2017/18 USD</th>
<th>2016/17 USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund balance as at 1 July</td>
<td>1,314,224</td>
<td>-</td>
</tr>
<tr>
<td>RECEIPTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA funding</td>
<td>10.2</td>
<td>27,610,000</td>
</tr>
<tr>
<td>GoU funding from the budget</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>10.2</td>
<td>1,285</td>
</tr>
<tr>
<td>Total funds</td>
<td></td>
<td>28,925,509</td>
</tr>
<tr>
<td>EXPENDITURE</td>
<td>10.3</td>
<td></td>
</tr>
<tr>
<td>Road rehabilitation, operation and maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road Upgrading</td>
<td>10.3.1</td>
<td>-</td>
</tr>
<tr>
<td>Institutional support to UNRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Management Support and Road Safety</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consultancy Services with Firms</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consultancy Services with Individuals</td>
<td>10.3.2</td>
<td>253,798</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>10.3.3</td>
<td>307,881</td>
</tr>
<tr>
<td>Un-committed/Project Operating costs</td>
<td>10.3.4</td>
<td>117,982</td>
</tr>
<tr>
<td>Total expenditure</td>
<td></td>
<td>679,661</td>
</tr>
<tr>
<td>Surplus for the year</td>
<td></td>
<td>28,245,848</td>
</tr>
</tbody>
</table>

The notes set out on pages 15 to 17 form an integral part of the financial statements.

The Statement of Receipts and Expenditure of NERAMP was approved by management on [dates] 2018 and were signed on its behalf by:

Executive Director  
Uganda National Roads Authority  
Date: [date] 2018

Director Corporate Services  
Uganda National Roads Authority  
Date: [date] 2018
8. **STATEMENT OF FUND BALANCE AS AT 30 JUNE 2018**

<table>
<thead>
<tr>
<th>Notes</th>
<th>30 June 2018 USD</th>
<th>30 June 2017 USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus for the year</td>
<td>10.3.5</td>
<td>28,245,848</td>
</tr>
<tr>
<td>Represented by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Bank Balance</td>
<td>10.3.5</td>
<td>28,245,848</td>
</tr>
<tr>
<td>Fund Balance as at 30 June</td>
<td></td>
<td>28,245,848</td>
</tr>
</tbody>
</table>

The notes set out on pages 15 to 17 form an integral part of the financial statements.

The Statement of Fund balance was approved by management on 22/12/2018 and signed on its behalf by:

- **Executive Director**
  Uganda National Roads Authority
  Date: 24/5/2018

- **Director Corporate Services**
  Uganda National Roads Authority
  Date: 22/12/2018
## 9. STATEMENT OF COMPARISON OF THE BUDGET AND ACTUAL AMOUNT FOR THE YEAR ENDED 30 JUNE 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Notes</th>
<th>Unaudited Budget 2017/2018 USD</th>
<th>Actual 2017/2018 USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding received from IDA</td>
<td>10.2</td>
<td>28,293,840</td>
<td>27,610,000</td>
<td>683,840</td>
</tr>
<tr>
<td>Funding received from GoU</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>10.2</td>
<td>-</td>
<td>1,285</td>
<td>(1,285)</td>
</tr>
<tr>
<td>Total receipts</td>
<td></td>
<td>28,293,840</td>
<td>27,611,285</td>
<td>682,555</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road Upgrading</td>
<td>10.3.1</td>
<td>26,893,840</td>
<td>-</td>
<td>26,893,840</td>
</tr>
<tr>
<td>Consultancy Services with Individuals</td>
<td>10.3.2</td>
<td>290,000</td>
<td>253,798</td>
<td>36,202</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>10.3.3</td>
<td>300,000</td>
<td>307,881</td>
<td>(7,881)</td>
</tr>
<tr>
<td>Consultancy Services for the Asset Management support to UNRA (Completion Services)</td>
<td>10.3.2</td>
<td>660,000</td>
<td>-</td>
<td>660,000</td>
</tr>
<tr>
<td>Un-committed/Project Operating costs</td>
<td>10.3.4</td>
<td>150,000</td>
<td>117,982</td>
<td>32,018</td>
</tr>
<tr>
<td>Total expenditure</td>
<td></td>
<td>28,293,840</td>
<td>679,661</td>
<td>27,614,179</td>
</tr>
</tbody>
</table>
10. **NOTES TO THE FINANCIAL STATEMENTS**

10.1. **SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below;

a) **Basis of preparation**

The policy of the project is to prepare financial statements on a cash receipt or payments basis. On this basis, funds are recognised only when received and expenses when paid rather than incurred. The financial statements is not intended to be in conformity with International Accounting Standards and or International Financial Reporting Standards (IAS/IFRSs).

