24th December, 2018

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

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF ALBERTINE REGIONAL SUSTAINABLE DEVELOPMENT PROJECT (IDA LOAN AGREEMENT CR 54060-UG) FOR THE FINANCIAL 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 Albertine Regional Sustainable Development Project (IDA Loan Agreement CR54060-Ug) 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, Albertine Regional Sustainable Development Project

PIM & Co. 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
ALBERTINE REGIONAL SUSTAINABLE DEVELOPMENT PROJECT
(IDA LOAN AGREEMENT CR 54060-UG)
FOR THE FINANCIAL YEAR ENDED 30\textsuperscript{TH} JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA
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REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
ALBERTINE REGIONAL SUSTAINABLE DEVELOPMENT PROJECT
FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion
I have audited the financial statements of the Albertine Regional Sustainable Development Project, which comprise the statement of Fund Balance as at 30th June 2018, statement of Income and Expenditure and notes, comprising significant accounting policies as set out on pages 20 to 26.

In my opinion, the accompanying financial statements of the Albertine Regional Sustainable Development Project for the year ended 30th June 2018 are prepared, in all material respects, in accordance with the terms of agreement and in conformity with the accounting policies described under paragraph 5.4.

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 we have obtained is sufficient and appropriate to provide a basis for my opinion.
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 we conclude that a material uncertainty exists, we are required to draw attention in my auditors’ 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 auditors’ 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 ACCOUNT OF ALBERTINE REGIONAL SUSTAINABLE DEVELOPMENT PROJECT (ARSDP)

Opinion
I have audited the Statement of Special Account of the Albertine Regional Sustainable Development Project (ARSDP) for the year ended 30th June 2018 set out on page 22 of the Financial Statements.

In my opinion, the Statement of Special Account of the Albertine Regional Sustainable Development Project (ARSDP) is prepared, in all material respects, in accordance with the accounting policies and conditions of the financing agreements.

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 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 Account of the current period. I have determined that there are no key audit matters to communicate in my report.

Responsibilities of management for the Statement of Special Account
Management is responsible for the preparation of the Statement of Special Account in accordance with the accounting policies and conditions of financing agreements 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 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.

Auditors' Responsibilities for the Audit of the Statement of Special Account
My objectives are to obtain reasonable assurance about whether the Statement of Special 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 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 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 we conclude that a material uncertainty exists, we are required to draw attention in my auditors' report to the related disclosures in the Statement of Special 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
APPENDIX I

FINANCIAL STATEMENTS
AUDIT REPORT ON THE ALBERTINE REGIONAL SUSTAINABLE DEVELOPMENT PROJECT-(UNRA)
(IDA LOAN AGREEMENT CR-54060-UG)
FOR THE YEAR ENDED 30 JUNE 2018
AUDIT REPORT ON THE ALBERTINE REGIONAL SUSTAINABLE DEVELOPMENT PROJECT (UNRA) (IDA LOAN AGREEMENT CR-54060-UG) for the year ended 30 June 2018

ABBREVIATIONS

WB  World Bank
IDA  International Development Association
IFMIS  Integrated Financial Management System
IFR  Interim Financial Report
IPF  Investment Project Financing
LG  Local Government
PAP  Project Affected Persons
PFS  Project Financial Statements
PIT  Project Implementing Team
PIU  Project Implementation Unit
POM  Project Operations Manual
PSC  Project Steering Committee
RAP  Resettlement Action Plan
ARSDP  Albertine Regional Sustainable Development Project
UNRA  Uganda National Roads Authority
IP  Implementing Partner
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1.0 PROJECT INFORMATION

1.1 Project address: Uganda National Roads Authority
Plot 3-5 New Port Bell Road,
UAP Building, Nakawa Business Center
P.O. Box.28487, Kampala.

1.2 The UNRA Board of Directors
Hon. Fred Jachin Omach: Chairperson
Ms. Allen C. Kagina: Executive Director/Secretary
Mrs. Petra Sansa Tenywa: Member
Dr. Joseph Muvawala: Member
Eng. Umaru Bagampadde: Member
Mr. Mbulamuko Laban: Member
Eng. Samson Bagonza: Member

1.3 Project implementation Team
Eng. Samuel Muhoozi: Director - Roads and Bridge Development
Mrs. Edna Rugumayo: Director - Corporate Service
Eng. Ales Otim: Project Coordinator/Project Manager
Eng. Dan Iga: Project Engineer
Mr. Kwesiga Brazza: Head Finance and Accounts
Ms. Betty Namatovu: Project Accountant
Mr. Matovu William: Head Land Acquisition

1.4 Bankers: Bank of Uganda
P.O. Box 7120
Kampala

1.5 Auditors: The auditors for ARSDP-UNRA on behalf of the Office of the Auditor General (OAG) and commissioned by OAG in accordance with its constitutional mandate are:

PIM + CO.
Certified Public Accountants
10th Floor, Uganda House
Plot 8 - 10 Kampala Road
P. O. Box 866, Kampala
Tel: +256-414-345116
Fax: +256-414-234553
E-mail: pimco@pimco.co.ug
plm.company@yahoo.com
2.0 PROJECT HIGHLIGHTS

2.1 PROJECT BACKGROUND

The Financing Agreement for Albertine Region Sustainable Development Project (ARSDP) was entered into on 24th August 2015 between the Republic of Uganda ("Recipient") and International Development Association ("Association").

The Association agreed to extend to the Recipient, on the terms and conditions a credit in an amount equivalent to Ninety four million six hundred thousand special drawing rights (SDR 94,600,000) (variously, “Credit”, and “Financing”), to assist in financing the Project described whose details are as below (“Project”). Article III of the agreement states that the Project will be in parts under different implementing agencies of the recipient.

Part 1 of the Project through Uganda National Roads Authority (UNRA); part 2 of the Project through the Ministry of Lands, Housing and Urban Development (MLHUD); and part 3 of the Project through the Ministry of Education and sports (MoES) all in accordance with the provisions of article IV of the General conditions.

The objective of the project is to improve regional connectivity and local access to infrastructure, markets and skills development in the Albertine region.

2.3 PROJECT COMPONENT

The audit deals with Part 1 Component of the Project. This Project component is implemented by UNRA and is referred to as ARSDP-UNRA.

The ARSDP-UNRA involves:

a) The upgrading of an approximate 100 kilometers of the unpaved gravel road to a paved class II (bitumen) standard from Kyenjojo to Kabwoya.

The contract for upgrading of 100km of road between Kyenjojo and Kabwoya was signed with Shengli Engineering Construction Company of Shengli the Oli Field. The supervision contract was signed with Comptran Engineering and Planning Associates (Ghana).

b) Strengthening the capacity of UNRA for activities under part 1 (a) above, all through the provision of technical advisory services, non-consulting services, training, operating costs and acquisition of goods for the purpose.

The Project component is implemented by Uganda National Roads Authority (UNRA). The project closure date is planned as July 31, 2019.
2.0 PROJECT HIGHLIGHTS (Contd.)
2.4 PROJECT IMPLEMENTATION STATUS

The Uganda National Roads Authority (UNRA) is responsible for implementing the Albertine Region Sustainable Development Project component 1 – UNRA; on behalf of the Government of Uganda who is the Borrower identified in the IDA Financing Agreement. In this section, management of UNRA reports on the progress of the project activities.

2.4.1 Physical status of the Project
Cumulative physical progress to date is 41.95% (30.06.2018) against 61.88% planned, resulting in an overall slippage of -19.93%. Time elapsed since commencement of works is 817 days (74.61% of the contract duration). The physical progress S-Curve is shown in Figure 1 (K) below.

![Physical S-Curve](image-url)
2.0 PROJECT HIGHLIGHTS (Contd.)

2.4 PROJECT IMPLEMENTATION STATUS (Contd.)

2.4.1 Physical Status of the Project (Contd.)

Figure 1-1 below is a histogram of planned and accomplished progress and the slippages recorded for the last 6 months (i.e. January 2018 – June 2018). The histogram shows an average slippage of 2.70% recorded over the 6 month period. This is an indication that the Contractor is consistently not achieving his planned progress.
### Project Funding Status

<table>
<thead>
<tr>
<th>Project: Regional Access and Connectivity ARSDP - UNRA</th>
<th>Total Cost (USD million)</th>
<th>GoU (USD million)</th>
<th>IDA (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expected funding</td>
<td>101.89</td>
<td>6.89</td>
<td>95.00</td>
</tr>
<tr>
<td>Disbursements to 30 June 2018</td>
<td>40.16</td>
<td>2.51</td>
<td>37.65</td>
</tr>
<tr>
<td>Percentage of disbursements</td>
<td>39.42</td>
<td>36.43</td>
<td>39.63</td>
</tr>
</tbody>
</table>
3.0 MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

This section presents UNRA management’s confirmation of its responsibilities under the IDA Loan Agreement CR-54060-UG for information in the financial statements and information provided during the course of audit.

The UNRA management is responsible for preparing the financial statements for each financial year which gives a true and fair view of the state of affairs of the Project as at the end of the financial year. The Project management is required to ensure the Project keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Project. They are also responsible for safeguarding the assets of the Project and are ultimately responsible for the internal controls. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Project’s assets. Appropriate accounting policies supported by reasonable and prudent judgements and estimates, are applied on a consistent basis. These systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The Project management accept the responsibility for the Financial Statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, and in conformity with the International Public Sector Accounting Standards (IPSASs) and the Public Financial Management Act, 2015. The Directors are of the view that the Financial Statements give a true and fair view of the state of the financial affairs of the Project as at 30 June 2018 and of its operating results for the year then ended. The Directors further confirm the accuracy and completeness of the accounting records maintained by the Project which have been relied upon in the preparation of the Financial Statements as well as on the adequacy of the systems of internal financial controls.

