

TELEPHONE

General Lines: +256-41-7336000
Auditor General: +256-41-7336004 Sec.

Email: info@oag.go.ug
Website: www.oag.go.ug



THE REPUBLIC OF UGANDA

OFFICE OF
THE AUDITOR GENERAL
APOLLO KAGWA ROAD,
PLOT 2C,
P.O. BOX 7083
KAMPALA

VISION: "To be an effective and efficient Supreme Audit Institution (SAI) in promoting effective public Accountability."

MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and Value for Money spent."

IN ANY CORRESPONDENCE ON: **DCG. 283/346/02**

THIS SUBJECT PLEASE QUOTE NO:

22nd December 2016

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

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA
SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) FOR THE
YEAR ENDED 30TH JUNE 2016**

In accordance with Article 163, (4) of the Constitution of Uganda 1995 (as amended), I forward herewith audited Financial Statements of Uganda Support to Municipal Infrastructure Development together with my report and opinion thereon.

John F.S. Muwanga

AUDITOR GENERAL

- Copy to: The Permanent Secretary/Secretary to the Treasury
- " The Permanent Secretary, Ministry of Ministry of Lands
- ✓ " The International Development Association (IDA) World Bank
- " The Accounting Officer USMID
- " The Project Coordinator, USMID





THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF THE UGANDA SUPPORT TO MUNICIPAL
INFRASTRUCTURE DEVELOPMENT PROGRAM (USMID) PROJECT**

IDA CREDIT NO.5223 – UG

IMPLEMENTED UNDER THE

MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE AUDITOR GENERAL

UGANDA

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LIST OF ACRONYMS

CICO	Chonqing International Corporation
FY	Financial Year
GoU	Government of Uganda
IDA	International Development Association
ISA	International Standards on Auditing
LGs	Local Governments
MCs	Municipal Councils
MoFPED	Ministry of Finance Planning and Economic Development
MoLHUD	Ministry of Lands, Housing and Urban Development
OSR	Own Source Revenue
PPDA	Public Procurement and Disposal of Public Assets.
PS/ST	Permanent Secretary/Secretary to Treasury
SDR	Special Drawing Rights
UGX	Uganda Shillings
USD	United States Dollar
USMID	Uganda Support to Municipal Infrastructure Development
VAT	Value Added Tax

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS
OF THE UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT
PROGRAM (USMID) PROJECT FOR THE YEAR ENDED 30TH JUNE 2016 (IDA
CREDIT NO.5223 – UG) IMPLEMENTED UNDER THE MINISTRY OF LANDS,
HOUSING AND URBAN DEVELOPMENT

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the accompanying financial statements of the Uganda Support to Municipal Infrastructure Development Program (USMID) project implemented under the Ministry of Lands, Housing and Urban Development for the year ended 30th June 2016. These financial statements comprise of the Statement of Fund Balance, Statement of Receipts and Payments, Statement of Cash Flows, Statement of Special Account Activity together with other accompanying statements, notes and accounting policies.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Project financial statements in accordance with the IDA guidelines and the cash basis of accounting as described under Note 1 to the financial statements and for maintenance of such internal controls as management determines is necessary for the preparation and fair presentation of the Project financial statements that are free from material misstatements whether due to fraud or error.

Auditor's Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor's judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Part "A" of my report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

Opinion

In my opinion, the financial statements of the project present fairly in all material respects the financial performance of the Uganda Support to Municipal Infrastructure Development program project, IDA Credit No.5223 - UG as at 30th June, 2016 and the receipts and payments for the year then ended in accordance with the IDA guidelines and the basis of accounting described under Note 1 to the financial statements.

Other Matter

Without qualifying my opinion, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:-

- **Under-absorption of Funds at the Project Management Unit**

A review of the cash books and financial statements revealed that UGX.14,411,681,832 was not utilized at the project's head office by the close of the financial year. The failure to utilize the funds implies underperformance of the project in as far as activities for which the funds were provided for, besides such unutilized funds attract a service charge of 0.75% per annum.

- **Under absorption of funds by the Municipal Councils**

The Municipal Development Grants and Capacity Building Grants totaling UGX.180,295,212,001 were available for utilization however as at the close of the financial year, funds amounting to UGX.94,783,335,602 (52.6%) hadn't been utilized.

- **Counterpart funding from government**

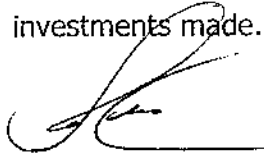
Whereas the government's contribution of USD.10 million was one of the conditions in the financing agreement, audit noted that government had not made any contribution as counterpart funding. This affects the funding of the project and affects the planning by Municipalities.

- **Late disbursements of VAT funds by the MoLHUD**

The Ministry of Finance Planning and Economic Development (MoFPED) approved MoLHUD's 2015/2016 budget of UGX 30 billion towards the project's VAT payments. Audit however noted that funds amounting to UGX.12,664,023,460 were disbursed to the Municipal Councils at the end of June 2016.

- **Lack of maintenance Plans at the Municipalities**

The beneficiary Municipalities lacked plans regarding enhancement of Owner Source Revenue (OSR) for the continuity of maintenance of the infrastructure after the expiry of the project, contrary to programme implementation manual guidelines requiring the Municipalities to put in place maintenance plans for all investments made.



John F.S. Muwanga

AUDITOR GENERAL

22nd December 2016

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM (USMID) PROJECT FOR THE YEAR ENDED 30TH JUNE 2016 (IDA CREDIT NO.5223 – UG) IMPLEMENTED UNDER THE MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

This section outlines the detailed audit findings, management responses, if any, and recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the Uganda Support to Municipal Infrastructure Development program, IDA Credit No.5223 - UG for the year ended 30th June, 2016 to enable me report to Parliament.

2.0 PROJECT BACKGROUND

The Agreement between Government of Uganda and International Development Association (IDA) was signed on the 22nd of May, 2013. Under the agreement IDA agreed to provide SDR.97,400,000 (Ninety Seven million four hundred thousand Special Drawing Rights (SDR approximately USD.150,000,000) to finance the program activities. The program is co-funded by Government of Uganda (GoU) to the tune of USD10 million. The programme is designed to enhance the Institutional capacity of the 14 program Municipal LGs which are allocated 85% of the program funds to improve urban service delivery. The fourteen participating municipal councils (Municipal LGs) are; Arua, Gulu, Lira, Soroti, Moroto, Mbale, Jinja, Entebbe, Masaka, Mbarara, Kabale, Fort-portal, Hoima and Tororo.

The project became effective on 4th September, 2013, and is implemented by the Ministry of Lands, Housing and Urban Development (MoLHUD). The programme is expected to run for 5 years from 2013/2014 to 2017/2018.

3.0 **PROGRAM DESCRIPTION/OBJECTIVES**

The objective of the Program is to enhance the institutional performance of Program LGs to improve urban service delivery. The program complements the GoU's local government management and service delivery program and consists of the following;

- Provision of municipal development grants to program LGs, for the carrying out of development activities prioritised within said program LGs' Infrastructure Action Plans.
- Provision of municipal capacity building grants to program LGs for the carrying out of activities prioritised within said Program LGs' Capacity Building Plans.
- Carrying out by Program MDAs of activities whose objective is to strengthen the technical and management capacities of program LGs to implement, coordinate and manage the program.

4.0 **EXPECTED OUTCOMES**

The program`s expected outcomes are;

- Strengthened capacities of participating municipalities in fiduciary, safeguards, urban planning and Own Source Revenue (OSR) generation.
- Increase in total planned infrastructure completed by participating Municipal LGs.
- Enhanced capacity of MoLHUD for urban development, management and back stopping for the implementation of the program.

5.0 **AUDIT OBJECTIVES**

The audit was conducted in accordance with International Standards on Auditing and included a review of the accounting records, accounting policies used and agreed procedures as was considered necessary. The Audit was carried out with regard to the following objectives;

- 1) To express an opinion as to whether the financial statements for the year ended 30th June 2016 present fairly in all material respect the receipts and payments of the project as well as the cash position and are in conformity with generally accepted accounting principles.
- 2) To establish whether the special account has been maintained in accordance with the provisions of the Credit Agreement.
- 3) To evaluate and obtain a sufficient understanding of the internal control structure of the project, assess control risk and identify reportable conditions, including material internal control weaknesses.
- 4) To establish whether project managers are managing the project in compliance with the covenants contained in the financing agreements as well as Government of Uganda financial regulations.
- 5) To establish whether all procurements of goods and services under the project have been undertaken in accordance with GoU procurement guidelines and procedures as specified in the PPDA, Act 2003.
- 6) To establish whether all necessary supporting documents, accounting records as well as books of accounts have been kept in respect of all project activities.
- 7) Whether project activities have been implemented as stated in the work plans and budgets.

6.0 **AUDIT PROCEDURES PERFORMED**

a. **Revenue/Receipts**

Obtained a schedule of all project funds provided by IDA and Government of Uganda and reconciled the amounts to the project's cash books and bank statements.

b. **Expenditure**

Reviewed the Programme funding Agreement to ascertain agreed budget line activities for the IDA and GOU funding and checked whether funds were utilized in accordance with the approved work plan.

Vouched transactions of the programme in particular funding received and expenditures incurred during the period covered by the audit in order to

establish that documentation in support of expenditure agreed with the amount and description on the payment vouchers and or applications, bank statements and was properly controlled and accounted for.

c. **Internal Control System**

Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period.

d. **Procurement**

Reviewed procurement of goods and services for the project and reconciled with the approved procurement plan.

e. **Fixed Assets Management**

Reviewed use and management of project assets during the period under review

f. **Periodic Reports about project Activities**

Reviewed the programme agreement provisions, and reconciled it to the project activities during the period under review.

g. **Programme Financial Statements**

Examined on a test basis, evidence supporting the amounts and disclosures in the programme financial statements; assessed the accounting principles used and significant estimates made by programme management as well as evaluating the overall financial statements presentation.

7.0 **AUDIT FINDINGS**

Categorization of Findings

The following system of profiling of the audit findings has been adopted to better prioritise the implementation of audit recommendations:-

	<i>Category</i>	<i>Description</i>
1	<i>High Significance</i>	<i>Has a significant / material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.</i>
2	<i>Moderate</i>	<i>Has a moderate impact, has a likelihood of reoccurrence, and</i>

	<i>Significance</i>	<i>in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.</i>
3	<i>Low Significance</i>	<i>Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.</i>

Summary of Findings

	Title of Finding	Significance
7.1	Compliance with the Financing Agreement and GoJ Provisions	High
7.1.1	Under-absorption of Funds at the Project Management Unit	High
7.1.2	Under absorption of funds by the Municipal Councils	High
7.1.3	Counterpart funding from government	High
7.1.4	Late disbursements of VAT funds by the MoLHUD	High
7.2	General Standard of Accounting and Internal Control	High
7.2.1	Lack of maintenance Plans at the Municipalities	High
7.2.2	Quarterly Reports, Communication and Procurements	Moderate
7.3	Inspection	High
	<u>Masaka Municipal Council</u>	
	<ul style="list-style-type: none"> • Un-accounted for funds 	
	<u>Fort Portal Municipal Council</u>	
	<ul style="list-style-type: none"> • Poor absorption of funds • Delayed works 	
	<u>Mbarara Municipality Council</u>	
	<ul style="list-style-type: none"> • Un-verified top-up 	
	• <u>Mbale Municipal Council</u>	
	<ul style="list-style-type: none"> • Delayed Contract Works • Extra cost incurred on road works 	
	<u>Lira Municipal Council</u>	
	<ul style="list-style-type: none"> • Contract price variation • Diversion of Funds 	
	<u>Hoima Municipal Council</u>	
	<ul style="list-style-type: none"> • Un-verified top-up 	

7.1 **Compliance with the Financing Agreement and GoU Provisions**

A review was carried out on the project compliance with the credit agreement provisions and GoU financial regulations and it was noted that the project complied in all material respects with the provisions in the agreement and applied GoU regulations fairly except in the following;

7.1.1 **Under-absorption of Funds at the Project Management Unit**

Schedule 1 of the Project Financing Agreement stipulates the objective of the Program as enhancing the institutional performance of Program Local Governments (LGs) to improve urban service delivery. A review of the cash books and financial statements revealed that UGX.14,411,681,832 was not utilized at the project's head office by the close of the financial year.

The failure to utilize the funds implies underperformance of the project in as far as activities for which the funds were provided for. Furthermore, such unutilized funds attract a service charge of 0.75% per annum, as per Article II, Section 2.04 of the project's financing agreement.

Management in response stated that there were activities that had been planned for but not implemented such as renovation of MoLHUD headquarters and implementation of GIS.

I advised management to ensure that the project's implementation matches the funding so as not to incur unnecessary service charge, which is a cost to the taxpayer.

7.1.2 **Under absorption of funds by the Municipal Councils**

Audit inspection carried out on 14 beneficiary Municipal Councils revealed that the Municipal Development Grants and Capacity Building Grants totaling UGX. 180,295,212,001 were available for utilization however as at the close of the financial year, funds amounting to UGX.94,783,335,602 (52.6%) hadn't been utilized.

The unutilized funds were meant for settlement of VAT, Municipal development (Municipal Development Grants) and capacity building (Capacity Building Grants). Under absorption of the project funds is indicative of implementation inefficiencies which could negatively affect the project progress.

In response, the Accounting Officer explained that the MoLHUD through Permanent Secretary/Secretary to Treasury (PS/ST) had guided the Municipalities to ensure enhanced funds absorption and timely delivery of urban development services as noted that:-

- The Municipalities which executed the initial works and completed in time the infrastructure sub-projects under Phase 1A and already had other roads designed were able to procure new firms for phase 1B infrastructure by 30th June, 2016. These included Arua, Gulu, Lira, Entebbe and Masaka. Jinja Municipality completed in time but had not yet got a contractor as the designs were not in place for other sub-projects, it is expected that they will have the contractor for phase 1B on site by April, 2016.
- The Municipalities of Mbarara and Kabale had failed to initially attract Contractors. They were supported throughout the process until they got the Contractors. The 2 Municipalities are moving very fast and shall have a very high absorption rate by 30th June, 2017.
- The Municipalities of Tororo, Mbale, Soroti, Hoima and Fort Portal procured a common contractor whose performance eventually fell short of the required speed. The Municipalities were guided to apply liquidated damages to the Contractor, as a stage of enhancing the performance and eventually terminating the contract to pave way for a new procurement to complete any pending civil works.
- Moroto Municipality receives little monies due to its demographic challenges, MoLHUD with guidance of the World Bank is to enhance Moroto with additional funds (from MoLHUD budget) to ensure that the bus terminal is completed by close of 2016/17.

I advised management to ensure that the Municipal Councils devise corrective strategies for the challenges encountered so as to absorb the funds and thus ensure project effectiveness.

7.1.3 Counterpart funding from government

Whereas the government's contribution of USD.10 million was one of the conditions in the financing agreement, the issue of counterpart funding from government had not been made clear. Audit noted that government had not made any contribution as counterpart funding. This affects the funding of the project and it makes it difficult for the Municipalities to plan accordingly and make provisions in their budgets.

In response management indicated that the MoLHUD had contacted MoFPED to clarify on counterpart funding to the 14 Municipalities.

I await the outcome of this issue from MoFPED.

7.1.4 Late disbursements of VAT funds by the MoLHUD

The Ministry of Finance Planning and Economic Development (MoFPED) approved MoLHUD's 2015/2016 budget of UGX 30 billion towards the project's VAT payments. Audit however noted that funds amounting to UGX.12,664,023,460 were disbursed to the Municipal Councils at the end of June 2016.

Due to late disbursement, it was observed that all the Municipal Councils deposited the said funds in the project accounts as opposed to the Treasury Single Account and subsequently rolled over to the following financial year. The above was done without seeking for authority from the PS/ST, as required, implying that the rollover was illegal.