b) **Receipts / Contributions from IDA and GoU**

Income is recognised in the statement of receipts and expenditure when such funds are received in the designated bank. Receipts represent the total transfers made by the International Development Association and Government of Uganda for approved NERAMP activities during the year.

c) **Payments/Expenditure**

A direct payment method is used for expenditure in respect of goods & services rendered and recognised in the financial statements at the time of payment.

d) **Translation of foreign currencies**

The accounting records are maintained in United States Dollars. Fund transfers into local currencies during the period are converted into Uganda Shillings at rate ruling at the time of fund transfer in line with the Bank of Uganda website.

e) **Fixed assets**

Fixed assets are expensed in full in the year of acquisition/purchase. As such they are not capitalised. The Statement of Fund Balance does not therefore, reflect the value of fixed assets at the end of the year.

f) **Taxation**

As the project is implemented by GoU, it is exempted from paying income tax on surplus funds. All other necessary project taxes are deducted. Consequently, no income tax provision has been incorporated in the Financial Statements.

g) **Cash and bank**

These represent project cash balances held on the designated bank account as at 30 June 2018.
10.2. RECEIPTS

Disbursements from IDA and Government of Uganda funding.

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget USD</th>
<th>Actual USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding received from IDA</td>
<td>28,293,840</td>
<td>27,610,000</td>
<td>683,840</td>
</tr>
<tr>
<td>Other - NSSF Refund by GoU</td>
<td></td>
<td>1,285</td>
<td>(1,285)</td>
</tr>
<tr>
<td>Funding received from GOU budget</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOU reallocations from Other Projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28,293,840</strong></td>
<td><strong>27,611,285</strong></td>
<td><strong>682,555</strong></td>
</tr>
</tbody>
</table>

10.3. EXPENDITURES

10.3.1. Road Upgrading

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget USD</th>
<th>Actual USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output and Performance Based Road maintenance contracts (OPRC) for Lot 1: Torororo-Mbale-Soroti (151km) and Soroti--Lira-Kamdini OPRC project</td>
<td>25,377,728</td>
<td>-</td>
<td>25,377,728</td>
</tr>
<tr>
<td>Consultancy Services for Project Management of Tororo-Mbale-Soroti-Kamdini OPRC project</td>
<td>1,516,112</td>
<td>-</td>
<td>1,516,112</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26,893,840</strong></td>
<td><strong>-</strong></td>
<td><strong>26,893,840</strong></td>
</tr>
</tbody>
</table>

10.3.2. Consultancy Services with Individuals

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget USD</th>
<th>Actual USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Specialist</td>
<td>20,000</td>
<td>12,161</td>
<td>7,839</td>
</tr>
<tr>
<td>Social Development Specialist (International)</td>
<td>250,000</td>
<td>241,637</td>
<td>8,363</td>
</tr>
<tr>
<td>Local Consultant- Environment</td>
<td>20,000</td>
<td>-</td>
<td>20,000</td>
</tr>
<tr>
<td>Right of way Specialist</td>
<td>660,000</td>
<td>-</td>
<td>660,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>950,000</strong></td>
<td><strong>253,798</strong></td>
<td><strong>696,202</strong></td>
</tr>
</tbody>
</table>
10.3.3. Capacity Building

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget USD</th>
<th>Actual USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Training</td>
<td>300,000</td>
<td>307,881</td>
<td>7,881</td>
</tr>
<tr>
<td>Total</td>
<td>300,000</td>
<td>307,881</td>
<td>7,881</td>
</tr>
</tbody>
</table>

10.3.4. Un-committed/Project Operating costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget USD</th>
<th>Actual USD</th>
<th>Variance USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Un-committed/Project Operating costs</td>
<td>150,000</td>
<td>117,982</td>
<td>32,018</td>
</tr>
<tr>
<td>Total</td>
<td>150,000</td>
<td>117,982</td>
<td>32,018</td>
</tr>
</tbody>
</table>

10.3.5. Cash and bank Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>30 June 2018 USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Bank Balance</td>
<td>28,245,848</td>
</tr>
<tr>
<td>Total</td>
<td>28,245,848</td>
</tr>
</tbody>
</table>

10.3.6. Under absorption of advanced funds in the year 2017/2018

UNRA requested for funds from the World Bank Group for implementation of NERAMP activities under Loan Credit No.5334-UG for payment of the advance for civil works and the request was made after obtaining a revised no objection to the contract document by World Bank on the 16 April 2018.

Consequently, the funds amounting to USD 25,610,000 for the project were disbursed to a Designated Special Account in Bank of Uganda on 8 May 2018 and the contract was signed on 27 June 2018.