The Project management asserts that the Project funds have been expended in accordance with the intended purpose specified in the loan agreement with the IDA.

The financial statements were approved by UNRA project management on 31.12.2018 and signed on its behalf by:

[Signatures]
4.0 INDEPENDENT AUDITOR'S REPORT

The UNRA Management
Albertine Regional Sustainable Development Project – (UNRA)
P.O Box 28467
Kampala, Uganda

Report on the Audit of Albertine Regional Sustainable Development Project Financial Statements for the year ended 30 June 2018

Opinion
We have audited the financial statements of Albertine Regional Sustainable Development Project Financial Statements for the year ended 30th June 2018 set out on pages 20 to 26. These financial statements comprise of the statement of financial position, statement of income and expenditure and statement of cash flows for the year ended which have been prepared on the basis of the accounting policies set out on pages 16 and 17.

In our opinion, the financial statements give a true and fair view of the financial position of the of Albertine Regional Sustainable Development Project, as at 30 June 2018 and its financial performance and cash flows for the year then ended, in accordance with the terms of the agreements and in conformity with the basis of accounting policies described in paragraph 5.4 of the report.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the of Albertine Regional Sustainable Development Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
4.0 INDEPENDENT AUDITOR’S REPORT (Contd.)

Information other than the Financial Statements and Auditor’s report thereon

Management is responsible for the other information in the Project management’s report but this other information does not include the financial statements and our auditor’s 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.

Project Management’s Responsibility for the Financial Statements

As stated on page 6, management of the Project is responsible for the preparation and presentation of these financial statements in accordance with the Project’s accounting policies. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s 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 auditor’s 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:
4.0 INDEPENDENT AUDITOR'S REPORT (Contd.)

Auditor's Responsibilities for the Audit of the Financial Statements – (cont'd)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Project business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Project audit. We remain solely responsible for our audit opinion.

- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.
4.0 INDEPENDENT AUDITOR'S REPORT (Contd.)

Report on other Regulatory requirements (Contd.)

Section 3.01, b(i) of the Project Agreement between IDA and Bank of Uganda requires that the Project Implementing Entity shall have its financial statements audited by independent auditors acceptable to the Agency, in accordance with acceptable consistently applied auditing standards. In carrying out our audit, we have considered and report to you, on the following matters.

a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit

b) In our opinion, proper books of account have been kept by the project, so far as appears from our examination of those books:

c) The Project's Financial Statements are in agreement with the books of account.

Opinion on the Special Account

We have audited the accompanying Special Account designated for Albertine Regional Sustainable Project – UNRA – (IDA Credit Agreement No. 54060-UG submitted to the Bank during the year ended June 30 2018 in support of loan withdrawals under IDA Credit Agreement (CR-54060-UG).

Management's responsibility for the Special Account Statement

Management is responsible for preparation of the special account statements and fair presentation in accordance with the requirement of financing agreements. Management also responsible for designing and implementing internal controls relevant to the preparation of the special accounts statements that are free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on the special account statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards that accordingly included examination, on a test basis, of evidence supporting the amounts and disclosures in the Special Account designated for Albertine Regional Sustainable Project – UNRA activities. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.
4.0 INDEPENDENT AUDITOR'S REPORT (Contd.)

In our opinion, management complied in all material respects with the conditions of the financing agreements, and that the Special Account Statement and Financial Monitoring Reports present fairly the account transactions of the IDA Designated Account and the closing balances as at June 30, 2018.

The engagement partner on the audit resulting in this independent auditor's report was Patrick Iga-Magero.
## 5.0 FINANCIAL STATEMENTS

### 5.1 STATEMENT OF INCOME & EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>Income</th>
<th>USD</th>
<th>UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5.1</td>
<td>Transfers from IDA funding</td>
<td>37,650,000</td>
<td>136,616,629,500</td>
</tr>
<tr>
<td>5.5.2</td>
<td>GOU funding from the budget</td>
<td>2,511,379</td>
<td>9,324,143,738</td>
</tr>
<tr>
<td>5.5.3</td>
<td>Other income</td>
<td>-</td>
<td>3,078,586,000</td>
</tr>
</tbody>
</table>

Total operating revenue: 40,161,379 USD 149,019,359,238 UGX

<table>
<thead>
<tr>
<th>Note</th>
<th>Expenditure</th>
<th>USD</th>
<th>UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5.4</td>
<td>Civil works</td>
<td>25,578,917</td>
<td>93,193,345,516</td>
</tr>
<tr>
<td>5.5.5</td>
<td>Consultancy Services</td>
<td>1,657,514</td>
<td>6,001,683,431</td>
</tr>
<tr>
<td>5.5.6</td>
<td>Technical Assistance</td>
<td>131,593</td>
<td>478,059,500</td>
</tr>
<tr>
<td></td>
<td>Compensation</td>
<td>2,511,379</td>
<td>9,324,143,738</td>
</tr>
<tr>
<td>40</td>
<td>Bank charges</td>
<td>147,180</td>
<td>147,180</td>
</tr>
</tbody>
</table>

Total expenditure: 29,879,443 USD 108,997,379,365 UGX

Surplus for the year: 10,281,936 USD 40,021,979,873 UGX

The notes on pages 21 to 23 form an integral part of these financial statements.

This income and expenditure statement was approved by Management on 31/12/2018 and signed on its behalf by:

**Executive Director**
Uganda National Roads Authority
Date: 31/12/2018

**Director - Corporate Services**
Uganda National Roads Authority
Date: 31/12/2018
5.0 FINANCIAL STATEMENTS (Contd.)

5.2 STATEMENT OF FUND BALANCE

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 USD</th>
<th>2018 UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening fund balance 1st July</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receipts</td>
<td>5.5.8</td>
<td>37,650,000</td>
</tr>
<tr>
<td>Less: Payments during the year</td>
<td>5.5.8</td>
<td>(27,368,064)</td>
</tr>
</tbody>
</table>

Balance as at June 30: 10,281,936 USD = 40,021,979,873 UGX

Represented by
Bank balance
10,281,936 USD = 40,021,979,873 UGX

The notes on pages 21 to 23 form an integral part of these financial statements.

This Statement of Fund balance was approved by management on 30 June 2018 and signed on its behalf by

Executive Director
Uganda National Roads Authority
Date 31.12.18

Ag. Director Corporate Services
Uganda National Roads Authority
Date 31.12.18
5.0 FINANCIAL STATEMENTS

5.3 STATEMENT OF IDA SPECIAL ACCOUNT

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 USD</th>
<th>2018 UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as at 1 July</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receipts from IDA</td>
<td>5.5.1 &amp; 5.5.8</td>
<td>37,650,000</td>
</tr>
<tr>
<td>Currency revaluation</td>
<td>-</td>
<td>3,078,586,000</td>
</tr>
<tr>
<td>Total funds available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Works</td>
<td>25,578,917</td>
<td>93,193,345,516</td>
</tr>
<tr>
<td>Consultancy services</td>
<td>1,657,514</td>
<td>6,001,683,431</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>131,593</td>
<td>478,059,500</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>40</td>
<td>147,180</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>27,368,064</td>
<td>99,673,235,627</td>
</tr>
<tr>
<td>Balance as at 30 June 2018</td>
<td>10,281,936</td>
<td>40,021,979,873</td>
</tr>
</tbody>
</table>
5.0 FINANCIAL STATEMENTS

5.4 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 basis. On this basis funds are recognized only when received and expenses when paid rather than incurred. The preparation of financial statements is in conformity with International Public Sector Accounting Standards (IPSAS) and the Public Financial Management Act 2015.

b) Recognition of receipts / contributions from development partners
Income is recognized in the statement of financial performance when such income is received. Receipts represent the total transfers made by the development Partner International Development Association (IDA) and Government of Uganda (GOU) for civil works, consultancy and land compensation.

c) Expenditure
Expenditure is recognized in the financial statements at the time of payment.

d) Translation of foreign currencies
The accounting records are maintained in Uganda shillings which is both the functional and operational currency. Assets and liabilities denominated in foreign currencies are translated at the rates ruling at the statement of financial position (year-end) date. Transactions in foreign currencies during the period are converted into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains or losses resulting from the re-statement of assets and liabilities at the month end using the closing rates are recognized in the statement of financial performance.

e) 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.

f) Foreign currency rate - USD
Average rate 3,677.89
Closing rate 3,884.75

(Extracted from BoU monthly schedules)
5.0 FINANCIAL STATEMENTS (Contd.)