It was also noted that MoLHUD expensed the said funds during the financial year 2015/16 and yet the funds were not utilized in the year under review. This anomaly implies that the expenditure reported in the financial statements is overstated. Late disbursement of funds could have resulted in under-absorption of funds and delays in the implementation of the various project activities.

In response, the Accounting Officer explained that the funds were held pending accountability of the initial release of VAT funds and pledged to ensure that subsequent release of funds and accountability will be timely.

I advised management to ensure that written authority to retain funds after year end is always sought from the PS/ST before rolling over funds to the subsequent financial period and Make the necessary adjustments in the financial statements so as to match transactions with the periods in which they occurred.

7.2 General Standard of Accounting and Internal Control

A review of the project financial management system was carried out and it was observed that management instituted adequate controls to manage project resources except for the matter below:-

7.2.1 Lack of maintenance Plans at the Municipalities

It was also pointed out by the 5th Programme Technical Committee that the programme implementation manual guidelines required the Municipalities to put in place maintenance plans for all investments made, with emphasis on enhancement of Owner Source Revenue (OSR), as a key indicator to success.

Whereas this issue is very pertinent to infrastructural sustainability, it was not concluded on and none of the beneficiary Municipalities had availed any plan regarding enhancement of OSR for the continuity of maintenance of the infrastructure after the expiry of the project.

Management reported that the Municipalities were yet to provide for future maintenance budgets after working out the budget item from the OBT. If nothing is done in this regard, there is likelihood that the gains achieved by the project will not be sustained in future.

In response, the Accounting Officer explained that the Capacity Building Fund had been utilized to enhance Own Source Revenue (OSR) mainly to support the Municipal Local Governments exploit the OSR potential for sustaining the infrastructure investment. Major interventions have mainly been in valuation of

Properties and update of the Register of major sources of OSR. The Operation and Maintenance (O&M) plan and execution is one of the key performance measures that the Municipal LGs are assessed on annually. The Municipal LGs have now grown in planning and executing the O&M plans.

I advised management to engage all the concerned stakeholders with a view of instigating sustainable planning and thus sustainability of the project gains.

7.2.2 Quarterly Reports, Communication and Procurements

It was also reported that some Municipalities delayed to submit quarterly reports despite the requirement in the guidelines of Municipalities to submit quarterly reports within 30 days after the end of every quarter. In addition it was noted that the reports that were submitted were of poor quality (wanting in terms of content).

Whereas the report did not cite examples of reports that were not up to standard, the audit team noted that Masaka Municipal Council's 4th quarter report was inaccurate, as it did not capture UGX.127,619,506, which had been received on 5/8/2015 as top-up, UGX.551,814,455 meant for VAT which was received on 11/9/2015 and UGX.2,992,985,210 received on 6/6/2016 as Municipal Development Grant

In response management indicated that more stringent actions have been taken to ensure that the Municipalities make timely quarterly Progress Reports.

I advised management to enforce timely and qualitative reporting so as to inform the project planning and decision making processes.

7.3 Inspection

Inspections were undertaken and issues below were noted from some Municipal Councils (MCs):-

a) Masaka Municipal Council

(i) Un-accounted for funds

During a review of the Masaka Municipal Council capacity building account, audit noted that the expenditure amounting to UGX.73,260,884 for various activities was

not properly accounted for. In the circumstances, the authenticity of the activities could not be confirmed.

I advised management to ensure that funds are accounted for promptly and to institute recoveries from the defaulting officers.

b) **Fort Portal Municipal Council**

(i) **Poor absorption of funds**

MoLHUD disbursed funds amounting to UGX.1,448,459,730 to Fort Portal Municipal Council during the financial year 2015/16 for the purpose of settling VAT, however by the end of June 2016, only UGX.147,487,507 (10%) had been utilised. Despite the low absorption capacity at the Municipal Council, the project management continued remitting funds as below;

Details	Date	Vr. No.	Amount (UGX)
1 st disbursement	September 2015	D45/9/15-16 dated 7/9/2015	851,291,910
2 nd disbursement		D015/06/16	516,760,966
3 rd disbursement	23/06/2016	D183/6/2015-16	80,406,854
Total			1,448,459,730

Source: PMU records

It was also noted that although the PMU purported to have remitted UGX.80,406,854 on 23/06/2016, vide voucher number D183/6/2015-16, the funds were not received at the MC.

In addition it was also established that all the Municipal Councils did not capture the funds for the settlement of VAT in their respective budgets.

In their response management stated that Project management released funds based on contracts entered into and considering that Fort portal, like any other Municipal Local Government needed full funding of VAT component of the contracted civil works. MoFPED releases funds on a quarterly basis and expected the Project management to release the funds to the Municipalities accordingly.

I advised management to remit VAT funds to the Municipal Councils based on certified works. Meanwhile I await the accountability for funds purportedly remitted but not received at the Municipal Council.

(ii) **Delayed works**

A review of status of works in Fort Portal Municipal Council was done and it was noted that M/S Plinth Tech Works Ltd was awarded a contract to construct Nyakana and Kagote roads (1.059 kilometres) at UGX.4.625,184,079.

According to the special conditions of the contract G.C.C 1.1(ee), the start date of the contract was stated as 14 days after signature (ie 1st March 2015) or the date of payment of advance, whichever came first. The special condition GCC 17.1 set the intended completion date for all the works as 12 calendar months from the commencement date.

It was noted that the contract was signed on the 18th Feb, 2015, implying a completion date of 30th March 2016 (also stated in the Municipal Council work plan). By the time of the audit inspection however, the works were still incomplete.

Management is advised to ensure that the works are expedited so that the populace in the Municipal environs and beyond can reap benefits from the infrastructure.

c) **Mbarara Municipality Council**

(i) **Un-verified top-up**

The audit noted the MDG Account was credited with UGX.298,797,411 on 15th of July 2015 vide EFT 7610401000123 which was supposedly a top-up as a result of foreign exchange difference.

Although management explained that the top-up arose from foreign exchange differences, owing to remittances by Bank of Uganda in US dollars, the correspondences with leading/culminating to the decision and thereafter remittance of the said top-up were however not availed to the audit team for verification. In the absence of which, audit cannot confirm whether there was justification for the top-up and whether it was commensurate to the exchange loss.

The Project Management Unit should always accompany (justify) the top-up remittances with breakdown of the losses suffered arising from the exchange rate fluctuations to ease audit trail.

d) **Mbale Municipal Council**

(i) **Delayed Contract Works**

Mbale Municipal Council entered into a contract with Plinth Technical Works Ltd on 2nd June 2014 at an initial contract price of UGX.10,345,941,339 to rehabilitate Republic Street (0.832 Km), Pallisa Road (0.368 km), Bugisu Hill Road (0.500 Km) and Nabuyonga Rise Road (1.172 Km) all totalling to 3.083 kms for contract duration of 12 months ending 1st June 2015.

Owing to the project delay, extensions were sought to ensure adequate completion of the works, as below:-

Addendum	Particulars	Period extension	
1 st	Contract extended for a period of 6 months (ref contracts committee minutes of meeting held on 26 th May 2015 - minute mmc/cc/147/15	1/6/2015 - 31/12/2015	7 Months
2 nd	2 nd request	31/12/2015 - 31/3/2016	3 Months
3 rd	3 rd request	31/3/2016 - 30/6/2016	3 Months
4 th	4 th request (ref: contracts committee meeting of 29 th June 2016).	30/6/2016 - 30/9/2016	3 Months

Despite the four (4) extensions above, the contract works by the time of site inspection (26th October 2016), were still far from completion. The drainage works had not been adequately done on all the roads. It was further noted that the performance security expired on 31st August 2016 and had not been renewed, by the time of inspection.

The delay in works execution could have partially been as a result of engaging a contractor who was overstretched with other contracts. The same contractor had contracts with the Municipal Councils of Soroti, Tororo, Hoima and Fort portal and all the works were being undertaken concurrently. This was a weakness at the time

of procurement, where such capacity issues should have been raised and other contractors instead considered.

I advised management to always undertake due diligence and proper designs before construction works commenced to as to avoid halting of works. In the meantime the management should expedite the works.

(ii) **Extra cost incurred on road works**

As stated above, M/S Plinth Technical Works Ltd was awarded the road works contract at initial cost of UGX.10,345,941,339, however extra cost of UGX.1,969,296,209 was incurred resulting in increase in the total contract price by 19% to UGX.12,315,237,548.

This arose from delays due to the halting of works to enable the Council authorities conduct a design review. It was also noted that the initial engineering design on these roads was not properly done as it caused the overflow of running water into shops and other residential buildings adjacent to the roads. Owing to the fact that the authorities ought to have undertaken proper design before commencing the construction, the extra cost of UGX.1,969,296,209 therefore is nugatory expenditure and a financial loss to Government.

The project management should always ensure that proper designs are done before projects are embarked on to avoid incurring extra costs.

e) **Lira Municipal Council**

(i) **Contract price variation**

Regulation 75(1c) of the Local Government PPDA Regulations, 2006 defines a material deviation or omission as one that if corrected would unfairly affect the competitive position of other tenderers presenting substantially responsive and compliant tenders. Regulation 120 (12) states that no individual contract amendment shall increase the total contract price by more than 15% of the original contract price without the prior approval of PPDA.

Contract was awarded to M/s Chonqing International Corporation (CICO) at a contract price of UGX.5,345,786,843 to rehabilitate Oyam road, Rwot-Aler road and Aroma Lane (0.985 Kms). The contract which was signed on 16th March 2016, clearly indicated that it was VAT inclusive.

It was however noted that the contracts committee sat on 14th September 2016 and approved a contract variation of UGX.962,241,631, which increased the contract price to UGX.6,308,028,474 to take into consideration the VAT element which was purported to have been erroneously omitted during evaluation. This increase represents a variation of 18% of the initial contract price, which necessitated authority from PPDA and the Solicitor General's clearance. By the time of audit (20th October 2016), approvals had not been granted.

This casts doubt on the capacity of the district's PDU as the omission ought to have been detected and corrected before the signing of the contract Agreement.

I advised management to ensure that contracts entered into are properly scrutinised before being signed.

(ii) **Diversion of Funds**

It was noted that funds worth UGX.7,722,000 vide voucher No PV-S01824 dated 30/3/2016 was spent by the Town Clerk as night allowance and 20 days out of pocket to attend a course on capacity building program on local administration for Uganda, from 3rd to 23rd April, 2016 in Seongnam and Wanju - Republic of Korea. This is contrary to the USMID operational manual sec 3.6 that states that courses must be undertaken in Uganda. Such expenditure is ineligible and is tantamount to diversion of funds.

The Accounting Officer should institute recovery measures from the concerned officer.

f) **Hoima Municipal Council**

(i) **Un-verified top-up**

The audit noted that the MDG Account was credited with UGX.226,768,899 which was supposedly a top-up as a result of foreign exchange difference (Ref: Vr D14/05/2015-16 dated 18/5/2016, transfer of USD.1,050,688.17 (equivalent¹ to UGX.3,478,460,790).

Similarly the capacity building account received funds of UGX.27,566,199 as top up due to variation of exchange rate in respect of amounts disbursed in dollars – (Ref: Vr D/25/2015-16, dated 29/4/2016 of USD124.303, equivalent to UGX.413,685,356, at a rate of USD 1 = UGX 3,328.04).

The detailed calculation of the top up and correspondences culminating to the decision and thereafter the remittance of the said top-up funds were however not availed to the audit team for verification. In the absence of which, audit cannot confirm whether there was justification for the top-up and whether it was commensurate to the exchange losses.

I advised the Project Management to always accompany the top-up remittances with breakdown of the losses suffered arising from the exchange rate fluctuations to ease audit trail.

7.4 **Status of implementation of prior years audit recommendations**

A review of the implementation of the previous year's audit recommendations revealed status of implementation, as shown in the following table;

No	Observation	Status of Implementation
1	Lack of a project implementation report	Addressed
2	Funding gap - UGX.5,493,341,416 (7.6%)	Not Addressed
3	Under-absorption of Funds - UGX.11,756,455,837	Not Addressed

¹ Exchange rate of USD 1=UGX.3,310

4	Diversion of Capacity Building Funds - UGX.8,380,000	Not Addressed
5	Capacity Building Funds not utilized - UGX.6,079,544,830	Not Addressed
6	Un-utilized Municipal Infrastructure Development Funds - UGX.57,062,020,785	Not Addressed

I advised management to always implement all audit recommendations so as to enhance accountability and stewardship of public resources.

FINANCIAL STATEMENTS



MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

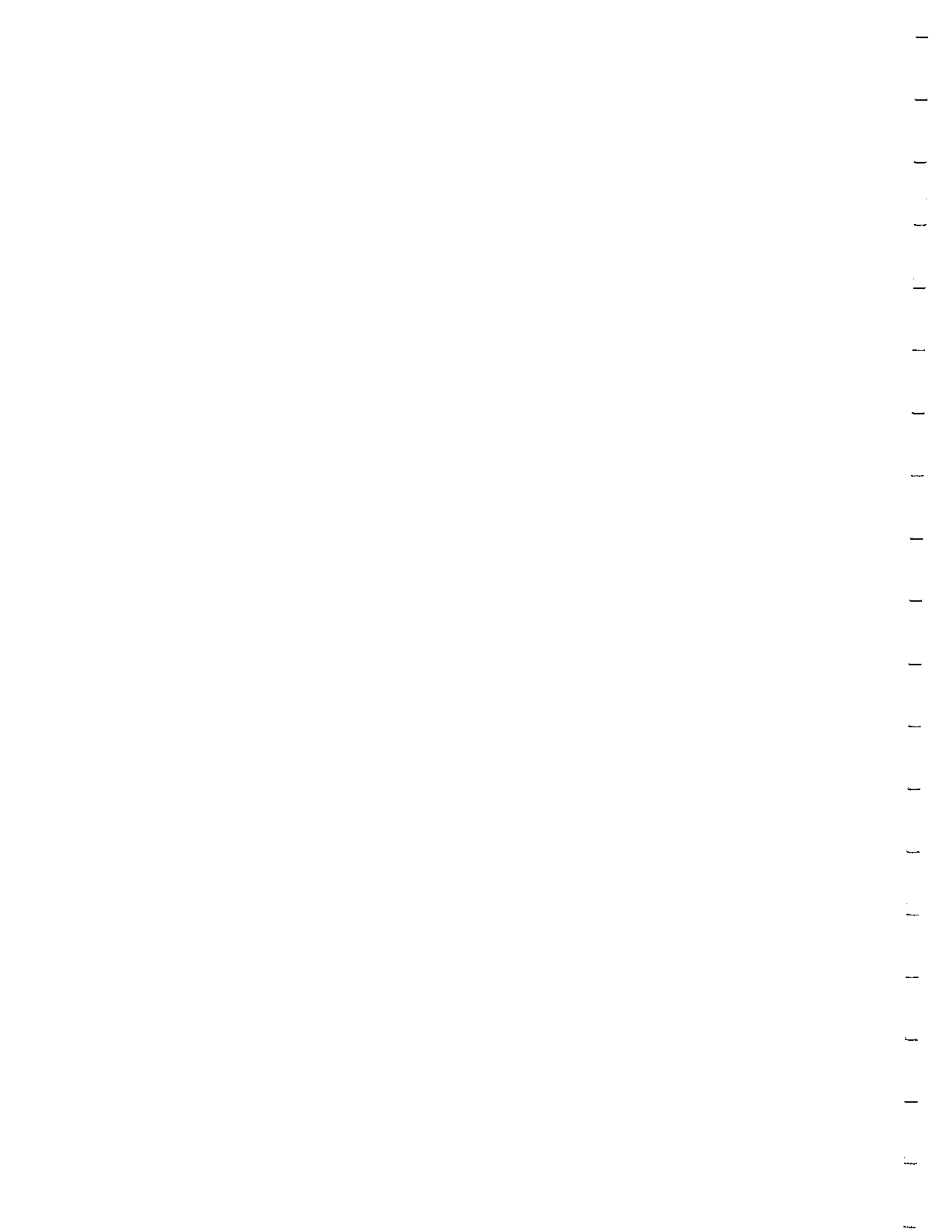
**UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE
DEVELOPMENT (USMID) PROGRAM**