The funds on the account could not be utilized within the FY 2017/2018 since the civil works contract was signed at the close of the financial year. However, advance payment to the best evaluated contractor has since been made after obtaining Bank Advance Guarantee.

**Report on the Audit of the Statement of Special Designated Activity Account**

Under the terms of section 13(1, a) of the National Audit Act, 2008, the Auditor General is required to audit and report on all the public accounts of Uganda and of all public offices. In accordance with section 23 of the same Act, the Auditor General appointed M/s KPMG Certified Public Accountants to audit the Statement of Special Designated Activity Account on his behalf and report to him to enable him report to the Parliament of Uganda in accordance with Article 163 (4) of The Constitution of the Republic of Uganda.

**Opinion**

We have audited the Statement of Special Designated Activity Account of the North Eastern Road-Corridor Asset Management Project (the "Project") for the year ended 30 June 2018, and notes, comprising significant accounting policies and other explanatory information (together "the financial statement") set out on pages 15 to 17 and 21.

In our opinion, the Statement of Special Designated Activity Account of the North Eastern Road-Corridor Asset Management Project is prepared, in all material respects, in accordance with the accounting policies and guidelines of NERAMP described in note 10.1.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Statement of Special Designated Activity Account* section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter - Basis of Accounting**

We draw your attention to note 10.1 to the financial statements, which describes the basis of accounting. The Statement of Special Designated Activity Account is prepared to assist the project in complying with the financing agreement financial requirements and the accounting policies specified under note 10.1. As a result, the Statement of Special Designated Activity Account may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Statement of Special Designated Activity Account of the current period. We have determined that there are no key audit matters to communicate in our report.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the project information; introduction section; report of the project implementation team and the statement of managements' responsibilities, but does not include the Statement of Special Designated Activity Account and our auditors' report thereon.
REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL OF THE REPUBLIC OF UGANDA REGARDING THE STATEMENT OF SPECIAL DESIGNATED ACTIVITY ACCOUNT OF THE NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT (NERAMP) - CONTINUED

Our opinion on the Statement of Special Designated Activity Account does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Statement of Special Designated Activity Account or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statement

Management is responsible for the preparation of the Statement of Special Designated Activity Account in accordance with the accounting policies and guidelines of NERAMP described in note 10.1, and for such internal control as management determine is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the Statement of Special Designated Activity Account, management is responsible for assessing the project’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 intend to cease project operations, or have no realistic alternative but to do so.

Management responsible for overseeing the project’s financial reporting process.

Auditors’ Responsibilities for the Audit of the financial statement

Our objectives are to obtain reasonable assurance about whether the Statement of Special Designated Activity Account as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 this financial statement.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, 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.
REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL OF THE REPUBLIC OF UGANDA REGARDING THE STATEMENT OF SPECIAL DESIGNATED ACTIVITY ACCOUNT OF THE NORTH EASTERN ROAD-CORRIDOR ASSET MANAGEMENT PROJECT (NERAMP) - CONTINUED

- 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 the managements’ 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the project to cease to continue as a going concern.

We 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 we identify during our audit.

The engagement partner on the audit resulting in this independent auditors’ report is CPA Asad Lukwago – P0365

KPMG
Certified Public Accountants
3rd Floor, Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P.O. Box 3509
Kampala, Uganda

Date: 27 December 2018
12. STATEMENT OF SPECIAL DESIGNATED ACTIVITY ACCOUNT FOR THE YEAR ENDED 30 JUNE 2018

<table>
<thead>
<tr>
<th>Account Number</th>
<th>00313008840010</th>
<th>00313008840010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depository Bank:</td>
<td>Bank of Uganda</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>Currency:</td>
<td>US Dollars</td>
<td>US Dollars</td>
</tr>
<tr>
<td>2017/18</td>
<td>1,314,224</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Opening bank balance at 1 July</td>
<td>1,314,224</td>
<td>-</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA Funding</td>
<td>27,610,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>GoU Funding from budget</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>1,285</td>
<td></td>
</tr>
<tr>
<td>Funds available during year</td>
<td>28,925,509</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Less payments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments directly from the Designated Account</td>
<td>679,661</td>
<td>685,776</td>
</tr>
<tr>
<td>Closing balance</td>
<td>28,245,848</td>
<td>1,314,224</td>
</tr>
<tr>
<td>Cash balance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing bank balance at 30 June 2018</td>
<td>28,245,848</td>
<td>1,314,224</td>
</tr>
</tbody>
</table>

The Statement of Special Designated Activity Account was approved by management on ..........M A ....... 2018 and were signed on its behalf by:

Executive Director
Uganda National Roads Authority
Date: 24/12/2018

Director Corporate Services
Uganda National Roads Authority
Date: 22/12/2018

The notes set out on pages 15 to 17 form an integral part of this financial statement.