5.5 NOTES TO THE FINANCIAL STATEMENTS

5.5.1 Funds from International Development Association (IDA)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>UGX</td>
</tr>
<tr>
<td>a) Disbursement 1</td>
<td>27,400,000</td>
<td>98,813,442,000</td>
</tr>
<tr>
<td>b) Disbursement 2</td>
<td>4,000,000</td>
<td>14,561,000,000</td>
</tr>
<tr>
<td>c) Disbursement 3</td>
<td>6,250,000</td>
<td>23,242,187,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37,650,000</strong></td>
<td><strong>136,616,629,500</strong></td>
</tr>
</tbody>
</table>

5.5.2 Funds from Government of Uganda (GoU)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>UGX</td>
</tr>
<tr>
<td>Quarter 1 release</td>
<td>190,303</td>
<td>684,710,686</td>
</tr>
<tr>
<td>Quarter 2 release</td>
<td>955,470</td>
<td>3,459,755,110</td>
</tr>
<tr>
<td>Quarter 3 release</td>
<td>228,010</td>
<td>834,062,176</td>
</tr>
<tr>
<td>Quarter 4 release</td>
<td>1,137,596</td>
<td>4,345,615,766</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,511,379</strong></td>
<td><strong>9,324,143,738</strong></td>
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</table>

5.5.3 Other income

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency revaluation</td>
<td>-</td>
<td>3,078,586,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>UGX</td>
</tr>
<tr>
<td></td>
<td>------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>======</td>
<td>=======</td>
</tr>
<tr>
<td></td>
<td>======</td>
<td>=======</td>
</tr>
</tbody>
</table>
5.0 FINANCIAL STATEMENTS (Contd.)

5.5 NOTES TO THE FINANCIAL STATEMENTS (Contd.)

5.5.4 Expenditure - IDA - Civil works

<table>
<thead>
<tr>
<th>Date</th>
<th>IPC No.</th>
<th>2018 USD</th>
<th>2018 UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/09/17</td>
<td>Shengli - IPC 03F. Final pay't</td>
<td>71,392.00</td>
<td>256,547,152</td>
</tr>
<tr>
<td>08/09/17</td>
<td>Shengli - IPC 03L. Final pay't</td>
<td>284,562.19</td>
<td>1,018,601,755</td>
</tr>
<tr>
<td>08/09/17</td>
<td>Shengli - IPC 04F</td>
<td>499,504.00</td>
<td>1,794,967,624</td>
</tr>
<tr>
<td>08/09/17</td>
<td>Shengli - IPC 04L</td>
<td>550,031.87</td>
<td>1,968,861,091</td>
</tr>
<tr>
<td>26/10/17</td>
<td>Shengli - IPC 05 F</td>
<td>670,022.00</td>
<td>2,443,208,422</td>
</tr>
<tr>
<td>26/10/17</td>
<td>Shengli - IPC 05F</td>
<td>704,187.00</td>
<td>2,557,931,138</td>
</tr>
<tr>
<td>21/11/17</td>
<td>Shengli - IPC 06 F</td>
<td>570,616.00</td>
<td>2,062,896,669</td>
</tr>
<tr>
<td>21/11/17</td>
<td>Shengli - IPC 06L</td>
<td>620,984.87</td>
<td>2,244,990,745</td>
</tr>
<tr>
<td>21/11/17</td>
<td>VAT - Shengli IPC 04&amp;05</td>
<td>392,356.48</td>
<td>1,418,451,079</td>
</tr>
<tr>
<td>23/11/17</td>
<td>Reimbust. For advance 01-03</td>
<td>16,166,458.61</td>
<td>58,857,225,861</td>
</tr>
<tr>
<td>11/01/18</td>
<td>Shengli - IPC 07F</td>
<td>503,912.00</td>
<td>1,827,794,646</td>
</tr>
<tr>
<td>11/01/18</td>
<td>Shengli - IPC 07L</td>
<td>533,854.19</td>
<td>1,936,401,291</td>
</tr>
<tr>
<td>27/03/18</td>
<td>Shengli - IPC 08 F</td>
<td>950,336.00</td>
<td>3,476,215,057</td>
</tr>
<tr>
<td>27/03/18</td>
<td>Shengli - IPC -08L</td>
<td>1,027,656.96</td>
<td>3,759,045,851</td>
</tr>
<tr>
<td>04/06/18</td>
<td>Shengli - IPC -09F</td>
<td>751,832.00</td>
<td>2,777,184,706</td>
</tr>
<tr>
<td>04/06/18</td>
<td>Shengli - IPC -09L</td>
<td>758,140.90</td>
<td>2,882,830,810</td>
</tr>
<tr>
<td>WHT</td>
<td></td>
<td>523,069.93</td>
<td>1,910,191,618</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>25,578,916.81</td>
<td>93,193,345,516</td>
</tr>
</tbody>
</table>
5.0 FINANCIAL STATEMENTS (Contd.)

5.5 NOTES TO THE FINANCIAL STATEMENTS (Contd.)

5.5.5 Expenditure - Consultancy Kyenjojo-Kabwoya – IDA

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>USD</th>
<th>UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/09/17</td>
<td>Comptran - Inv. 02</td>
<td>153,360.00</td>
<td>551,099,160</td>
</tr>
<tr>
<td>19/09/17</td>
<td>Comptran - Inv. 02-16</td>
<td>628,239.00</td>
<td>2,069,684,019</td>
</tr>
<tr>
<td>19/09/17</td>
<td>Comptran - Inv.17</td>
<td>-</td>
<td>191,330,447</td>
</tr>
<tr>
<td>17/10/17</td>
<td>Comptran - Inv.18</td>
<td>53,818.00</td>
<td>196,245,184</td>
</tr>
<tr>
<td>23/11/17</td>
<td>Reimst - for advance</td>
<td>258,293.95</td>
<td>940,370,784</td>
</tr>
<tr>
<td>29/11/17</td>
<td>Comptran - Inv.19</td>
<td>54,418.00</td>
<td>196,779,841</td>
</tr>
<tr>
<td>04/01/18</td>
<td>Comptran - Inv 20 &amp; 21</td>
<td>88,257.00</td>
<td>319,650,085</td>
</tr>
<tr>
<td>06/03/18</td>
<td>Comptran - Inv 22</td>
<td>40,773.00</td>
<td>148,860,592</td>
</tr>
<tr>
<td>20/03/18</td>
<td>Comptran - Inv.23</td>
<td>42,208.00</td>
<td>153,604,333</td>
</tr>
<tr>
<td>06/04/18</td>
<td>Comptran - Inv.24</td>
<td>43,393.00</td>
<td>159,484,029</td>
</tr>
<tr>
<td>03/05/18</td>
<td>Comptran - Inv.25</td>
<td>61,637.00</td>
<td>227,680,298</td>
</tr>
<tr>
<td>08/06/18</td>
<td>Comptran - Inv.26</td>
<td>40,633.00</td>
<td>155,203,026</td>
</tr>
<tr>
<td>WHT</td>
<td></td>
<td>192,484.05</td>
<td>691,711,634</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,657,514.00</td>
<td>6,001,683,431</td>
</tr>
</tbody>
</table>

5.5.6 Expenditure - payments for Technical Assistance (individual consultants)

<table>
<thead>
<tr>
<th>Description</th>
<th>USD</th>
<th>UGX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net pay</td>
<td>83,655.00</td>
<td>303,944,000</td>
</tr>
<tr>
<td>PAYE</td>
<td>41,542.00</td>
<td>150,878,000</td>
</tr>
<tr>
<td>NSSF</td>
<td>6,396.00</td>
<td>23,237,500</td>
</tr>
<tr>
<td>Total</td>
<td>131,593.00</td>
<td>478,059,500</td>
</tr>
</tbody>
</table>

5.5.7 Expenditure - Bank charges

| Bank charges        | 147,180   |

5.5.8 Statement of fund balance

Government of Uganda funding and expenditure on compensation which was funded by GOU, each amounting to UGX 9,324,143,000 (USD 2,511,379), are excluded from the Statement of Fund Balance and the Statement of IDA Special Account.
The Executive Director  
Uganda National Roads Authority  
P.O.Box 28487  
Kampala  

Dear Madam,  

MANAGEMENT LETTER FOR THE YEAR ENDED JUNE 30, 2018  

In accordance with our normal practice, we report on the matters outlined below, which have arisen during the course of our audit for the period under review.  

We report only those matters, which came to our attention during the normal course of our audit, and our comments therefore, do not include all possible improvements to the ARSDP- UNRA Component's internal controls, which might be developed by a special review.  

We emphasize that those observations are not intended to be a reflection on the ability or integrity of the Project Implementation Team or staff but are an indication of the areas in which we consider that the control environment in the Project's accounting and reporting systems are capable of improvement and are therefore, presently not producing maximum benefit.  

We have provided this information for the Project's management and it should not be presented or quoted to any outside 3rd parties because of the possibility of misunderstanding that might arise by other persons who may not be aware of the objectives and limitations of the its internal controls and of our study and evaluation thereof.  

We would be grateful if you could keep us informed from time to time of changes that are made to the existing systems.  

We take this opportunity to express our gratitude to you and the project implementation team for the cooperation and assistance, which we received in the course of our audit.

PATRICK IGA-MAGERO  
PIM + CO.  
CERTIFIED PUBLIC ACCOUNTANTS  
KAMPALA, UGANDA  

Date: 31.12.2018
6.0 MANAGEMENT LETTER FOR THE ARSDP – UNRA COMPONENT FOR THE YEAR ENDED JUNE 30, 2018

6.2 FINDINGS RELATING TO CURRENT PERIOD (Contd.)

6.2.1 Delays in the implementation of the project

Criteria
In line with the funding agreement and the POM, the effective date of the agreement was December 7, 2015 and the expected closing date was July 31, 2019.