DRAFT FINANCIAL STATEMENTS

FINANCIAL YEAR ENDED 30TH JUNE, 2016

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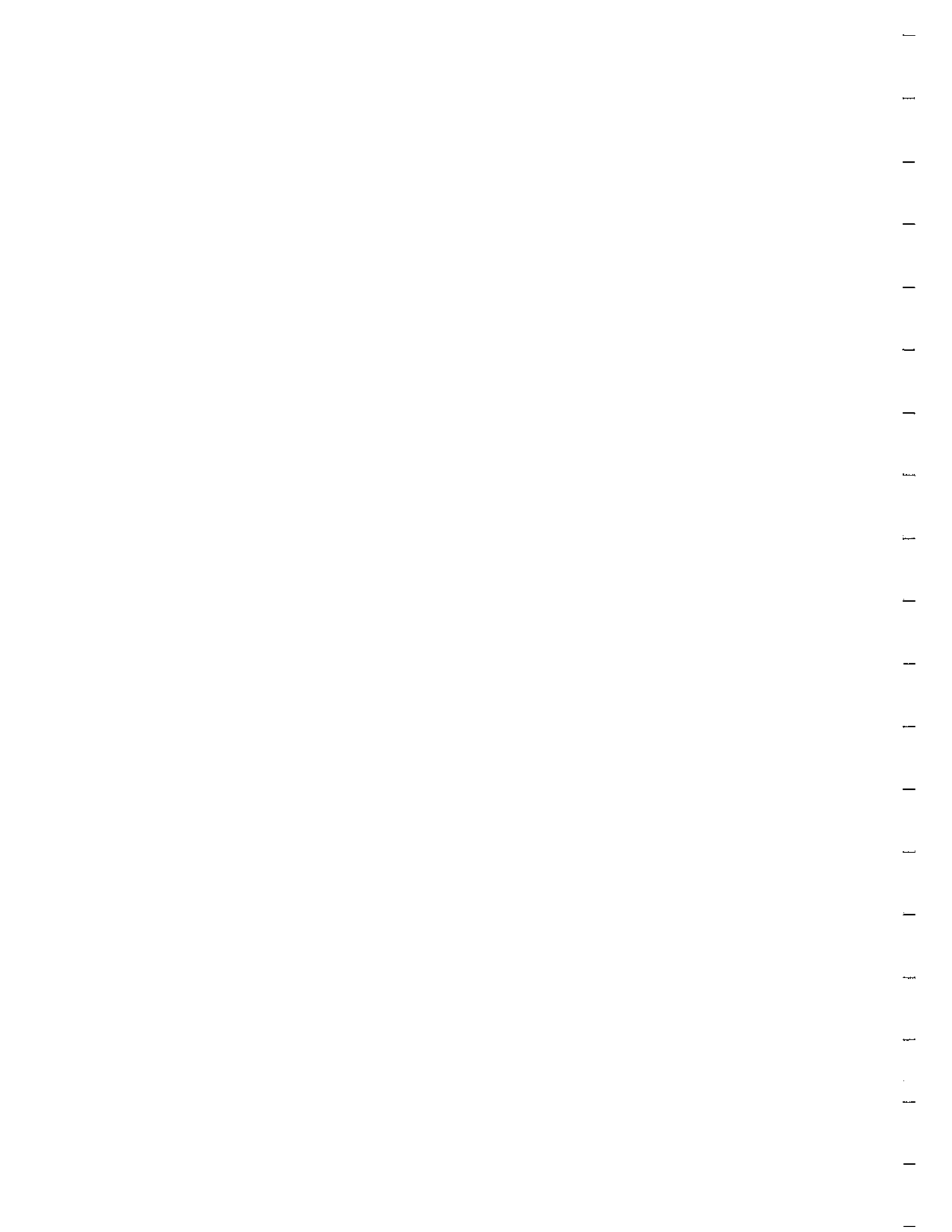
1.1 Background and Key Performance Highlights

The Government of Uganda (GOU), represented by the Ministry of Finance, Planning & Economic Development (MOFPED), secured a long-term loan from the International Development Association (IDA) to the tune of approximately US\$150 Million) to finance the five-year of the Uganda Support to Municipal Infrastructure Development (USMID) Program. The pertinent Financing Agreement was signed on 22nd May 2013 was declared effective on 4th September 2013. GOU is providing counterpart funding worth UGX 10 Million through interventions aimed at enhancing urban service delivery such as Local Government Service Delivery and Uganda Road Fund Grants Release to the Municipal Councils that are participating in USMID Program. As such, the Government of Uganda is not required to make a Special fund to co-finance USMID directly.

Over the duration of the Program, USMID Program shall be implemented through the 14 participating Municipal Local Governments which are allocated 85% of the Program funds. The participating Municipalities are; Arua, Fort Portal, Entebbe, Gulu, Hoima, Jinja, Lira, Kabale, Masaka, Mbale, Mbarara, Moroto, Soroti, and Tororo. In addition installation of IFMS is being executed by the Ministry of Finance and Local Government while the Capacity Building for Central Government is for Government of Uganda Executing Agency – Ministry of Lands, Housing and Urban Development.

1.2. USMID Program Objectives

The overall aim of USMID is to enhance institutional performance of Program Local Governments to improve urban service delivery. Program's expected outcomes are (i) strengthened capacities of participating municipalities in fiduciary, safeguards, urban planning and own source revenue (OSR) generation, (ii) increase in total planned infrastructure completed by participating municipal LGs, and (iii) enhanced capacity of MLHUD for urban development, management and backstopping for the implementation of the Program.



2.0 Key Performance Highlights

The performance highlights are highlighted in terms of a) financial performance; b) physical progress as delivered through each sub-component and the achievement in the key result areas. This section also briefly highlights the achievements as contained in the Mid-Term review report and the challenges.

2.1 Financial highlights

During the year under review, US\$ 33.9 Million (Equivalent to UGX. 116.4 Billion) was received representing 22.65 percent of the total allocated funds from International Development Association (IDA). In addition, Government of Uganda contributed UGX. 21.4Million, giving a total receipt of UGX. 137.8 Million. During the year under review, the Ministry spent UGX. 135.2 Million (Inclusive of transfer of IDA grants and VAT funds to Municipalities) representing 98% of the funds received. Over the last three years, 59% percent of allocated funds has been received from the World Bank. Overall, the Mid-term review assessment confirmed that USMID Program was performing satisfactorily.

The funds allocated to the Central Government during the year was UGX. 18.3 billion of which UGX. 15.7 billion Was actually spent representing 86%.

2.2 Physical Progress highlights

At the end of the financial year 2015/16, batch 1A infrastructure in 6 Municipalities (Arua, Gulu, Lira, Jinja, Entebbe and Masaka) were substantially complete and ready for commissioning. Five Municipalities (Arua, Gulu, Lira, Entebbe and Masaka) had started civil works for batch 1B. Civil works were on-going in the rest of the Municipalities (Hoima, Fort Portal, Mbale, Tororo, Soroti , Kabale and Mbarara).



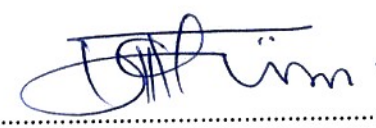
MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Management is required to prepare financial statements, which presents fairly, in all material respects funding and expenditure of USMID Program in accordance with the Financing agreement signed between Government of Uganda and IDA/World Bank.

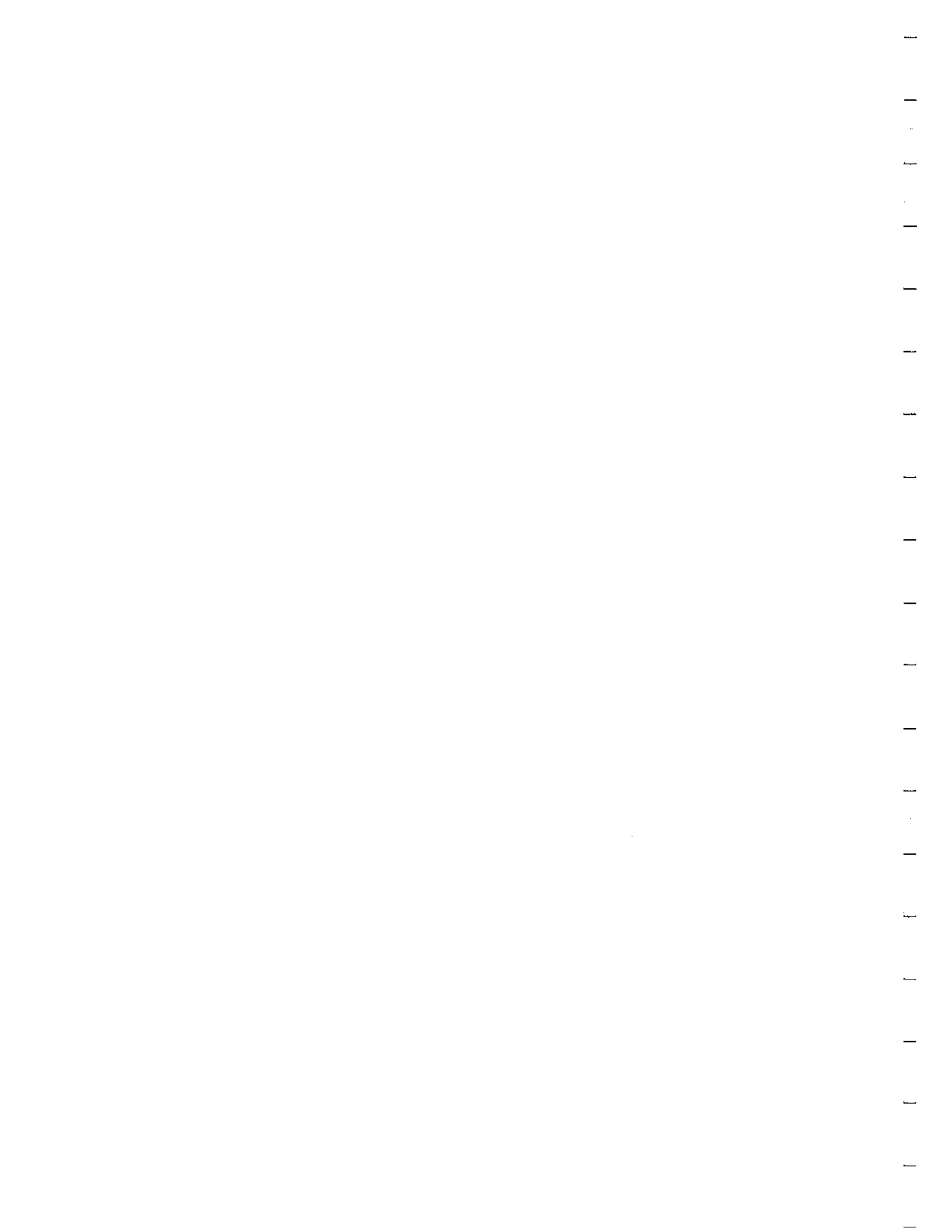
Management accepts the responsibility for the period Financial Statements, which have been prepared using appropriate accounting policies in conformity with the terms and conditions of the financing agreement and organization policies and procedures. Management also accepts the responsibility for safeguarding the assets of the project against fraud and other irregularities. Management further accepts the responsibility for the maintenance of accounting records which may be relied upon in the preparation of the Financial Statements as well as adequate systems of internal financial control.

Management accepts the responsibility that the Program funds have been expended in accordance with the intended purposes as specified in the Financing Agreement.


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Eng. Dr. Isaac Mutenyo
PROJECT COORDINATOR

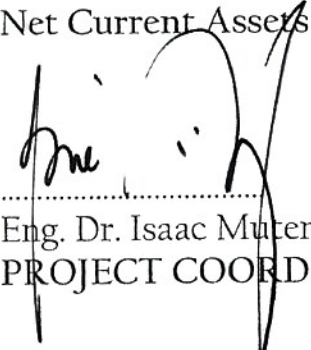

.....
Kawuma Joseph (CPA)
Finance & Accounting Specialist


.....
Flavia Waduwa
For: PERMANENT SECRETARY




MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
 UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
 FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016
 STATEMENT OF FUND BALANCE AS AT 30TH JUNE, 2016

	Note	2016 (UGX)	2015 (UGX)
Opening Balance		11,756,455,837	14,668,169,284
Surplus/(Deficit) for the Year		2,684,811,743	2,911,713,447
Foreign Exchange Gain/(loss)		<u>342,114,772</u>	<u>-</u>
Balance as at 30 th June		14,783,382,352	11,756,455,837
<hr/>			
Current Assets			
Bank Balance (US\$ Account)	8.1	14,889,710,907	9,320,682,856
Bank Balance (UGX Account)	8.1	1,864,816,918	2,315,085,304
Receivables	8.2	<u>136,455,440</u>	<u>120,687,677</u>
		16,890,983,265	11,756,455,837
Less: Current Liabilities	8.3	<u>2,107,600,913</u>	<u>-</u>
Net Current Assets		14,783,382,352	11,756,455,837



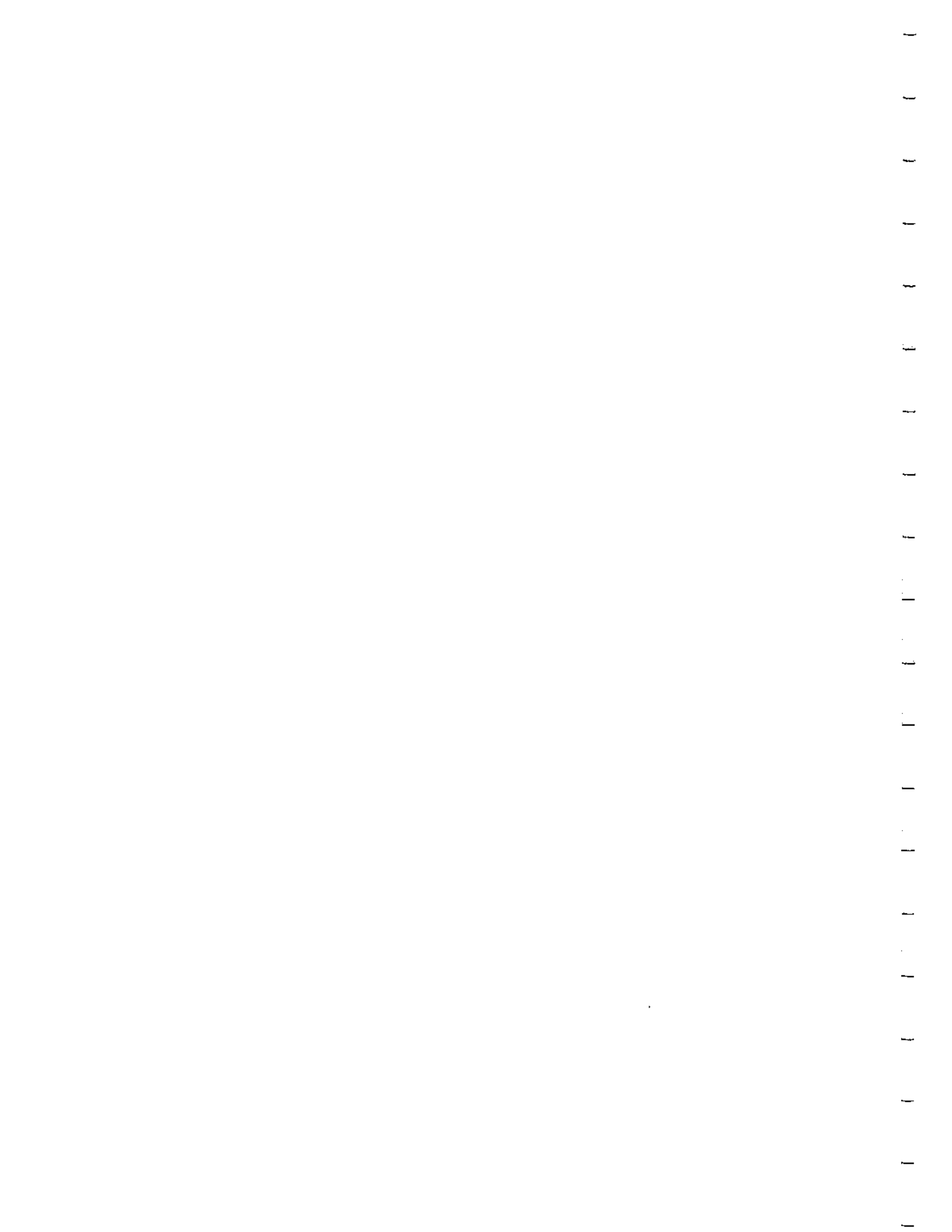
 Eng. Dr. Isaac Mutenyoo
 PROJECT COORDINATOR



 Kawuma Joseph (CPA)
 Finance & Accounting Specialist



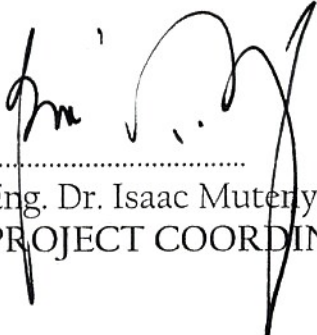
 Flavia Waduwa
 For: PERMANENT SECRETARY

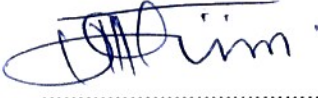


MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016

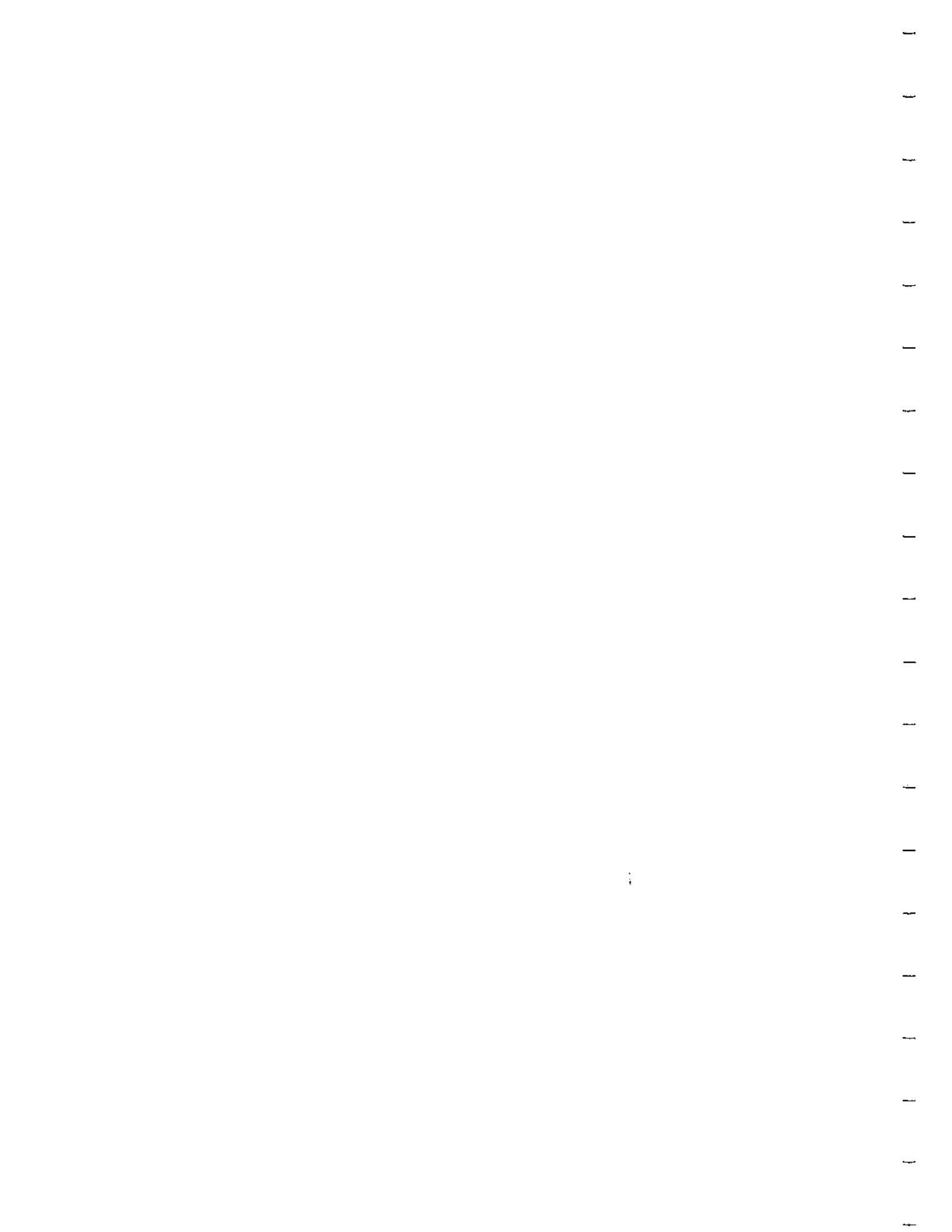
**STATEMENT OF RECEIPTS AND PAYMENTS FOR THE FINANCIAL
YEAR ENDED 30TH JUNE, 2016**

	Note	2016 (UGX)	2015 (UGX)
Receipts			
IDA - Municipal Dev't Grants	6.1	90,631,667,573	47,551,298,040
IDA - Municipal CB Grants	6.2	7,466,577,537	6,615,888,000
IDA - Central Gov't Grants	6.3	18,360,066,462	13,061,649,944
GoU - VAT Contribution	6.4	<u>21,438,711,900</u>	<u>0</u>
		<u>137,897,023,472</u>	<u>67,228,835,984</u>
Payments			
IDA - Municipal Dev't Grants	7.1	90,631,667,573	47,551,298,160
IDA - Municipal CB Grants	7.2	7,466,577,537	6,615,887,880
IDA - Central Gov't Grants	7.3	15,675,254,719	15,973,363,391
GoU - VAT Release to MCs	7.4	<u>21,438,711,900</u>	<u>0</u>
		<u>135,212,211,729</u>	<u>70,140,549,431</u>
Surplus/(Deficit)		<u>2,684,811,743</u>	<u>(2,911,713,447)</u>


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Eng. Dr. Isaac Mutenyi
PROJECT COORDINATOR


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Kawuma Joseph (CPA)
Finance & Accounting Specialist

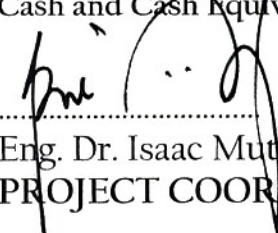

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Flavia Waduwa
For: PERMANENT SECRETARY



MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016

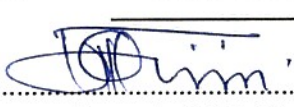
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE, 2016

ASSETS	2016 (UGX)	2015 (UGX)
CASH FLOWS FROM OPERATING ACTIVITIES		
MDG and MCBG Grants Receipts	98,098,245,110	54,167,186,040
Central Government USMID Grants	18,360,066,462	13,061,649,944
GoU Contribution to VAT on USMID Infra.	21,438,711,900	0
Cash payments to employees and suppliers	<u>(15,675,254,719)</u>	<u>(15,973,363,391)</u>
	122,221,768,753	51,255,472,593
<i>(Increase)/Decrease in operating Assets</i>		
(Increase)/Decrease in Receivable to Staff	(15,767,763)	(120,687,677)
Increase/(Decrease) in Liabilities	2,107,600,913.00	
Foreign Exchange gains	<u>342,114,772.00</u>	<u>0</u>
<i>Net cash from operating activities</i>	<u>124,655,716,675</u>	<u>51,134,784,916</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Development Grants transferred to Municipal LGS	(98,098,245,110)	(47,551,298,160)
Cash paid for Retooling MLHUD/IFMS	0	(6,615,887,880)
GoU Contribution to VAT on USMID Infra.	<u>(21,438,711,900)</u>	<u>0</u>
<i>Net cash from Investing activities</i>	<u>(119,536,957,010)</u>	<u>(54,167,186,040)</u>
Net increase/(decrease) in Cash and Cash Equivalents	5,118,759,665	(3,032,401,124)
Cash and Cash Equivalents at the beginning of the period	11,635,768,160	14,668,169,284
Cash and Cash Equivalents at the end of the period	<u>16,754,527,825</u>	<u>11,635,768,160</u>



 Eng. Dr. Isaac Mutenyo
PROJECT COORDINATOR





 Kawuma Joseph (CPA)
Finance & Accounting Specialist

Flavia Waduwa
 For: **PERMANENT SECRETARY**

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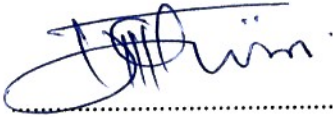
MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016

SUMMARY STATEMENT ON BUDGET PERFORMANCE

	Annual Budget	Actual Perf.	Variance
Receipts			
IDA - Municipal Dev't			
Grants	90,726,109,298	90,631,667,573	94,441,725
IDA - Municipal CB			
Grants	7,474,358,002	7,466,577,537	7,780,464
IDA - Central Gov't			
Grants	18,584,267,995	18,360,066,462	224,201,533
GoU - VAT			
Contribution	<u>21,438,711,900</u>	<u>21,438,711,900</u>	<u>0</u>
Total	<u>138,223,447,195</u>	<u>137,897,023,472</u>	<u>326,423,722</u>
Payments			
IDA - Municipal Dev't			
Grants	90,726,109,298	90,631,667,573	94,441,725
IDA - Municipal CB			
Grants	7,474,358,002	7,466,577,537	7,780,464
IDA - Central Gov't			
Grants	18,584,267,995	15,675,254,719	2,879,427,528
GoU - VAT			
Contribution	<u>21,438,711,900</u>	<u>21,438,711,900</u>	<u>0</u>
Total	<u>138,223,447,195</u>	<u>135,212,211,729</u>	<u>2,981,649,717</u>
Surplus/(Deficit)	<u>0</u>	<u>2,684,811,743</u>	



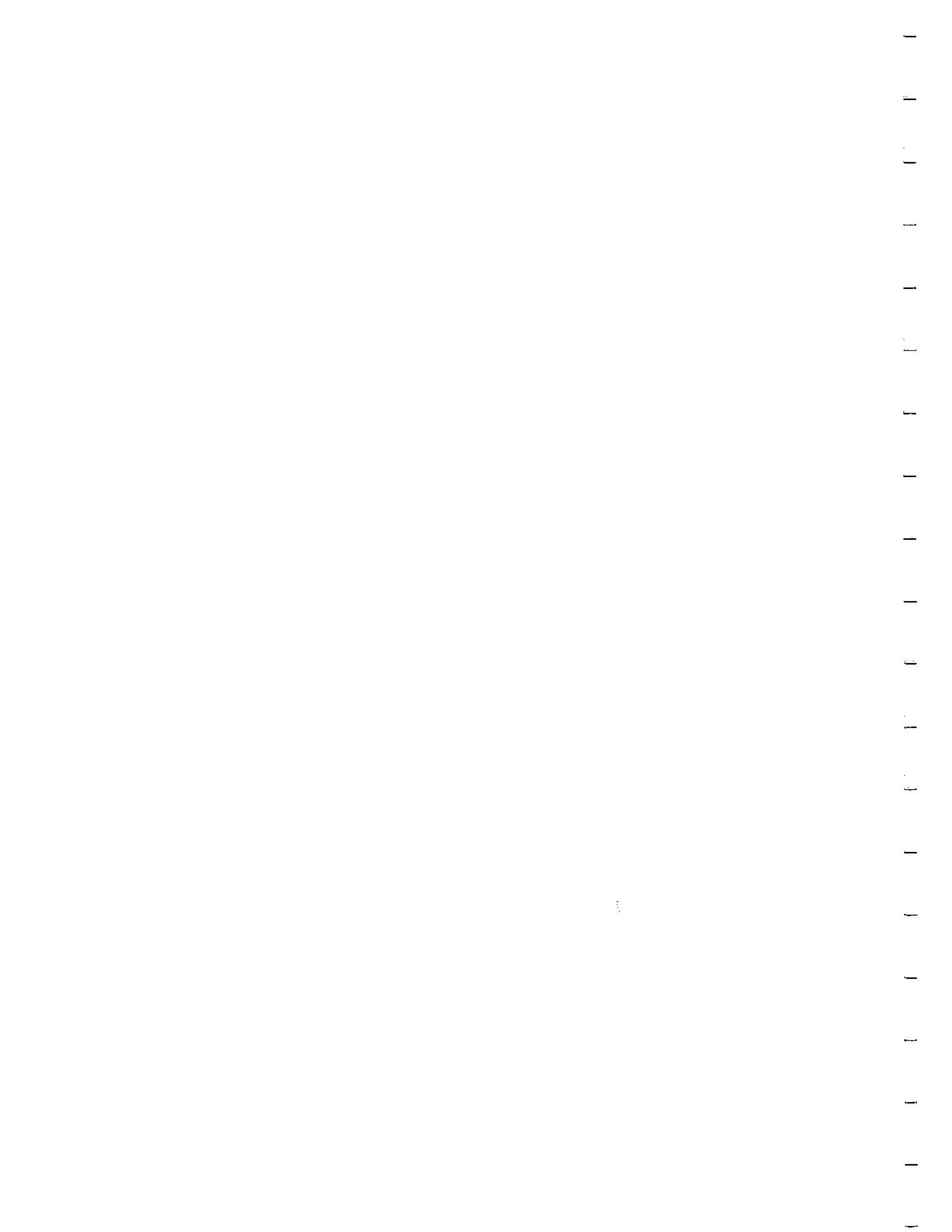
 Eng. Dr. Isaac Mutenyo
PROJECT COORDINATOR