Condition
It is noted that as at June 30, 2018 the project is left with only 13 months to the effective date of completion, which is July 31, 2019. It however, appears that there is slow progress towards achieving the project delivery objectives (PDO). From the records reviewed, physical progress of works by June 30, 2018 was 41.95% against 61.88% planned, resulting in an overall slippage of -19.93% against a 74.61% of the time elapsed. An amount of USD 37,650,000 had been disbursed by June 30, 2018 that brought the disbursement to 39.6%. On the other hand government had disbursed USD 2,511,379 out of the expected USD 6,890,000

Cause
The suspension of the funding by IDA on December 28, 2015 after a breach in the environment and social safeguards by IA that was lifted on June 6, 2017 was cited as the major cause of the delay.

Effect
The project delivery objectives may not be achieved in time.

Risk
High

Recommendation
It is recommended that the project implementation team conducts a performance evaluation of the project and address all challenges and gaps relating to project execution as a mitigation measure to attain delivery of project objectives.

Management comments
The project was to be 100% funded by World Bank and the suspension came up during budget execution for FY 2015/16. Since civil works contract had been signed, Government of Uganda had to mobilize funds to cater for this project through virement and supplementary budgeting. In addition to the delay in the approval of supplementary budget the funds raised were not adequate for the project cash flow requirement. This financially constrained the contractor from executing the project works.
6.0 MANAGEMENT LETTER FOR THE ARSDP – UNRA COMPONENT FOR THE YEAR ENDED JUNE 30, 2018

6.2 FINDINGS RELATING TO CURRENT PERIOD

6.2.2 Delays in the Payment of Contractors

Criteria
It is good financial management practice in project execution and management that obligations are settled within stipulated timelines.

Condition
A review of the payments to the Contractor and Supervising Consultants indicated delays in settlement of outstanding obligations. It is noted that during the suspension of the funding by IDA, the Contractor did not stop work as the GOU stepped in to finance the continuation of the project. However, UNRA was unable to settle Contractor’s Certificate No.1; (Advance Mobilization) and ICP Nos.2-5 in time.

Cause
It is purported that GoU funding was insufficient to settle all Contractor’s obligations in time.

Effect
This easily leads to slow mobilization of equipment and the physical progress of the civil works is thus affected.

Risk
High

Recommendation
It is recommended that the project implementation team ensures that project obligations are settled in time to avert possible further delays in project execution.

Management comments
The project was to be 100% funded by World Bank and the suspension came up during budget execution for FY 2015/16. Since civil works contract had been signed, Government of Uganda had to mobilize funds to cater for this project through virement and supplementary budgeting. In addition to the delay in the approval of supplementary budget the funds raised were not adequate for the project cash flow requirement. However now the contractor and consultants are paid in time.
6.0 MANAGEMENT LETTER FOR THE ARSDP – UNRA COMPONENT FOR THE YEAR ENDED JUNE 30, 2018

6.2 FINDINGS RELATING TO CURRENT PERIOD (Contd.)

6.2.3 Delays in the acquisition of Right of Way (ROW)

Criteria
According to the project appraisal documents, the contractor was to receive 100% ROW at the signing of the contract.

Condition
A review of the project execution indicated that the handover of 100% ROW at the time of signing the contract was not done. Rather, a piecemeal hand-over of ROW was done that posed severe challenges to contract implementation. For example, 5.0 km from km 51+700 – km 56 +700 was handed over on 2nd October 2017 and considering that there were still a problem with some PAPs around Km 52 + 000. Accordingly, 21.7 km from km 30+000 –km 51+700 was handed over to the Contractor on 18th January 2018.

Cause
This was attributed to the slow progress by the project implementation team to complete negotiations with the PAPs.

Effect
This leads to slow implementation of project activities.

Risk
High

Recommendation
It is recommended that the project implementation team hasten the process of negotiation and settlement of the PAPs.

Management comments
UNRA wrote on 11th September 2018 to the supervising consultant to issue handover for the last 30 km from Haikoona to Kyenjojo after obtaining no concurrence with the Bank to hand over the section. On 14th September 2018, the supervising consultant wrote to the contractor handing the section. This brought site possession to 100% with 7 PAPs having their monies in escrow account.
6.0 MANAGEMENT LETTER FOR THE ARSDP – UNRA COMPONENT FOR THE YEAR ENDED JUNE 30, 2018

6.2 FINDINGS RELATING TO CURRENT PERIOD (Contd.)

6.2.5 Financial management system

Criteria
Article 2.5 of the subsidiary agreement stipulates the project must maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards. As a compliance covenant UNRA was required to upgrade its financial management system (FMS) within 6 months after effective date.

Condition
It is noted that although migration to IFM system was done at UNRA albeit long after the prescribed 6 months following the credit effectiveness for the period under audit the project financial statements were largely done under the Pastel licensing and the main account with Bank of Uganda is maintained under the BBS system.

Cause
This is attributed to the slow migration to the IFMS and the multiple application of accounting systems contrary to the agreed covenant with the funders.

Effect
There is non-compliance with the funding covenant and a multiple run of the postings to the different financial systems.

Recommendation
It is recommended that the project implementation team should quickly adopt the use of Project data uploaded to the IFMS.

Management comments
The change over from Pastel to IFMS was delayed by technical challenges. Data migration has been completed and the system is fully operational starting with FY 2018/19.
7.0 ENGINEERING AUDIT REPORT

7.1 EXECUTIVE SUMMARY

7.1.1 Background

The Auditor General (AG) is mandated under Article 163 of the Constitution of the Republic of Uganda and Sections 13 and 19 of the National Audit Act, to audit Government and all those organizations, which receive and utilize public funds. Section 40 of the National Audit Act, 2008 further empowers the Auditor General to engage the services of or work in consultation with Professional or Technical Experts or consultants whether in the public service or not; to enhance the performance of the Office of the Auditor General (OAG).

Accordingly, a team of consultants was engaged by the OAG to work jointly with the OAG staff to undertake an Engineering Audit of Albertine Region Sustainable Development Project (ARSDP) – Uganda National Roads Authority: Part 1 Regional access and connectivity (Upgrading of approximately 100 kilometers of unpaved gravel Kyenjojo-Kigumba road to a paved class II bitumen standard; and Strengthening the capacity of UNRA for activities under Kyenjojo-Kigumba road project) for the Financial Year 2017/18.

The specific objectives of the Audit were:

i) To evaluate whether the operations of the Project are in line with the Financing Agreement, Government of Uganda Regulations and Project objectives;

ii) To report if appropriate supporting documents, records and books of accounts relating to all Authority activities have been kept, and if there is a clear linkage between the books of accounts and financial statements presented by the Project;

iii) To check if the financial statements have been prepared by management in accordance with applicable accounting standards and give a true and fair view of the financial position of the Project as at the year end and of its operating results for the period ended on that date;

iv) To establish whether the Project is being implemented as per agreed timelines and quality standards;

v) To establish whether the vouched transactions of the Project relate to expenditures incurred during the period covered by the audit; and

vi) To report on the findings and communicate as required.
7.0 ENGINEERING AUDIT REPORT

7.1 EXECUTIVE SUMMARY (Contd.)

7.1.1 Background (Contd.)

The engineering audit was carried out on approximately 100km stretch from Kyenjojo to Kabwoya being upgraded from gravel to bitumen standard. This project is being managed by Uganda National Roads Authority (UNRA) under the Directorate Roads and Bridges. The project is being executed by a contractor M/s Shengli Engineering Construction (Group) Co. Ltd. of Shengli oilfield, China who is supervised by a consultant M/s Comptran Engineering & Planning Associates, Ghana.

Below are the key audit findings as a result of the engineering audit. Detailed findings are presented in Chapter 7.2.
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.1 EXECUTIVE SUMMARY (Contd.)

7.1.2 Key Audit findings

I. Project Formulation
The project was conceived in 2013. It was originally to be financed by African Development Bank (ADB). A Consultant Mott MacDonald did the initial design data collection in 2009-2010. The World Bank came in 2014 to partner with Government of Uganda in order to cover the funding gap.

The Project objective is to improve regional and local access to infrastructure, markets and skills development in the region.

II. Project Financing and Agreements
The Financing Agreement was signed on 24th August 2015 for a loan amount not exceeding USD 145 million (Credit). A subsidiary agreement was then signed between Government of Uganda (GoU) and Uganda National Roads Authority (UNRA) on 24th August 2015 and in Article 1, GoU agreed to make available to UNRA USD 101.89 (Grant).

III. Procurement of Contractor
The civil works contract was signed on 4th April 2015.

IV. Procurement of Supervision Consultant
The Consultancy Supervision Services contract was signed on 30th April 2015.

V. Physical Progress
At the time of audit the reported physical progress as end September 2018 was 47.23%. Linear progress for completed activities as follows: Clearing and grubbing 61.3km; G15 subgrade 57.3km; Mechanically Modified Subbase 42.2km; CRS Base Course 38.2km; Wearing Course (DBST) 1st seal 29.2Km; 2nd seal 27.4km; 130 cross culverts installed (84% completed); and two (2) abutments of Nguse bridge (located at Km 83+500) completed.

The almost substantially completed road sections total to 27.4km out of the 100.4km i.e. 27% completed.
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.1 EXECUTIVE SUMMARY (Contd.)

7.1.2 Key Audit findings (Contd.)

VI. Financial Progress

The total value of payments made to the Contractor amounted to UGX 81,091,827,708.65 representing 37.79% of the total contract sum. In addition, a total of USD 1,566,474.95 had been paid to the Consultant.

VII. Quality of Work

In general the quality of work was good. However, some unsatisfactory works were observed as detailed in Chapter 2.