 Kawuma Joseph (CPA)
Finance & Accounting Specialist

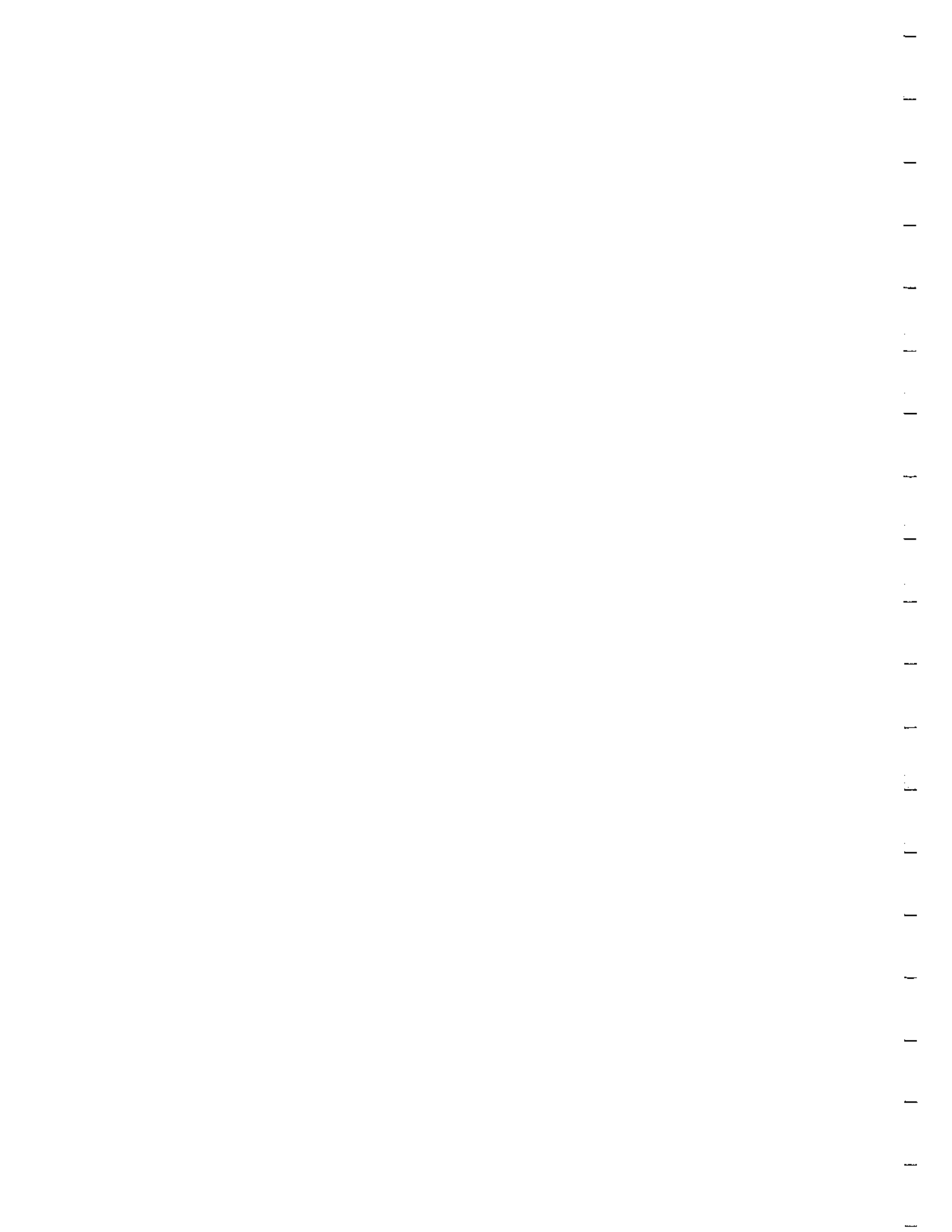


 Flavia Waduwa
For: PERMANENT SECRETARY



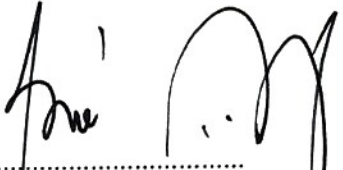
MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016
DESIGNATED ACCOUNT ACTIVITY STATEMENT FOR THE YEAR
ENDED 30TH JUNE, 2016


Program Implementing Agency	Ministry of Lands, Housing and Urban Development	
Project Name:	Uganda Support to Municipal Infrastructure Development Program	
IDA Credit No.:	5223-UG	
Report:	Designated Account Activity & Reconciliation Statement	
Period of Report:	From: 1st July 2015 To: 30th June, 2016	
DA Deposit Bank	Bank of Uganda (BOU)	
Account No:	000120088400024	
Currency of DA:	Unites States Dollars (US\$)	
	Note	US\$
PART I		
1. Cumulative advances to the end of current reporting period		82,744,502.25
2. Cumulative expenditures to the end of last reporting period		44,948,600.31
3. Outstanding advance to be accounted for (Line 1 minus Line 2)		37,795,901.94
PART II		
4. Opening DA balances at the beginning of reporting period as of 01/07/2015		3,906,256
5. Add/subtract: cumulative adjustments (if any)		-
6. Add: advances from World Bank during current reporting period		33,889,646.00
7. Add line 5 and 6		33,889,646.00
8. Outstanding Advance to be accounted for (Line 4 + Line 7)		37,795,901.94
9. Closing DA balances at end of current reporting period, as of 30/06/2016		4,934,531.93
10. Add/subtract: cumulative adjustments (if any)		0
11. Add/subtract: Expenditures for the current reporting period		32,861,370.01
12. Add line 10 and line 11		32,861,370.01
13. Add line 9 and 12		37,795,901.94
14. Difference (if any), Line 8 minus line 13		0.00
PART III		
15A. Total forecast amount to be paid by World Bank		29,380,000
15B. WA No..... (Cumulative adjustments)		0



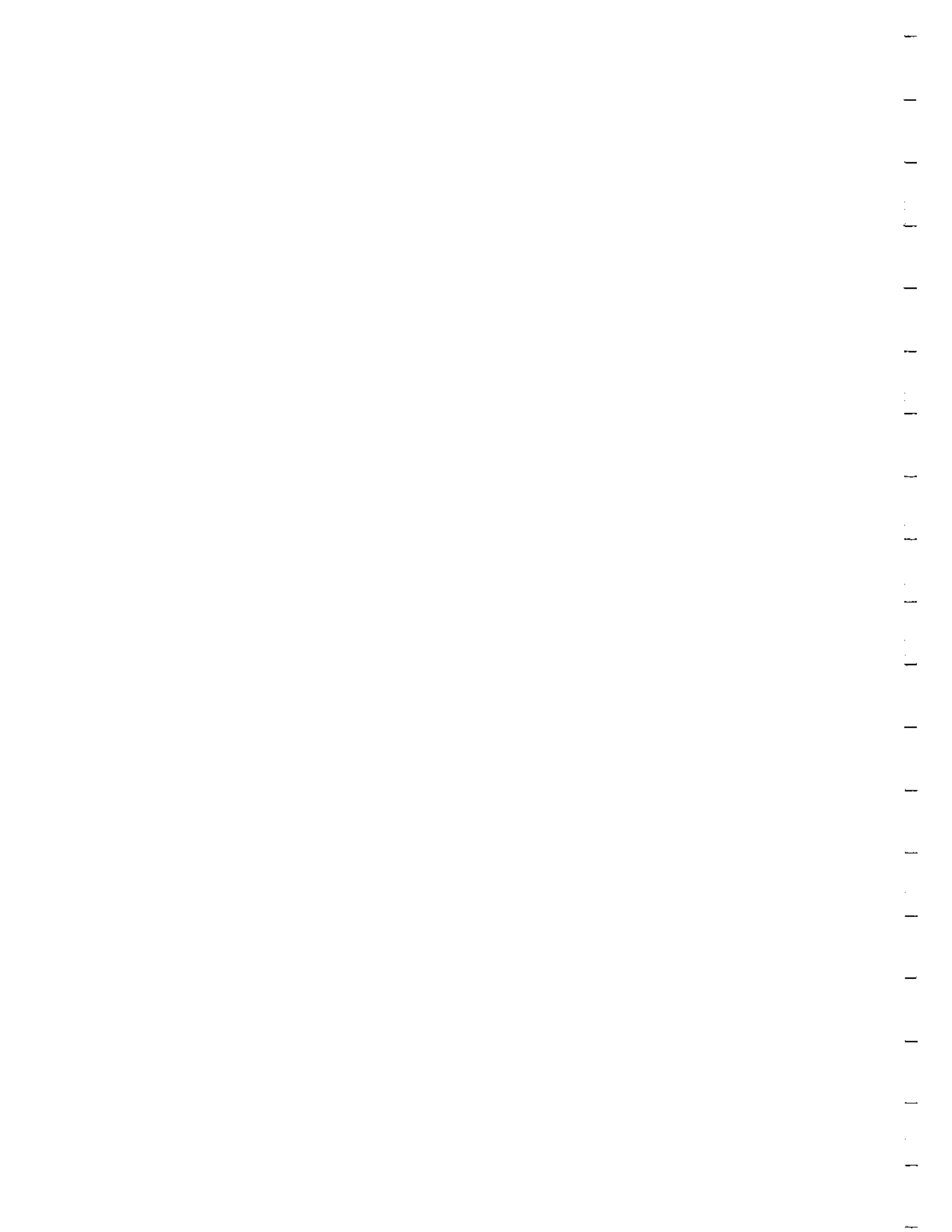
MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016

15C. Total adjusted forecast amount to be paid by World Bank (Line 15A minus Line 15B)	0
16. Less: Closing DA balance after adjustments	4,934,531.93
17. Direct payments/SC payments	0
18. Add Line 16 and Line 17	34,314,531.93
19. Cash Requirements from the World Bank for 2016/16 FY (Line 15C minus Line 18)	
PART IV	
20. Designated Account Balance per Accounting records	4,934,531.93
21. Designated Account Balance as per bank Statement	4,934,531.93
22. Difference (21-20)*	0
23a. Deposits into DA not reflected in bank statement	0
23b. Deduct unrepresented effects/Uncleared EFTs	0
24. Deduct payments from DA not reflected in Bank Statement	0
Sub-totals (23b+24)	0
Reconciled DA Cash Balance	4,934,531.93


.....
Eng. Dr. Isaac Mutenyo
PROJECT COORDINATOR


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Kawuma Joseph (CPA)
Finance & Accounting Specialist


.....
Flavia Waduwa
For: PERMANENT SECRETARY



MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016

Notes forming part of the Financial Statements for the year ended 30th June, 2016

1.0. REPORTING ENTITY

Uganda Support to Municipal Infrastructure Development (USMID) is a World Bank funded Project. Implementation is executed by Ministry of Lands, Housing and Urban Development in partnership with 14 Municipal Local Government and other Central Government Ministries, Departments and Agencies (MDAs).

2.0. BASIS OF ACCOUNTING / FINANCIAL REPORTING

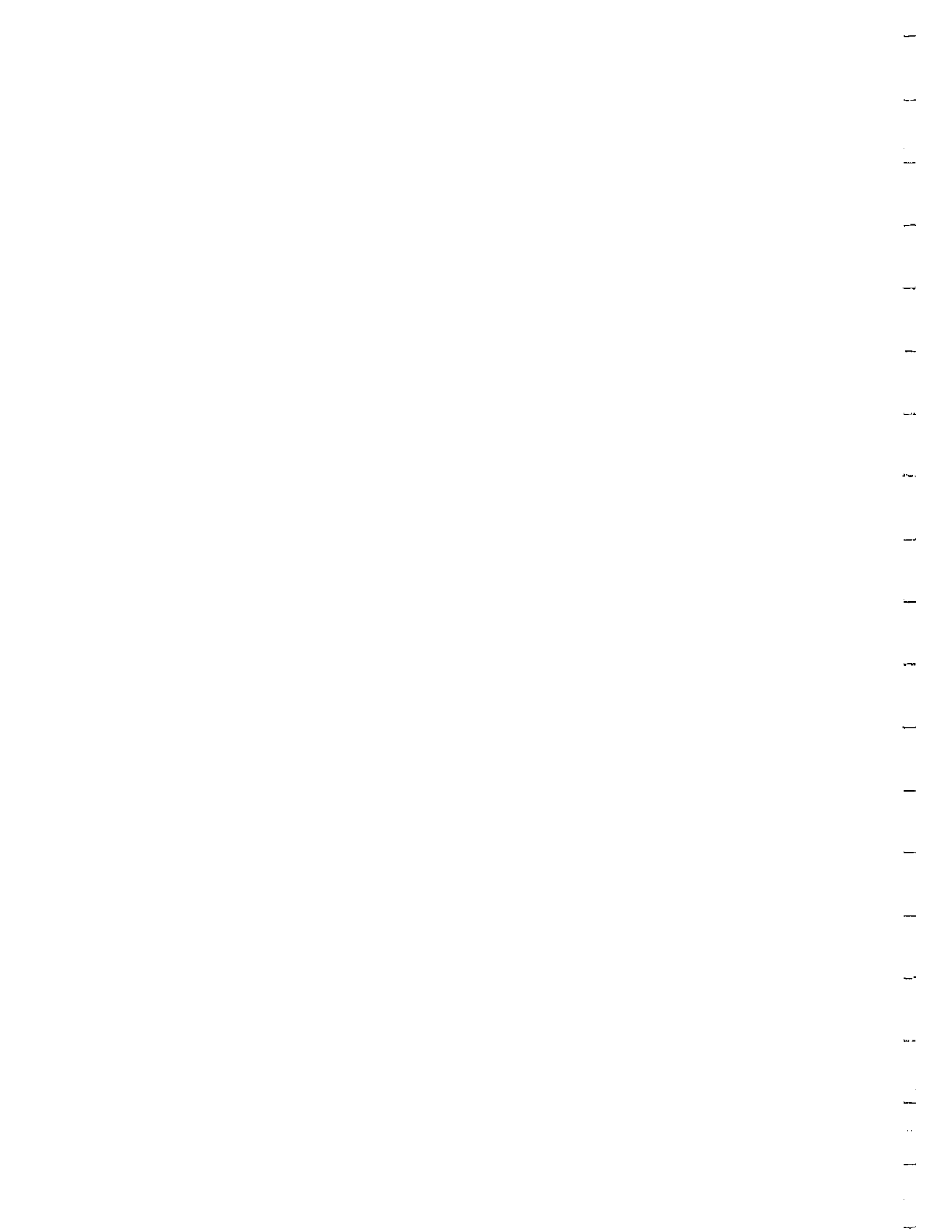
The financial statements have been prepared under the historical cost convention and comply with the requirements of the Government of Uganda cash accounting frame work.

3.0. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the reporting period and have not changed from those that were applied in the previous year(s).

3.1. Revenue Recognition;

Income of the Project mainly comprises of Loan proceeds from International Development Association. This Ministry received funding towards taxes (VAT) on infrastructure funded under the Uganda Support to Municipal Infrastructure Development (USMID) Program. The VAT funds were received and transferred to the Municipalities intact. Recognition was made for the whole VAT amount as receipt and expended as it was remitted to Municipalities.



3.1. Property, Plant and Equipment;

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributed costs which have been incurred in bringing the assets to the present location and condition necessary for their intended service.

3.2. Depreciation;

All Property and Equipment of the Project are expensed (or depreciated at 100 percent in the year of acquisition). As such, no Project Assets have been recognized in the financial statements in line with cash accounting policy adopted.

3.6. Inventories;

These are stated at the lower of cost or net realizable value. At close of the year the Project had no inventories held in stores in respect of unused inputs that would qualify for disclosure.

3.8. Foreign Currency transactions;

The financial statements have been prepared in Uganda Shillings. Monetary assets and liabilities expressed in foreign currencies are translated into Uganda Shillings at the spot rate of exchange ruling at the date of transaction. The closing cash balances on designated (dollar account) were translated at the ruling foreign exchange rate on 30th June, 2016. The funds transferred from designated account to operational (UGX) account are translated at the actual foreign exchange rate used in the transaction.

3.9. Taxation;

The current Income Tax legislation does not impose tax on the income received by Government as loans and grants from Development Partners. Therefore, the current taxes such as pay as you earn (PAYE), and withholding tax were deducted and paid to Uganda Revenue Authority and are reported as part of expense from the source where the taxes were withheld.



3.10. Cash and Cash Equivalents;

For purposes of presentations in the statement of Cash flows, cash and cash equivalents comprises of cash in hand and demand deposits held with Bank of Uganda.

3.11. Comparatives;

Where deemed appropriate, comparative figures have been adjusted to conform to changes in presentation in the current period.

3.12. Reporting Currency;

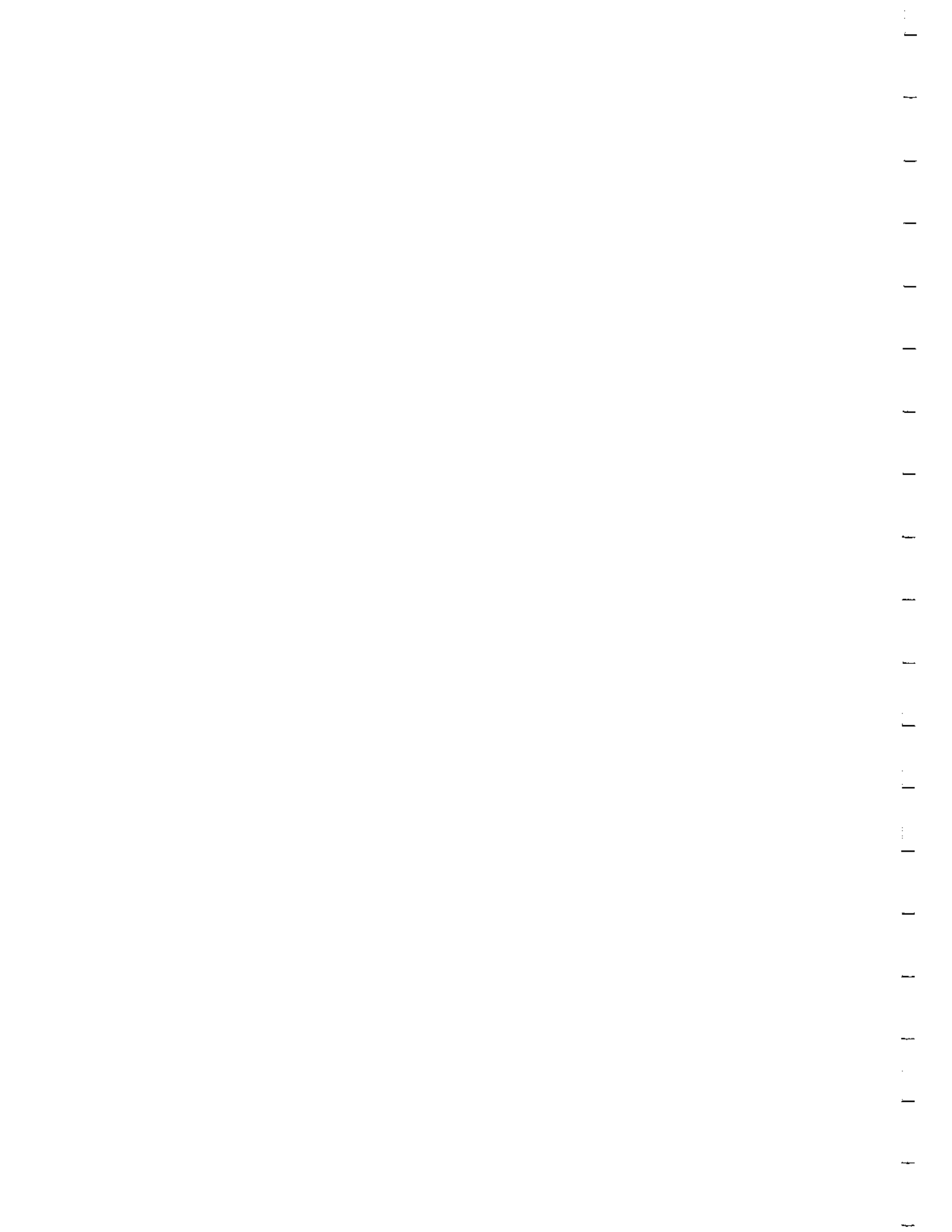
The Financial Statements have been presented in Uganda shillings expressed in full values.

4.0. CONTINGENT ASSETS AND LIABILITIES

There were no litigation cases registered by or against the Project or the Ministry of Lands, Housing and Urban Development regarding execution of this Project. Hence there is no disclosure regarding contingent liabilities or assets disclosed in the financial statements.

5.0. FINANCIAL RISK MANAGEMENT

The organisation has exposure to liquidity and foreign exchange risks that arise from receipts of grants in foreign currency. The actual value of loan amount has reduced over time due to appreciation of the dollar against the Special Drawing rights.



MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
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6.0 Receipts/Withdrawals from IDA/World Bank

	2016 (UGX)	2015 (UGX)
6.1 IDA Municipal Development Grants		
DLI#1 Program LGs have met all Minimum Conditions	17,515,297,340	14,885,748,000
DLI#2 Program LGs have strengthened Institutional perf.	36,778,348,913	32,665,550,040
DLI#3 Program LGs have strengthened Institutional perf.	36,338,021,320	-
Total	<u>90,631,667,573</u>	<u>47,551,298,040</u>
6.2 IDA Municipal Capacity Building Grants		
DLI#4 Program LGs Implemented their CBG utilizing the Financing	<u>7,466,577,537</u>	<u>6,615,888,000</u>
Total	<u>7,466,577,537</u>	<u>6,615,888,000</u>
6.3 IDA _ MLHUD Capacity Building Plans		
DLI#5 MLHUD has Executed Capacity Building Activities for Program LGs	7,621,203,908	5,421,848,432
DLI#6 Program LGs with Town Clerks in Place	5,022,959,622	3,573,415,188
DLI#7 Program LGs with Functional IFMS	<u>5,715,902,931</u>	<u>4,066,386,324</u>
Total	<u>18,360,066,462</u>	<u>13,061,649,944</u>
6.4 VAT Contribution to USMID Program by Government of Uganda		
Quarter 1 Release	6,804,194,793	0
Quarter 2 Release	1,970,493,647	0
Quarter 3 Release	1,611,651,146	0
Quarter 4 Release	11,052,372,314	0
Total	<u>21,438,711,900</u>	<u>0</u>
Total		



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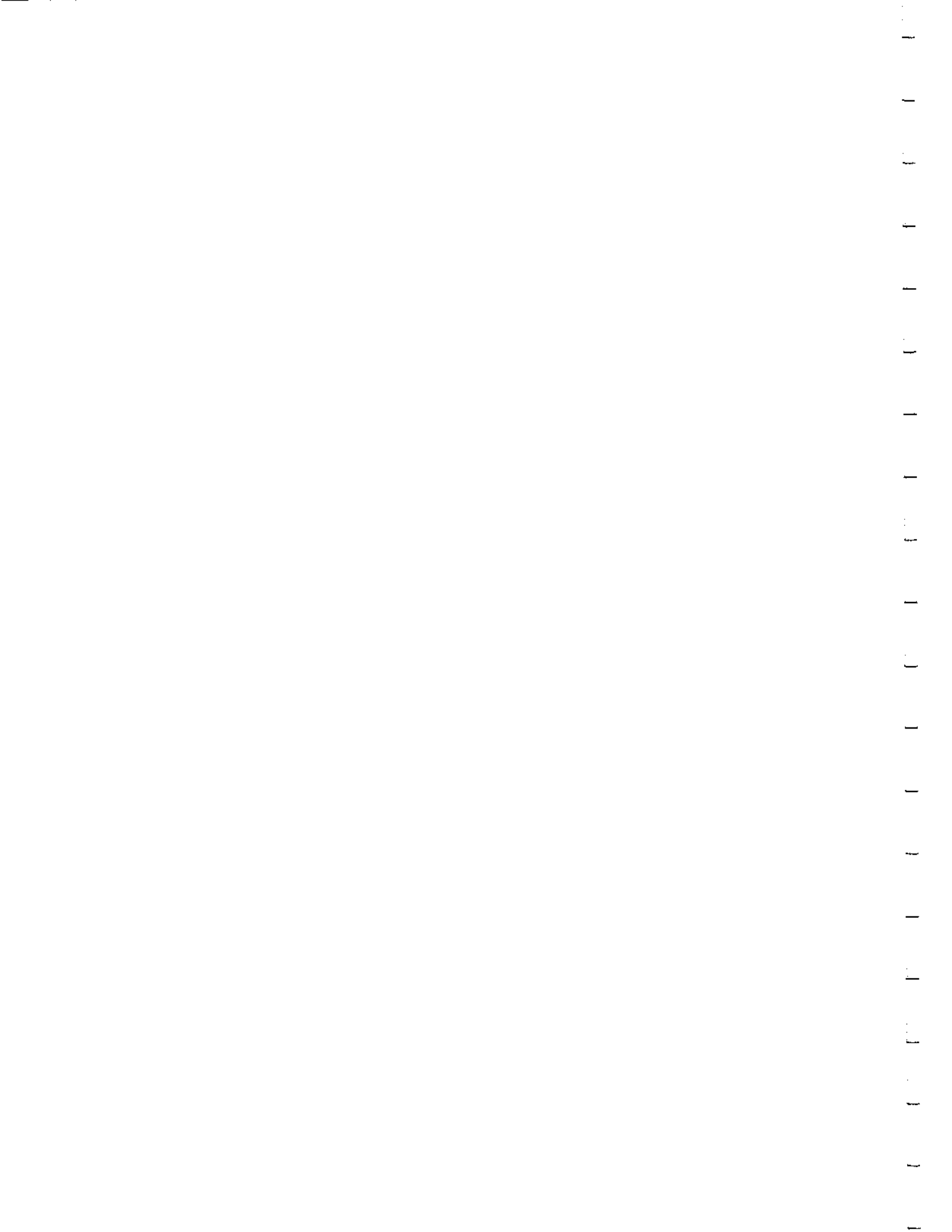
6.3 IDA _ MLHUD Capacity Building Plans

DLI#5 MLHUD has Executed Capacity Building Activities for Program LGs	7,621,203,908	5,421,848,432
DLI#6 Program LGs with Town Clerks in Place	5,022,959,622	3,573,415,188
DLI#7 Program LGs with Functional IFMS	<u>5,715,902,931</u>	<u>4,066,386,324</u>
Total	<u>18,360,066,462</u>	<u>13,061,649,944</u>
Arua	5,978,459,725	3,007,049,280.00
Entebbe	4,476,461,524	2,820,233,160.00
Fort Portal	0	2,030,726,160.00
Gulu	20,563,376,340	9,946,929,720.00
Hoima	8,193,155,502	3,887,466,840.00
Jinja	5,391,907,848	2,931,537,180.00
Kabale	3,615,636,975	1,831,947,660.00
Lira	9,253,225,709	4,275,509,370.00
Masaka	7,661,500,167	4,068,651,210.00
Mbale	6,235,129,960	3,326,050,860.00

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Mbarara	10,441,719,236	5,119,403,100.00
Moroto	1,176,993,517	552,571,380.00
Soroti	3,840,185,797	1,892,904,810.00
Tororo	<u>3,803,915,273</u>	<u>1,860,317,430.00</u>
Total	<u>90,631,667,573</u>	<u>47,551,298,160</u>

	2016 (UGX)	2015 (UGX)
UGX		
7.2 IDA - Municipal Capacity Building Grants to Program Municipal Councils		
Arua	137,464,692	472,563,420
Entebbe	128,805,132	472,563,420
Fort Portal	220,675,676	472,563,420
Gulu	338,395,107	472,563,420
Hoima	413,685,355	472,563,420
Jinja	61,229,280	472,563,420
Kabale	322,556,964	472,563,420
Lira	457,751,933	472,563,420
Masaka	0	472,563,420
Mbale	325,698,634	472,563,420
Mbarara	273,631,448	472,563,420
Moroto	268,033,685	472,563,420



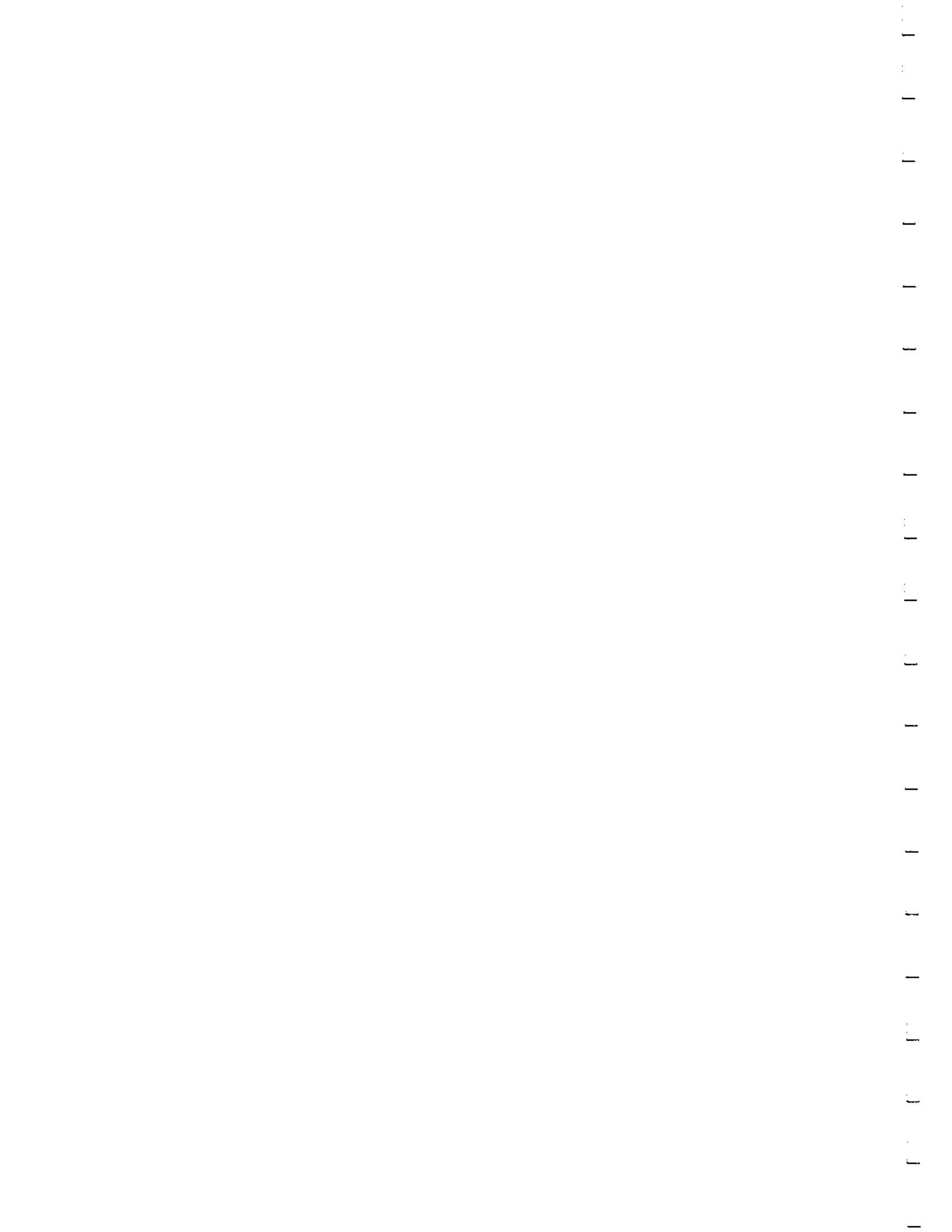
MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
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Jinja	1,361,294,315	0
Kabale	1,758,035,480	0
Lira	1,687,881,929	0
Masaka	1,066,192,928	0
Mbale	1,933,143,208	0
Mbarara	2,361,290,979	0
Moroto	927312067	0
Soroti	1,163,663,151	0
Tororo	<u>1,021,734,414</u>	<u>0</u>
Total	<u>21,438,711,900</u>	<u>0</u>

	2016 (UGX)	2015 (UGX)
8.1 Cash at Bank		
Cash at UGX Bank Account	1,864,816,918	2,315,085,304
Cash at US\$ Bank Account	14,889,710,907	<u>9,320,682,856</u>
	<u>16,754,527,825</u>	<u>11,635,768,160</u>

	2016 (UGX)	2015 (UGX)
8.2 Receivables (MLHUD)		
MLHUD	0	120,687,677
ARSDP (Salaries for Project Engineer)	<u>136,455,440</u>	<u>0</u>
	<u>136,455,440</u>	<u>120,687,677</u>

	2016 (USD)	2016 (Equiv. UGX)
8.4 Liabilities (Deposit of MCBG for Procurement of Equipment)		
Geo Civil Engineering Ltd	2,133	7,634,732
Geo Information Communication Ltd	443,406	1,587,100,832



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Venefir Srl	91,701	328,229,057
Mfi Document	<u>51,584</u>	<u>184,636,674</u>
	<u>588,824</u>	<u>2,107,601,295</u>