VIII. Supervision and Contracts Management

The supervision is generally satisfactory. The project has a supervision Consultant with a full team of key staff on site apart from the Resident Engineer. UNRA also has project Engineers assigned to the project. Details on contract management are given in chapter 2.
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.2 ENGINEERING AUDIT

7.2.1 Objectives of the Engineering Audit

The specific objectives of the Engineering Audit were:

i) To evaluate whether the operations of the Project are in line with the Financing Agreement, Government of Uganda Regulations and Project objectives;

ii) To report if appropriate supporting documents, records and books of accounts relating to all Authority activities have been kept. And there is clear linkage between the books of accounts and financial statements presented by the Project;

iii) To check if the financial statements have been prepared by management in accordance with applicable accounting standards and give a true and fair view of the financial position of the Project as at the year end and of its operating results for the period ended on that date;

iv) To establish whether the Project is being implemented as per agreed timelines and quality standards;

v) To establish whether the vouched transactions of the Project relate to expenditures incurred during the period covered by the audit; and

vi) To report on the findings and communicate as required.

7.2.2 Scope of the Engineering Audit

The audit covered procurement of both contractor and supervision consultant, evaluating whether procurements has been carried out in compliance with the PPDA Act and Regulations and other relevant Laws relating to Procurement of Consultants, Contractors and Industry norms in Uganda.

In relation to the selected works project the audit will assess and evaluate:

1. The type of procurement process used when selecting contractors for the works (fixed rate contract, selective bidding or open contracts) in order to assess the efficiency and adherence to the set procurement guidelines and regulations.

2. Evaluating the pre-bidding procurement process from opening of bids, advertisement of contract job; short listing and selection of contractors, compliance by bidders to the conditions specified in the evaluation sheets of the bids.

3. Award of contractor and minutes of award

4. Examine technical capacity and competence of contractors selected as regard to their experience, equipment, staff and any information regarding their ability to perform.
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.2 ENGINEERING AUDIT

7.2.4 Technical /Engineering Audit

A Technical audit involves undertaking the tasks in line with the TORs set out in an Engineering technical audit with specific emphasis on the following:

- Check whether quantities of work items in contracts (plus addendums) relate to the actual size of the infrastructure.
- Assess whether payments have been made to contractors and consultants reflect the actual inputs made by them.
- Assess whether the works were executed in accordance to the specifications.

7.2.5 Data collection Methods

Various methods of data collection were used in the engineering technical audit; these include document review, interviews, and physical inspections.

7.2.5.1 Document review

The documents reviewed included but not limited to the following: Financing Agreements, Contract Agreements, Monthly Progress Reports, Minutes of Site Meetings, Procurement Files, etc. Extracted data helped in obtaining an understanding of the implementation of the road project.

7.2.5.2 Interviews

Interviews were conducted with the Consultants, Contractors, Project Personnel during the audit to assess the operations of the engineering projects being executed.

7.2.5.3 Physical inspections

Physical inspection was carried out on 2nd October 2018 in the presence of UNRA technical staff, Supervising Consultant and Contractor. See Photo 1 below. The findings are presented in section 7.2.6.
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.2 ENGINEERING AUDIT (Contd.)

7.2.5 Data collection methods

Photo 1: Joint inspection of the project road
The project was conceived in 2013. It was originally to be financed by African Development Bank (ADB). A Consultant Mott MacDonald did the initial design data collection in 2009-2010. The World Bank came in 2014 to partner with Government of Uganda in order to cover the funding gap.

The Financing Agreement was signed on 24th August 2015 for a loan amount not exceeding USD 145 million (Credit). A subsidiary agreement was then signed between Government of Uganda (GoU) and Uganda National Roads Authority (UNRA) on 24th August 2015 and in Article 1, GoU agreed to make available to UNRA USD 101.89 (Grant).

The Project objective is to improve regional and local access to infrastructure, markets and skills development in the region.

The civil works contract was signed on 4th April 2015. However, the World Bank suspended its funding in December 2015 and only lifted their suspension in June 2017. This resulted in delay to issue commencement order.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.2 Contract Data

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Civil Works for the Upgrading of Kyenjojo- Kabwoya Road (100km) from Gravel to Paved (Bitumen) Standard.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Reference No.:</td>
<td>UNRA/WORKS/2013-14/00002/01/01</td>
</tr>
<tr>
<td>Financier</td>
<td>The World Bank/Government of Uganda</td>
</tr>
<tr>
<td>Employer/ Implementing Agency</td>
<td>Uganda National Roads Authority</td>
</tr>
<tr>
<td>Contractor</td>
<td>Shengli Oilfield, China</td>
</tr>
<tr>
<td>Consultant</td>
<td>Complan Engineering &amp; Planning Associates, Ghana</td>
</tr>
<tr>
<td>Civil Works Contract Signing Date</td>
<td>24th April 2015</td>
</tr>
<tr>
<td>Civil Works Commencement Date</td>
<td>5th April 2016</td>
</tr>
<tr>
<td>Original Project Duration</td>
<td>36 Months</td>
</tr>
<tr>
<td>Original Completion Date</td>
<td>4th April 2019</td>
</tr>
<tr>
<td>Contract Time Elapsed at time of audit</td>
<td>86%</td>
</tr>
<tr>
<td>Consultancy Design Review signing date</td>
<td>30th April 2015</td>
</tr>
<tr>
<td>Commencement date for design review</td>
<td>31st August 2015</td>
</tr>
<tr>
<td>Completion Date for design review</td>
<td>March 2017</td>
</tr>
<tr>
<td>Time taken to complete design review</td>
<td>7 Months</td>
</tr>
<tr>
<td>Consultancy Supervision signing date</td>
<td>30th April 2015</td>
</tr>
<tr>
<td>Commencement of supervision services</td>
<td>5th April 2016</td>
</tr>
<tr>
<td>Planned duration for supervision without DLP</td>
<td>36 Months</td>
</tr>
<tr>
<td>Expected end of utilisation of available time input for key personnel</td>
<td>End of June 2019</td>
</tr>
</tbody>
</table>
7.2.6 Detailed Audit Findings (Contd.)

7.2.6.3 Scope of Civil Works

The scope of works comprises the following:

a) Route survey and mapping to clearly identify the areas of road alignment;
b) Clearance of the Contractor’s camp site for the storage of plant equipment, medical facilities, workshop, field laboratory, construction materials and related equipment storage;
c) Construction of the support facilities in the Camp Site. Such facilities include access roads to the camp site, sanitary provisions, a perimeter fence and generator house;
d) Earthworks including cut and fill in low areas where embankments will be needed for the formation of proper alignments;
e) The material supply sites will be cleared of the vegetation and the overburden materials which will all be stockpiled for the restoration of borrow pits after road works;
f) The transportation of the road construction materials. The routes to be used by trucks are either existing or are to be constructed. Minimal negative impact to the environment shall be ensured in either case. During the transportation of materials, it is desired that the trucks be covered by tarpaulins to minimize wind blowing off loose soils from the trucks;
g) Establishment of stone quarries for the processing and supply of stone aggregates;
h) Disposal of cut to spoil sub-grade materials especially from the swamp areas;
i) Grading and compaction of the road in layers using specified mechanical procedures and to the specifications;
j) Installation of drainage infrastructures such as culverts of varying capacities depending on the need of the specific points;
k) Stone layers laid down for road foundation especially in areas which are swampy;
l) Double Bitumen Surface Treatment on carriageway and shoulders;
m) Roadside drainage including off-shoots to drains;
n) Installation of road furniture;
o) Provision of a traffic management system for safe accommodation of traffic on the bypasses/detours; and
p) Implementation of Health and Safety; and Environmental and Social Management Plans (ESMPs).
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.2 ENGINEERING AUDIT (Contd.)

7.2.6 Detailed Audit Findings (Contd.)

7.2.6.3 The road pavement being constructed

<table>
<thead>
<tr>
<th>Layer Thickness</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>30mm</td>
<td>Double Bituminous Surface Treatment</td>
</tr>
<tr>
<td>175mm</td>
<td>Crushed Stone Base (CBR &gt; 80)</td>
</tr>
<tr>
<td>175mm</td>
<td>Mechanically Modified Natural Gravel Subbase</td>
</tr>
<tr>
<td></td>
<td>(soaked CBR ≥30)</td>
</tr>
<tr>
<td>250/350mm</td>
<td>Improved Subgrade Layer (G15)</td>
</tr>
<tr>
<td>Fill G7 Layer</td>
<td>(thickness varies)</td>
</tr>
</tbody>
</table>

7.2.6.4 Record keeping

All documents that were reviewed had all the information required and the audit found it to be satisfactory. For example, the Resident Engineer has files on all subcontractors and assists the Entity in their procurement. However, a letter of delegation on this aspect was not seen.

7.2.6.5 Project Implementation

(I) Contract Duration/Extension of Time (EoT)

The civil works commenced on 5th April 2016 and at the time of audit (October 2018) 20 months out of 36 months (original contract duration) had been utilized i.e. 55.6% of contract period.

The consultant has evaluated and recommended further extension of time by 165 days. This was submitted to UNRA in August 2018. However, by the time of audit in October 2018, UNRA had not responded on the issue of EoT.