The Funds for Municipal LGs was withheld by MLHUD for Specialised Equipment which had been delivered at close of FY. The funds are accounted for as deposits with MLHUD (Liability)

8.3 Foreign Exchange Gain on Designated Account
 Gain on USD Receipts translated to UGX

	<u>342,114,772</u>	<u>0</u>
	<u>342,114,772</u>	<u>0</u>

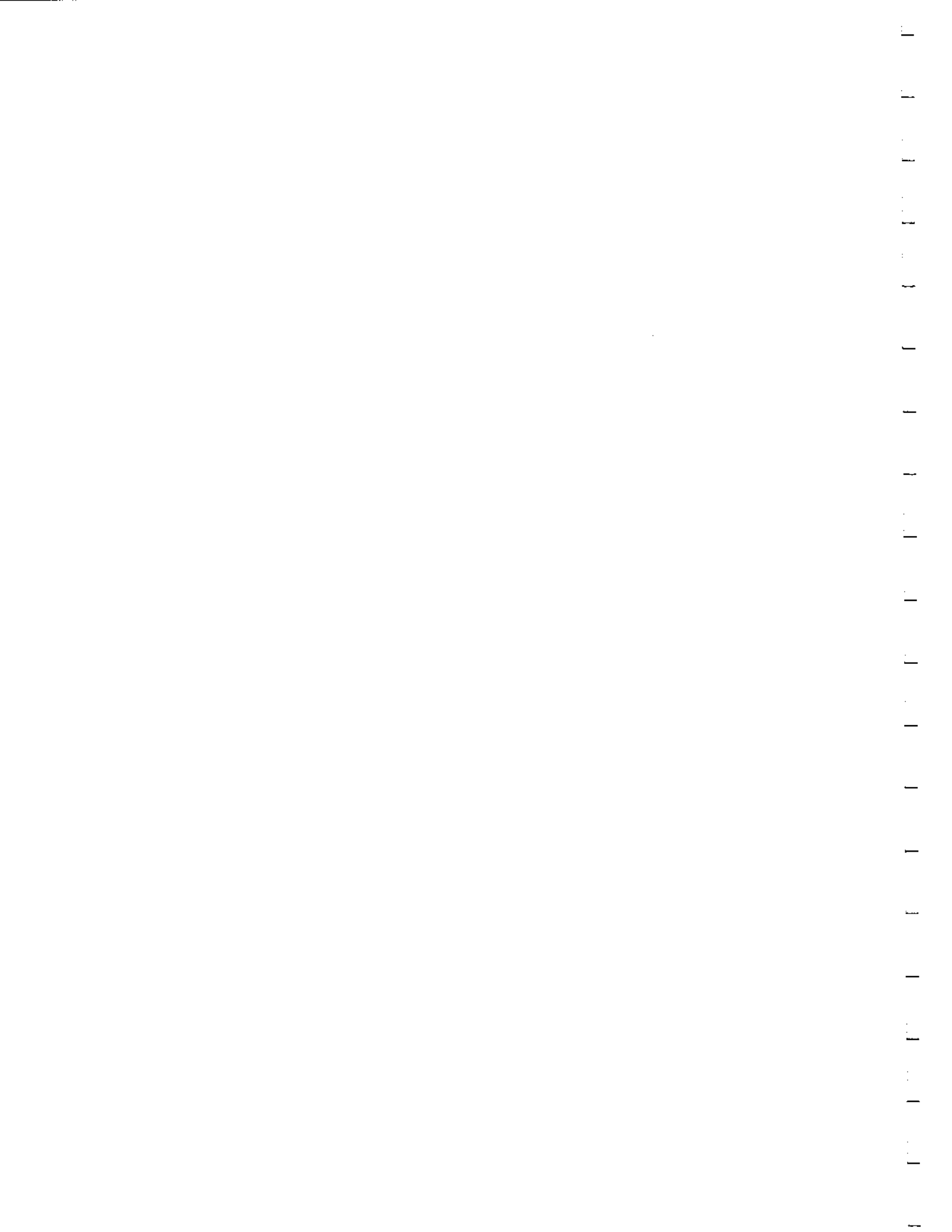
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9.0 DETAILED SCHEDULE OF RECEIPTS AND EXPENDITURE

9.1 Detailed Receipts Analysis for the Financial Year 2015/16

Description	Annual Budget Estimates			Actual Annual Receipts			Variance (UGX)
	SDR	USD	Equiv. UGX	SDR	USD	Equiv. UGX	
6.1 IDA Municipal Development Grants							
DLI#1 Program LGs have met all Minimum Conditions	3,600,000	5,094,402.36	17,515,297,340	3,600,000	5,094,402.36	17,515,297,340	(248,359,799)
DLI#2 Program LGs have strengthened Institutional perf.	7,559,224	10,697,146.82	36,778,348,913	7,559,224	10,697,146.82	36,778,348,913	(521,502,060)
DLI#3 Program LGs have strengthened Institutional perf.	7,798,571	10,976,098.75	36,338,021,320	7,798,571	10,976,098.75	36,338,021,320	864,303,573
Total	18,957,795	26,767,647.93	90,631,667,573	18,957,795	26,767,647.93	90,631,667,573	94,441,714
6.2 IDA Municipal Capacity Building Grants							
DLI#4 Program LGs Implemented their CBG utilizing the Financing	1,600,000.00	2,264,178.82	7,474,358,002	1,600,000.00	2,264,178.82	7,466,577,537	7,780,465
Total	1,600,000	2,264,178.82	7,474,358,002	1,600,000	2,264,178.82	7,466,577,537	7,780,465



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Description	Annual Budget Estimates			Actual Annual Receipts			Variance (UGX)
	SDR	USD	Equiv. UGX	SDR	USD	Equiv. UGX	
6.3 IDA _ MLHUD Capacity Building Plans							
DLI#5 MLHUD has Executed Capacity Building Activities for Program LGs	1,300,000.00	1,822,873.00	6,745,085,820.94	1,300,000.00	1,822,873.00	7,621,203,908	(876,118,087)
DLI#6 Program LGs with Town Clerks in Place	856,800.00	1,201,413.53	4,445,530,408	856,800.00	1,201,413.53	5,022,959,622	(577,429,213)
DLI#7 Program LGs with Functional IFMS	1,425,000.00	1,998,149.25	7,393,651,765	1,425,000.00	1,998,149.25	5,715,902,931	1,677,748,834
Rolled Budget from 2014/15 FY			0			0	0
Total	3,581,800	5,022,435.78	18,584,267,994	3,581,800	5,022,435.78	18,360,066,461	224,201,534
6.4 VAT Contribution to USMID Program by Government of Uganda							
Quarter 1 Release	-	-	6,804,194,793	-	-	6,804,194,793	0
Quarter 2 Release	-	-	1,970,493,647	-	-	1,970,493,647	0

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MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
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Description	Annual Budget Estimates			Actual Annual Receipts			Variance (UGX)
	SDR	USD	Equiv. UGX	SDR	USD	Equiv. UGX	
Quarter 3 Release	-	-	1,611,651,146	-	-	1,611,651,146	0
Quarter 4 Release	-	-	11,052,372,314	-	-	11,052,372,314	0
<u>Total</u>	-	-	21,438,711,900	-	-	21,438,711,900	0
Total	24,139,595.00	34,054,262.53	138,223,447,195	24,139,595	34,054,262.53	137,897,023,472	326,423,722

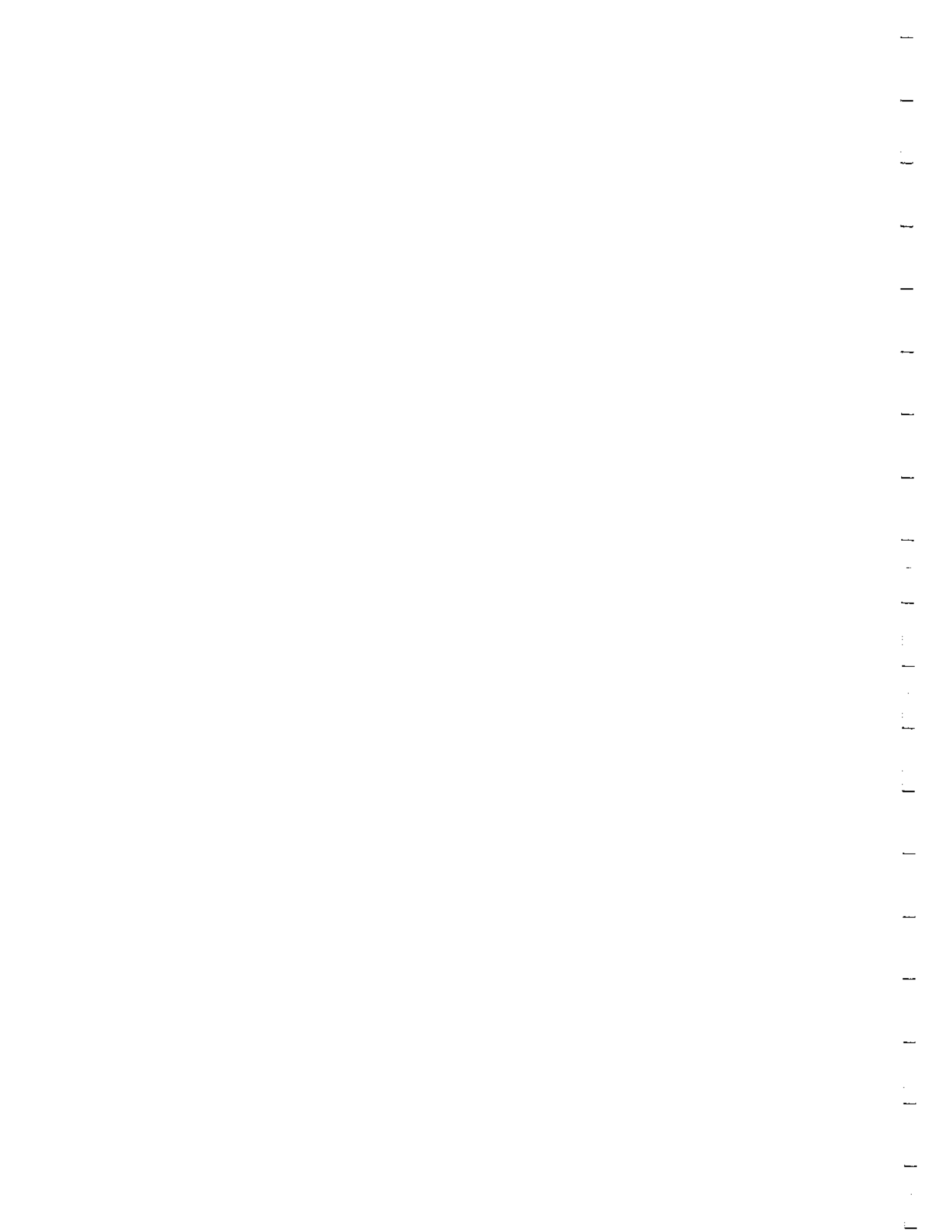
9.2 Detailed Expenditure Analysis for the Financial Year 2015/16

Activity No.	Activity Description	Annual Budget 2015/16 (UGX)	Actual Expenditure 2015/16 (UGX)	Balance (UGX)
1	1.0 Transfer of USMID Funds to Municipal Local Governments	98,098,245,110	98,098,245,110	0
1.1	Municipal Development Grants (MDG)*	90,631,667,573	90,631,667,573	0
1.2	Municipal Capacity Building Grants (MCBG)**	7,466,577,537	7,466,577,537	0
2	Outreach activities to the 14 municipal LGs	3,832,207,000	2,838,173,126	994,033,874

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 UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
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Activity No.	Activity Description	Annual Budget 2015/16 (UGX)	Actual Expenditure 2015/16 (UGX)	Balance (UGX)
2.1	Support MCs to link Municipal Physical Development Plans, Five year Development Plans and Budgets	455,312,500	450,424,581	4,887,919
2.2	Support Municipalities to review and update ten year physical development plans in all the 14 municipalities	518,375,000	151,761,332	366,613,668
2.3	Review and Develop OSR Enhancement framework for Urban Local Governments	661,375,000	546,170,930	115,204,070
2.4	Build Capacity of MCs in Procurement Planning and Management	531,581,050	271,192,316	260,388,734
2.5	Build capacity of Municipal Councils in Financial Management	252,466,500	247,313,700	5,152,800
2.6	Build Capacity in Environment and Social Safeguards Assessment, MDFs, management and reporting for Municipalities	320,000,000	278,378,635	41,621,365
2.7	Build Municipalities Capacity for M&E	642,046,350	617,457,674	24,588,676
2.8	Enhance Professional and Administrative Capacity at Municipalities and MLHUD for Program Implementation	451,050,600	275,473,958	175,576,642
3	Development of systems for urban development	10,695,975,000	1,841,436,284	8,854,538,716
3.1	Develop a GIS-based urban development management system	3,846,100,000	177,148,743	3,668,951,257
3.2	Annual Lands, Housing and Urban Development Sector Review	510,000,000	448,584,273	61,415,727
3.3	IEC on USMID/ MLHUD	482,625,000	425,343,318	57,281,682
3.4	Development of Masterplans, Strategies and Engineering designs for second Batch of Municipal Infrastructure Investments	5,257,500,000	407,089,871	4,850,410,129