It was therefore not possible to establish if the EoT will be with or without costs. However, the delay by UNRA to respond on EoT indicates a weakness in decision-making, with serious hindrance to the actual progress of works.
(i) Contract Duration/Extension of time (EOT)
In addition, based on Consultancy supervision phase contract duration and time inputs for key staff i.e. the Resident Engineer, Deputy Resident Engineer, Materials Engineer having time inputs for field work as 36 months any increase in civil works duration will attract additional supervision time related costs. The entity should ensure that justification for EoT takes into consideration minimization of nugatory expenditure.

Recommendation
i) UNRA Contract Management Team should expedite providing a response to contract issues raised by the Resident Engineer. Taking four months (i.e. from 5th June 2018 to 4th October 2018) to respond to a letter on EoT is a long period and shows weak contract management on the side of the Entity, especially when the response given is not conclusive on EoT to be given yet UNRA agrees to the grounds (Delayed provision of access to site, Delayed payment of certified certificates, Delay due to change in Pavement Design, Delay due to change from Metal culverts to Reinforced Concrete culverts) See copy of UNRA’s letter of 4th October 2018 on EoT attached as Annex 1.

ii) The Entity should ensure that response on EoT are communicated to the consultant by the person named as the Employer Contract Clause 1.1.2.1.

iii) UNRA and the supervising Consultant should expedite establishing the direct time related cost the contractor is entitled due to delay caused by the Entity.

iv) For future projects the Entity should plan and have all the preceding activities to project implementation carried out in time to minimize the nugatory expenditure related to EoT.

v) The Entity should also establish the additional time related supervision cost due to EoT, have it approved and seek for additional funding.

Management response
The determinations for EoT arising from claim no. 1, 2 and 3 were responded to by UNRA in which claim no. 3 had zero EoT and claims 1 and 2 led to 165 days which UNRA concurred with on 4th October 2018 after ascertaining that rainfall data source was calibrated by meteorological department but further documents were asked for by claims committee for further clarity. The cost yet to be incurred so far is time related cost in Bill No. 1. EoT arising from abnormal weather is not eligible for any cost of time extension.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness

Arising from the design review, the sub-base layer is required to modified using 10% of CRR. The aim is to improve soil properties so that the soil type becomes suitable for use as sub-base material.

However, during audit, it was observed that the modification may not have significant increase on the most important parameter (CBR) due to little amount of stone aggregates used and their small size. There is a direct correlation between the amount of stones (percentage used) the more stones used the higher the CBR strength. Similarly the bigger the size of stones the more strength (CBR). In this case as can be seen from Photos 2 and 3 that fine material was used for modification and the quantity visually seem to be less than 10% specified. It was also not clear if the design review recommended 30% or 10% as percentage of CRR to be added to gravel to form sub-base.

Recommendation

i) It is recommended that a detailed investigation be carried out by an independent Government Entity responsible for Materials Testing to establish if the targeted CBR of 30 for sub-base was achieved; and

ii) The Entity should carry out a detailed analysis to establish that payment for CRS is based on the actual amount used during mechanical modification and not the 30% as per design to recover any overpayment made

Management response

The contract provides for 30% CRS and 70% G15 for subbase. During the 22nd to 25th October 2018 quality control and quality assurance inspection that UNRA carried out on the project, the contractor was instructed to use 20% CRS and 10% quarry sand and 70% G15. This is because the Plasticity Index (PI) is tested on material passing the 425 micrometer (425 μm). However, the percentages of quarry sand varies according to the PI of the natural G15 gravel before modification but has not exceeded 10%. Therefore these modification percentages can be varied within the 30% CRS to achieve specified PI and strength which is the basis of the approved pavement structure.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

Photo 2: Mechanically modified subbase found on the road
7.2.6 Detailed Audit Findings (Contd.)

7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

Photo 3: Subbase material placed on road

Therefore, it is very probable that the resultant field CBR for material being used as sub-base is less than what is specified on paper.

In addition, it was observed that there is a discrepancy between the specified thickness for sub-base and that which was being placed on the road. The contract specifies a thickness of 175mm yet at the time of audit it was found that the thickness of sub-base layer before compaction was less than 150mm as jointly observed by the audit team, UNRA staff, Supervision Consultant and Contractor. See Photos 4, 5, 6 and 7.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

Photo 4: A thin layer of sub base material
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

Photo 5: The compacted thin layer of subbase
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

Photo 6: A peg used to estimate the thickness of subbase layer before compaction
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

Photo 7: The thickness of subbase before compaction is less than 150mm

It was also noted that for the section that was receiving the sub-base at the time of audit the subgrade layer top level was within the levels meant for sub-base. Implying that the contractor had placed a thicker layer of lower specification (subgrade) resulting in a reduced sub-base layer thickness.

It was therefore doubtful whether the Consultant and contractor verify the accuracy of the levels of completed road pavement layers.

The conclusion by audit is that probably UNRA is paying for the full specified sub-base layer thickness yet a less sub-base layer is being placed on the road. The implication is overpayment on this bill item (sub-base) and having an infrastructure of reduced quality which may not be able to serve the design road life.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ii) Mechanical Modification of Sub-base layer and its thickness (Contd.)

It is also doubtful whether the Consultant has conscientiously fulfilled to the highest professional standard their role of Engineer as required by their Terms of reference in section 3.1.2.2.

It is recommended that UNRA quickly carries a detailed evaluation of the road pavement layers to establish the actual thickness and quality of material used. In addition, to establish if payment made is commensurate to the structure being constructed.

Recommendation

i) UNRA should quickly carry out a detailed evaluation of the road pavement layers to establish the actual thickness and quality of material used, and any overpayment made due to difference in layer thickness be recovered.

ii) UNRA together with the Consultant and contractor should regularly verify the accuracy of the levels of completed road pavement layers.

iii) A detailed investigation should be carried out on the completed road section by another independent Government Entity responsible for Materials Testing to establish the actual road pavement layer thicknesses and the pavement structural integrity.

Management response

According to the field team, the particular subbase being processed at km 62 +500 and within was a protection process to the loose subbase by first compacting the dumped and spread material before eminent rainfall by evening and depleted subbase material at the mixing yard. The work was not yet complete but was being protected against weather and being shaped for easy trafficking.

However, in UNRA's January 2019 inspection visits, the section shall be investigated in situ and records of layer construction retrieved for conclusive deductions and decisions.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project implementation (Contd.)

(iii) Precoating of stone aggregates

This activity is being carried out from the Quarry where there is presence/a lot of dust in the air. Visual test indicated that the aggregates are not 100% free of dust and probably may not give the required adhesion when placed on the road. This explains why in some sections the road suffers from aggregate stripping yet they were completed more than a year ago.

The method being used by the contractor seem to be inappropriate for such a big road project (100Km) in length). The contractor is mechanically mixing the bitumen binder with aggregates using a wheel loader. The problem with this method is that first the production rate is very low, secondly, it is difficult to have the bitumen binder uniformly applied to the aggregates. Thirdly, the activity is being carried out at normal temperature (no heating and most likely below the appropriate kinematic viscosity of the bituminous material being used) yet for good binders it is required that this activity is done at reasonably high temperature (i.e 140°F). The curing of the precoated aggregates is unsatisfactory see photo 8. It results in stone aggregates with less precoated material retention.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(iii) Precoating of stone aggregates (Contd.)

Photo 8: Precoating is done from quarry and mixing and curing by wheel loader
The area from which precoating is being carried out is not to the required cleanliness. Its size also dictates less volume being handled at a time which greatly affects the production rate which in turn affects the rate on the wearing course activity causing delay to complete the project.

At the time of audit it was difficult to establish the mixing time yet it affects the quality of the produced aggregates. Similarly, the binder content was not measured to establish if it was adequate.

In addition, it is also probable that due inappropriate method being used to precoat the aggregates, the chippings spread rate may be high resulting in nugatory expenditure due payment of excess stones.
Recommendation

It is recommended that UNRA evaluates the adhesion of the aggregates being used and if found not satisfactory, they should jointly together with supervision consultant and contractor first, establish the correct binder for this activity and the content to be used for precoating based on the mineralogical composition of the project aggregates. Secondly, determine the optimum temperature for carrying out this activity. Thirdly, the activity should be carried out in an plant to ensure good quality product that meets the minimum adhesion requirements and to have the production rate increased.

Management response

During the period between 22nd and 25th October 2018, UNRA carried out quality control and quality assurance inspection on the project. On 30th October 2018, UNRA wrote to the Supervision Consultant bringing his attention to issues observed and commented on. Among other issues addressed was the aggregate precoating operations that was being carried out on a small concreted yard that could not accommodate large quantities due to the time required for the paraffin to evaporate. This resulted in the slow pace of sealing works. It was recommended that the concreted platform be extended (widened) to increase production and the surrounding walls well-constructed to avoid spillage of bitumen and contamination of the surrounding environment.

A follow up inspection on all the quality control and quality assurance issues captured in the report is scheduled for January 2019.

The precoating exercise is using kerosene to cut back the 80/100 pen bitumen to Medium Cure 30 properties to afford a thin smear on the aggregates at ambient temperatures. These wet and sticky precoated aggregates need to cure in open air for the kerosene to evaporate and leave a thin film of bitumen. The cured aggregate is covered with tarpaulin so that rain water and dust do not cover the film. More care shall be taken in ensuring that aggregate contamination is avoided such as closure monitoring of wet crushing.
(iv) **Physical Progress**

At the time of audit physical progress was 47.3%. Progress on major activities was as presented in Table 1 below.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage of Contracted Works</th>
<th>Actual works completed in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Earthworks including swamps</td>
<td>29.7</td>
<td>24.29</td>
</tr>
<tr>
<td>2 Pavement layers (Subase, Base and wearing Course)</td>
<td>42.9</td>
<td>10.69</td>
</tr>
<tr>
<td>3 Drainage Works</td>
<td>12.3</td>
<td>4.54</td>
</tr>
<tr>
<td>4 Bridge /Structural Works</td>
<td>1.5</td>
<td>1.78</td>
</tr>
<tr>
<td>5 Ancillary Works and Provisional Items</td>
<td>13.6</td>
<td>0</td>
</tr>
</tbody>
</table>

The reported major reasons for delay were:

i) Under mobilisation of equipment at the time of audit was 75.4%

ii) Underutilization of mobilized equipment i.e. the few equipment on site are only utilized at a time of 60% and 23% are idle, 23% of the time the equipment is idle.

iii) Absence of second mechanical broom which is affecting progress on second seal works.

iv) Inadequate crashed stone material which is affecting progress on pavement layers.
(iv) Physical Progress

However, the audit team was not provided with information on steps taken by both consultant and client on delayed equipment mobilization by the contractor i.e. the supervising team and UNRA have not taken any punitive measure on the contractor to meet his obligation on contract mobilization. The contractor has also not been pro-active in ensuring that the needed equipment for carrying out critical activities are hired to enable works to go on. The constant breakdown is an indicator that the contractor uses very old equipment. It is also indicator that due diligence on contractor's capacity in particular equipment was not satisfactorily carried out.

It was also, doubtful that the project will be completed by 2019 because the agreed production rates were not availed and the contractor was not committal on the completion date. In addition, there was no approved activity schedule by both the supervision Engineer and the Client i.e. documentary evidence seen by audit indicated that on 17th July 2018 the consult requested the contractor to provide a detailed subprogram. However, the audit was not availed with a copy of consultant's letter nor response from the contractor.

In accordance with conditions of contract Sub Clause 1.1.5.6 and 1.1.3.3 the contractor is required to handover 30% of completed sections of road in 60% of completed time i.e. by 21st July 2018. This was not done. The audit also noted that the completed road section with wearing course is from chainage KM 70+000 to Km 100+000. However, this section of road is inclusive of a 20m span bridge over river Nguse at Km 83 + 500 which is yet to be substantially completed. This means that section handover of 30km as provided for in the contract may have to be delayed.

The audit team also noted that the project not being implemented as per agreed timelines may unnecessarily delay the physical works resulting in a completion date after expiry of the credit timeline, which in effect may affect the Government of Uganda's contributions in case extension of credit is not granted.
Recommendation
UNRA should expedite finalization of the issue on EoT, agree with the contractor on the completion date and the contract management team ensure that the contractor delivers the outputs as per agreed timelines to minimize on delay to deliver the final product and the associated prolonged financial costs on the side of GoU.

Management response
The project financing period extension of 23 months was recommended during the midterm review. This is because the other components had hardly taken off and it leaves Component 1 under UNRA the best placed to finish before closure of the Credit. Therefore, there is no risk of the component extending beyond the credit financing period.
The first 30% priority section hand over has delayed and the Employer has claimed for delay damages.
There is a scheduled program that arose from the determined EoT fixing the project completion date to 16th September 2019.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(v) Mobilization and Utilization of Equipment

At the time of audit (October 2018), the contractor had only mobilized 75% of the minimum equipment specified in the contract, yet advance money was paid in February 2016 and commencement date put on 24th April 2016. The equipment yet to be mobilized to site nineteen (19) months after receipt of advance money is listed in Table 2 below.

Table 2: Status on Mobilization of Equipment

<table>
<thead>
<tr>
<th>Key Equipment</th>
<th>Minimum Number</th>
<th>Items Mobilised</th>
<th>Quantity not mobilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>D8 Crawler Dozers 335 HP</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Concrete pumps</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Front end loaders</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Smooth wheeled rollers</td>
<td>6</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Pneumatic tyre rollers</td>
<td>6</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Motorised Chippings Spreader</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Paver for crushed stone base</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Concrete mixer truck</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Bitumen Sprayer 10,000 Litres</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

From the foregoing, and in accordance to Contractor’s Method statement in signed contract Agreement section 3.1 on planning of works, the contractor was to mobilise the required equipment within one week. Therefore, the delay to have the minimum equipment mobilized to site fours after contract signing is a clear indication of unsatisfactory supervision and a weakness in contract management.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)
(v) Mobilization and Utilization of Equipment (Contd.)

Recommendation
UNRA should strengthen the contract management team so that it ensures that the contractor is fully (100%) mobilized as per specified minimum equipment.

Management response
The current equipment mobilization stands at 75.4% and utilization at 70% from 53%. The contractor mobilized some non-critical equipment in excess with all the time critical ones like smooth wheeled rollers and dozers under mobilized. UNRA on 3rd September 2018 submitted a notice to claim delay damages accruing from contractor’s failure to handover 30% priority section by 7th August 2018, the revised date, mainly due to under mobilization. On 10th October 2018 UNRA submitted the Employer's Claim No. 1 for the Supervision Consultant to process. SC responded on 16th November 2018 by informing that the contract price is still to vary, hence the entitlement cannot be determined. UNRA wrote again on 4th December 2018 claiming the same with reason that from 4th October 2018 the determined completion date of 16th September 2019 and the original contract sum has remained to date, therefore the Employer's entitlement is determinable.

UNRA has managed the contract well such that now a physical progress of 51.22% is achieved within original contract period of 36 months under a low-cash-flow Contractor and a 12 months credit suspension effect after commencement on 5th April 2016. The credit suspension that due to non-compliance on social safeguards on another project portal-Kamwenge. It can be projected that by end of original contract period, 4th April 2019, physical progress shall be at worst 60% and 85% by end of 2019.

The project rating by IDA improved from high risk project to moderately satisfactory and both social/environmental safeguards and technical activities are being implemented to achieve the PDO and community livelihood support.
7.0  ENGINEERING AUDIT REPORT (Contd.)
7.2  ENGINEERING AUDIT (Contd.)
7.2.6  Detailed Audit Findings (Contd.)
7.2.6.5  Project Implementation (Contd.)

(iv)  Contractor's Obligation

a)  Performance bond: It expired on 5th June 2018, yet the original completion date was 4th April 2019. It is not clear why UNRA accepted a performance bond which does not cover the original completion period and the defects Liability Period. The audit team was not availed with a renewed contractor’s performance bond.

b)  Advance Guarantee: It expired on 26th February 2018. At time of audit, no evidence was provided that all the money had been recovered yet the guarantee had not been renewed. The long period from expiry of the advance guarantee and the time when the advanced money will be recovered, exposes the Entity (Government of Uganda) and this is a weakness on the side of contract management.

c)  Contractor's all risk insurance policy was not seen.

d)  Workman’s Compensation Policy and Plant & Equipment Policy expired on 29th January 2018 and 3rd April 2018 respectively. At the time of audit, they had not been renewed and were still under review by UNRA. This points to a critical weakness in decision making.

e)  Appointment of Contract Managers:

A supervision consultancy service contract was signed on 30th April 2015 and commenced supervision on 5th April 2016. However, no documentary evidence was seen on appointment of Contract Manager with detailed terms of reference/responsibilities.

f)  Design review: It commenced on 31st May 2015 and was completed in March 2017 i.e. twelve (12) months after commencement of civil works. The conclusion is that the design review was not carried out in time to enable commencement of civil works. A copy of the Design review report was not availed. UNRA’s comment on the design review report were also not availed. The major findings from the design review were not availed to the audit team. However, the consultant informed that the design review did 100% agree with the original design in all aspects. In addition, there was no changes in overall project cost. However, at the time of audit, it was established that there was variation in quantities of work for several bill items and the overall project cost was likely to go up.
It is therefore likely that government did not get value for money as regards design review, yet US Dollars $254,961 was paid for this phase.

Site Possession: at the time of audit, only 70.4 Km i.e. section from Km 30 + 00 to Km 100+400 had been given to the contractor. The remaining stretch totaling to 30Km were yet to be given to the contractor. The implication is distorted contractor's work program, delayed completion of work and nugatory expenditure in time related costs.

Contractor's Staff: by the time of audit, the contractor had mobilized all the required project minimum key staff i.e. 13 key staff and 19 non-key staff. However, it was noted that most of the staff are non-citizen. The unbalance in employment structure does not build local capacity.

Recommendation

i) UNRA’s weak contract management team should be strengthened to quickly act on contractual issues raised and avoid GoU being exposed in future due to expiry of securities.

ii) Copies of renewed securities should be availed to the supervision consultant

iii) Appointment letters for Contract Manager's should clearly spell out their duties and also indicate their limitations.
7.0 ENGINEERING AUDIT REPORT (Contd.)

7.2 ENGINEERING AUDIT (Contd.)

7.2.6 Detailed Audit Findings (Contd.)

7.2.6.5 Project Implementation (Contd.)

(vi) Contractor's Obligation (Contd.)