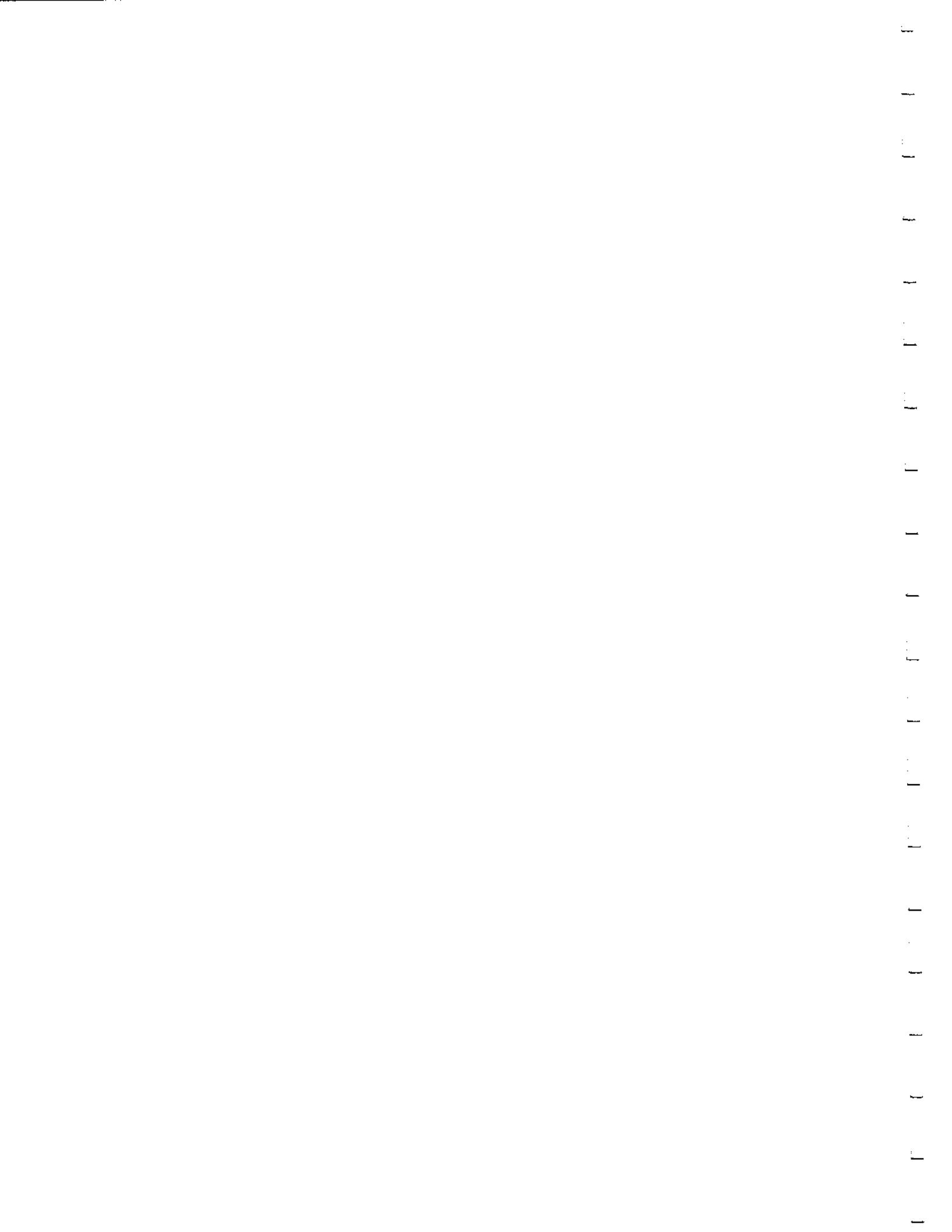
MINISTRY OF LANDS HOUSING AND URBAN DEVELOPMENT
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Activity No.	Activity Description	Annual Budget 2015/16 (UGX)	Actual Expenditure 2015/16 (UGX)	Balance (UGX)
3.5	Support to Establishment of the Physical Planning Registration Board	160,875,000	98,651,710	62,223,290
3.6	Develop urban development database	53,625,000	8,879,200	44,745,800
3.7	Develop a National Resettlement Policy	120,000,000	82,288,855	37,711,145
3.8	Implementation of the National Housing policy	193,750,000	193,450,314	299,686
3.9	Implementation of the National Urban Policy (NUP)	71,500,000	0	71,500,000
4	Capacity Building of MLHUD	1,495,501,150	1,461,368,479	34,132,671
4.1	Training of MLHUD staff	530,251,150	501,489,677	28,761,473
4.2	International capacity building activities	965,250,000	959,878,802	5,371,198
5	Retooling of MLHUD	4,659,038,975	1,226,023,893	3,433,015,082
5.1	Procurement of office furniture and equipment	687,518,975	448,153,762	239,365,213
5.2	Renovation of MLHUD Headquarters at Parliament Avenue	3,971,520,000	777,870,131	3,193,649,869
6	Program Management	6,996,615,320	5,665,408,751	1,331,206,569
6.1	Program Committees	464,750,000	448,487,260	16,262,740
6.2	Provide adequate office space for PST	286,374,470	246,760,107	39,614,363
6.3	Emoluments for PST Staff	2,100,000,000	2,054,509,318	45,490,682
6.4	Municipal Performance Assessment	1,669,490,850	506,530,004	1,162,960,846
6.5	Program Audits	834,000,000	808,960,805	25,039,195
6.6	Program Reviews	595,000,000	570,604,295	24,395,705
6.7	Back-up support, Program operational and monitoring activities	745,000,000	732,702,719	12,297,281

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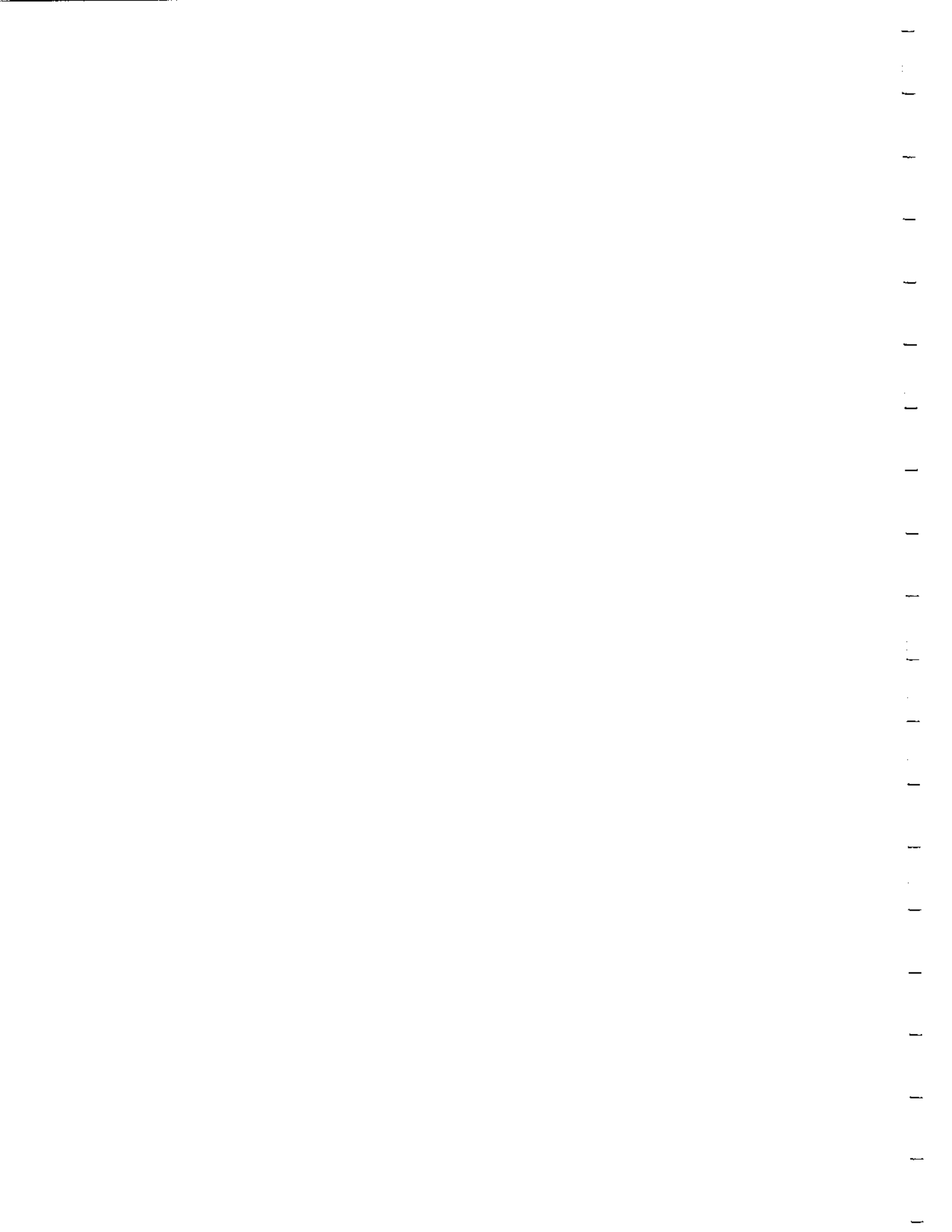
Activity No.	Activity Description	Annual Budget 2015/16 (UGX)	Actual Expenditure 2015/16 (UGX)	Balance (UGX)
6.8	Program Specific Professional activities and international forums	302,000,000	296,854,243	5,145,757
7	Monitoring Operation of IFMS in 12 Municipalities Rollout of IFMS to 12 MCs	2,642,844,186	2,642,844,186	0
7.1	Procure IFMS for 12 MCs	1,286,844,276	1,286,844,276	0
7.2	IFMS implementation supervision vehicles (3 No.) for MoLG PFM Unit	414,664,935	414,664,935	0
7.3	Procure pool tables and Furniture for 12 MCs	56,968,904	56,968,904	0
7.4	Recurrent costs for IFMS rollout (training, pre-printed stationery and change management	884,366,071	884,366,071	0
B	Total MLHUD (Central Gov't)	30,322,181,631	15,675,254,719	14,646,926,912
	Less: Rolled Budget Figure from 2014/15 FY	-11,635,691,446	0	0
	Net Annual Budget for MLHUD (New Budget)	18,686,490,185	15,675,254,719	14,646,926,912
C.	GOVERNMENT OF UGANDA CONTRIBUTION TO VAT ON USMID INFRASTRUCTURE			
	VAT Releases to Municipalities	21,438,711,900	21,438,711,900	0
	Total GoU VAT Contribution	21,438,711,900	21,438,711,900	0
	Grand Total	138,223,447,195	135,212,211,729	14,646,926,912



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 UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
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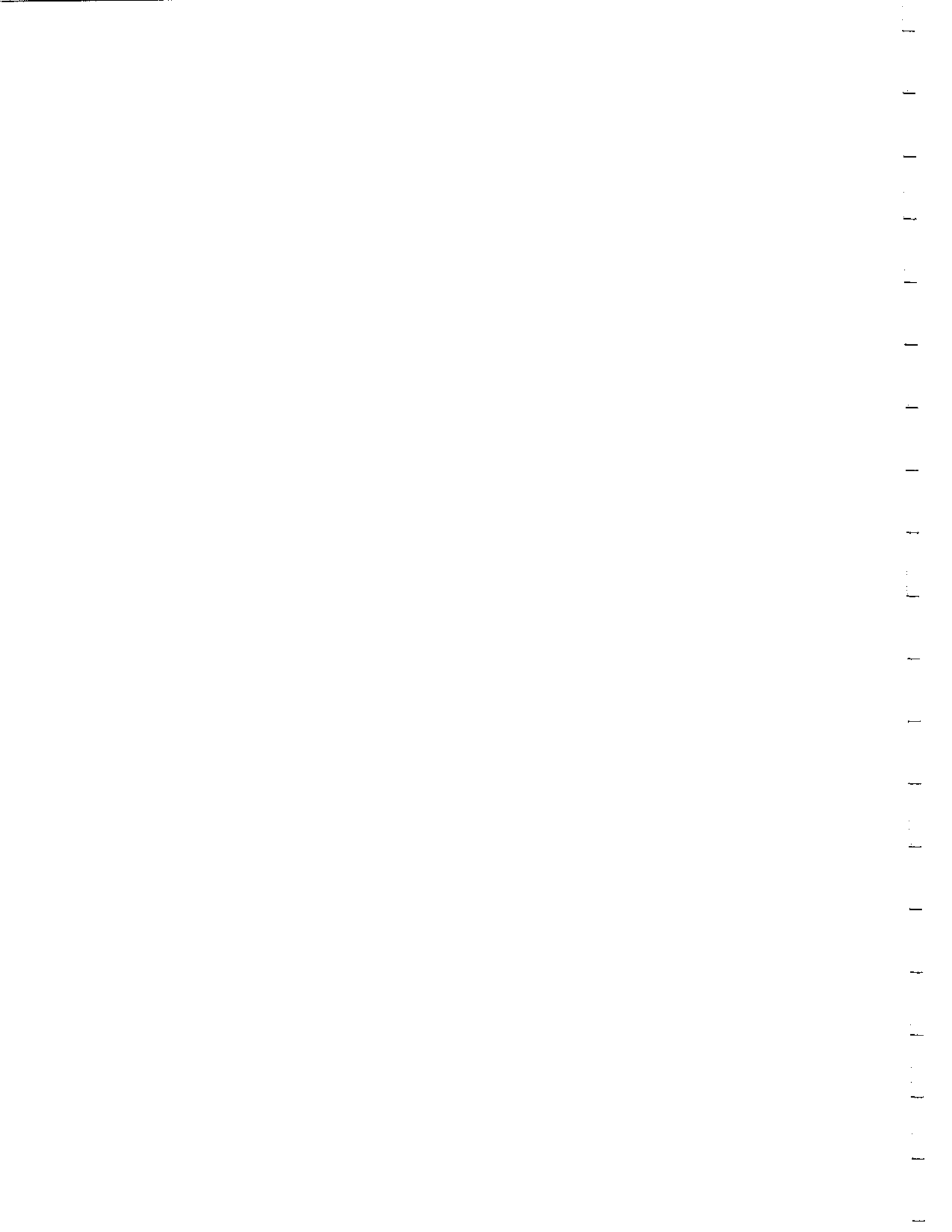
9.3 Schedule showing all funds Released to the Municipal Local Government (Reconciled Status)

MC	MDG	MCBG Retained for Equipment (Equivalent)	MCBG Cash Released	VAT Cash Released	Total Reconciled Funds Released To MCs
Arua	5,978,459,611	282,689,113	137,464,692	1,146,046,929	7,544,660,345
Entebbe	4,476,461,557	282,687,416	128,805,132	1,284,754,084	6,172,708,189
Fort Portal	-	282,688,447	220,675,676	1,448,459,730	1,951,823,853
Gulu	20,563,375,917	282,688,946	338,395,107	2,638,130,616	23,822,590,586
Hoima	8,193,155,394	282,689,812	413,685,356	1,640,772,070	10,530,302,632
Jinja	5,418,932,830	227,088,054	61,229,280	1,361,294,315	7,068,544,479
Kabale	3,615,636,905	282,688,614	322,556,965	1,758,035,480	5,978,917,964



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 UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID) PROGRAM
 FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2016

MC	MDG	MCBG Retained for Equipment (Equivalent)	MCBG Cash Released	VAT Cash Released	Total Reconciled Funds Released To MCs
Lira	9,253,225,567	282,690,045	457,751,934	1,687,881,929	11,681,549,475
Masaka	7,661,499,719	-	-	1,066,192,928	8,727,692,647
Mbale	6,235,129,849	282,687,582	325,698,635	1,933,143,208	8,776,659,273
Mbarara	10,441,719,076	282,689,379	273,631,449	2,361,290,979	13,359,330,883
Moroto	1,176,993,542	282,687,183	268,033,686	927,312,067	2,655,026,478
Soroti	3,840,185,710	282,688,081	454,393,941	1,163,663,151	5,740,930,883
Tororo	3,803,915,199	282,689,080	444,905,699	1,021,734,414	5,553,244,392
	90,658,690,877	3,619,351,752	3,847,227,552	21,438,711,900	119,563,982,081



BANK OF UGANDA

OFFICE OF THE DIRECTOR
BANKING



37-45 KAMPALA ROAD,
P.O. BOX 7120,
KAMPALA

BAN.307.6

July 21, 2016

The Permanent Secretary
Ministry Lands, Housing and Urban Development,
P.O. Box 7096,
Kampala, Uganda.

DIRECT LINE 256-414- 233722
GENERAL LINE 256-414- 258441
FAX LINE 256-414- 259343
TELEX 256-414-61059

CABLES UGABANK
Email info@bou.or.ug
Web site www.bou.or.ug

CERTIFICATE OF ACCOUNT BALANCES

Reference is made to your request for certificates of balance letter Ref ADM/15/39/01 dated July 18, 2016.

Here below are the balances on the accounts held with Bank of Uganda as at June 30, 2016.

Account Number	Account Title	CCY	Balance
000120088000031	WORLD HABITAT DAY	UGX	275,603,506
000120088000055	UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT(USMID)	UGX	1,864,786,918
000120088400024	UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT (USMID)	USD	4,379,506.56
000120088400025	COMPETITIVENESS AND ENTERPRISE DEVELOPMENT - LAND ADMINISTRATION REFORM	USD	10,726,045.95
000120088000056	COMPETITIVENESS AND ENTERPRISE DEVELOPMENT - LAND ADMINISTRATION REFORM	UGX	507,396,534
000120088400027	MUNICIPAL DEVELOPMENT STRATEGY (MDS)	USD	112,366.17
000120088400028	ALBERTINE REGION SUSTAINABLE DEV PROJ - LOCAL ACCESS, PLANNING AND DEV	USD	555,197.18
000120088000058	ALBERTINE REGION SUSTAINABLE DEV PROJ - LOCAL ACCESS, PLANNING AND DEV	UGX	4,030,972,645

Attached are the copies of the statement of accounts for ease of reference.

Handwritten signature of Stephen Semuga in black ink.

Stephen Semuga
Ag. Director

Handwritten signature of Adrian Mwiine in blue ink.

Adrian Mwiine
Ag. Assistant Director