Management response

a) **Performance bond**
   
   It was extended to 4th April 2020.

b) **Advance Guarantee**
   
   It was extended to 4th April 2020.

c) **Contractor's all risk insurance policy was not seen.**
   
   It was issued once to 4th April 2020.

d) **Workman's Compensation Policy and, Plant & Equipment Policy**
   
   It was extended to 29th January 2019.

e) **Appointment of Contract Managers**
   
   The current Contract Manager was appointed effective 1st September 2018.

f) **Design review**
   
   The design review brought in major changes among others such as,
   
   - Subbase and base thickness increase from 150mm to 175mm.
   - Traffic class increase from T6 to T7

   Therefore, there was value for money especially when to date, at physical progress of 51.22% the target quantities show no increase in original contract sum.

g) **Site possession.**
   
   In accordance with Clause 2.1 of the Conditions of Contract, UNRA wrote to the Contractor on 11th September 2018 to hand over the last 30km section from Haikoona to Kyenjojo after receiving IDA concurrence to hand over the section. This brought the site possession to 100% with 7 family grievance PAPs having their monies escrowed.

h) **Contractor's Staff**
   
   Key staff - by November 2018, 7 out 13 key staff were local personnel which makes 53.8%.
   Non staff - by November 2018, 718 out 854 key staff were local personnel which makes 84%.
   
   UNRA shall continue to put measures that increases local employment.
(vii) Planned activities

At the time of audit (October 2018), it was noted that the contractor for several months did not meet the quantities of work as can be seen from figure 1 below.

Figure 1: A graphical representation of actual progress against planned progress for the last six months.

The conclusion is that the planned progress has become theoretical, the Contractor may not be able to complete the works even within the proposed/revised period and accordingly the indicated completion date may not be achieved. The implication is delayed attainment of project objectives and increased time related costs.
UNRA Contract Management Team should quickly address the issue of Contractor's monthly progress if the delay is to be minimized.

Management response
The Contractor was given a Notice to Correct by the supervision team on 9th February 2018 after UNRA demonstrated the effect of not fully mobilizing on the physical progress in a letter of 30th October 2017 to the contractor and telling her to comply by end of November 2017. UNRA wrote to the supervision team on 27th February 2018 to specify the period of correction and resubmit. This response has not been received to date. UNRA convened a management meeting on 8 June 2018 at UNRA Head Quarters in which the contractor agreed to mobilize more equipment and improve cash flow by injecting 2milhion USD to the project activities despite not having any pending payments with UNRA. After these interventions, equipment mobilization increased from 70% to 75.4%, equipment utilization improved from 53% to 70% and monthly physical progress approached 2% by November 2018. However, this is not adequate since a slippage of 12.15% is still to be covered. The project team shall strive to increase the rate of physical progress while applying contractual provisions to the benefit of the project objectives.

(viii) Extension of Time (EoT)
At the time of audit the consultant had evaluated and recommended further extension of time by 165 days. This was submitted to UNRA in August 2018. However, by the time of audit in October 2018, UNRA had not made a response on this issue. It was therefore not possible to establish whether EoT will be made with costs or without costs. The delay by UNRA to respond to such important issues indicates a weakness in decision-making and contract management.
(ix) Variation Order

From the availed documents for review, there was no signed addendum for variation of works. However, the Consultant reported that arising from the design review, some changes were made in the design which may result in increase in quantities of work i.e. the traffic class was changed from T6 to T7, and subsequently the pavement structure changed i.e. the base thickness changed from 150 mm to 75 mm. the thickness of gravel type G15 was reduced from 550 mm to a range of 250 – 350 mm and gravel type G7 was likely to increase.

The Consultant reported that during design review, UNRA advised them in writing that the cost should be kept within the signed civil works contract amount.

However, during inspection the consultant informed that the actual quantities of work for some items are more than what was indicated in the revised bills of quantities and as a result, cost variations will be inevitable.

The implication is that delay to correctly establish the true cost of the project, may result in failure to source for additional funds, re-scoping the works downwards i.e. technically all the drains in trading centers were to be lined. However, this is not possible due to resource envelope. Rescoping of work may result in an infrastructure that may not meet the original project objectives and the design life i.e. the culverts were changed from corrugated metal pipes to concrete pipes. However, concrete surrounding was not provided for all culverts apart from those in swamp areas.

Recommendation

UNRA should expedite quantification of revised scope of work to establish the cost of the variation so that the required additional funds are timely sourced.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(ix) Variation Order (Contd.)

Management response

The design review brought in major changes among others such as,

- Subbase and base thickness increase from 150mm to 175mm
- A thicker sub-grade between kagadi and kyenjojo due to change in traffic class from T6 to T7

The thickness of G7 was determined by the need to achieve the vertical alignment. The thickness of G15 was determined during the design review.

The change from corrugated pipes to concrete pipes and replacement of two Armco pipe crossings with box culverts increased the quantity of concrete. However, given that some bill items such as chemical stabilization were not used, the overall contract amount was not affected.

All the changes have not caused any need for increase the contract sum and the current target values have projected no increase over and above the contract sum. Given that this is an admeasurement contract, quantities may vary below or above the quantities bidded for without the need to go to the Solicitor General to amend the contract so long as the original contract amount is not exceeded.

Re-scoping of the works generally enhanced efforts to meet the project objective and so far additional funds shall not be required for the main project but only for town roads.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(x) Quantity Verification
Availed information indicated that payment to the contractor is made using interim payment certificates. Measurements sheets and other supporting documents are attached to the certificates. However, it was doubtful whether payments made:

i) Reflects the actual works done,
ii) Actual inputs made, and
iii) Are for works executed in accordance with the specifications.

For example:
- At Km 67+00 the stone aggregates were found not to have been adequately mixed with bitumen material during pre-coating. There was also a lot of aggregate stripping yet the wearing course for that section had been completed a year ago.

- At Km 62+600, it was observed that the mechanical modification for sub-base does not meet the design of mixing with 10% crushed stone (CRR).

- At Km 63, the material that was being used as improved subgrade may not meet the minimum required specifications.

- Joint inspection (Consultant, Contractor, UNRA and Audit Team) of layer thickness for the section around Km 63 revealed that the Contractor was laying a thicker layer of improved sub-grade and a reduced layer thickness of sub-base i.e. a thickness of 100mm sub-base layer of before compaction, on thickness of uncompacted mechanically modified sub-base.

The conclusion is that from availed measurement sheets the entity is paying for the recommended thickness of sub-base, however, it is probable that for some sections the contractor has laid a less layer although he has met the final road level for sub-base. And such a big variation in sub-base thickness is contrary to MoWT General Specification tolerance.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(x) Quantity Verification (Contd.)
It is therefore recommended that UNRA Contract Management Team carries out a detailed investigation on the materials used in the already completed sections and also verifies the actual thickness to establish the actual payment to the contractor and, if the infrastructure being constructed meets the design life.

Recommendation

i) It is therefore recommended that UNRA Contract Management Team carries out a detailed investigation on the materials used in the already completed sections and also verifies the actual thickness to establish the actual payment to the contractor and, if the infrastructure being constructed meets the design life.

ii) The weak UNRA Contract Management Team should be strengthened

Management response
The visual assessment needs to be further investigated since the pictures in the report shows that the layers were being processed and hence we presume that approvals were not at hand.
UNRA has taken it up for thorough investigation in January 2019 and if found to be paid, the amounts will be recovered through subsequent IPCs.
The stripping observed at start of the works can be rectified through an approved method and the cost shall be fully borne by the contractor.

When noticed, measures were taken to ensure that there is no stripping in subsequent works.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(xi) Payments
At the time of audit, the contractor had 11 interim plus advance certificates processed for payment. Interim Certificate No. 11 had been submitted to UNRA on 25th August 2018.

The total certified amount was Ushs89,110,489,606.11/= (41.9% of the contract sum). However, the actual amount paid to the contractor was Ushs. Shs81,091,627,701 (37.8% of contract sum). Out of the over 8 billion yet to be paid include Ushs4,791,306,198.46 UNRA is still holding till the issue of VAT is resolved.

The contractor raised the issue of constrained cash-flow as affecting work progress. They further reported that the issue of VAT being a change in the original contract, their headquarters in China has availed the people on site with cash less equivalent to one million dollars.

Recommendation
i) The audit recommends that UNRA/Government should quickly resolve the issue of VAT to enable the contractor have the required cash flow and probably, that may enable them improve on their performance and, also be able to carry out the projected monthly of quantities of work.

ii) UNRA should communicate the decision on VAT to the Consultant.

Management response
The contract price is VAT inclusive and the contractor has already got exemption letters from URA for specific supplies.

The VAT money is not contractor’s earnable money, however it eases business with a wider spectrum of VAT registered suppliers and does make securities expensive. All the cash flow effect of the Employer not paying an exempted contractor’s VAT is not lawful though real and temporary because the 18% would still be paid to government (URA).

Unless there is change in legislation, the Employer shall not release the VAT and contract price shall remain unreduced because the exemption occurred after the contract signing justifying the expected utilization of the IDA loan.
At the time of audit, the contractor had 11 interim plus advance certificates processed for payment. Interim Certificate No. 11 had been submitted to UNRA on 25th August 2018.

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The contractor raised the issue of constrained cash-flow as affecting work progress. They further reported that the issue of VAT being a change in the original contract, their headquarters in China has availed the people on site with cash less equivalent to one million dollars.

Recommendation

a) The audit recommends that UNRA/Government should quickly resolve the issue of VAT to enable the contractor have the required cash flow and probably, that may enable them improve on their performance and, also be able to carry out the projected monthly of quantities of work.

ii) UNRA should communicate the decision on VAT to the Consultant.

Management response

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The VAT money is not contractor's earnable money, however it eases business with a wider spectrum of VAT registered suppliers and does make securities expensive. All the cash flow effect of the Employer not paying an exempted contractor's VAT is not lawful though real and temporary because the 18% would still be paid to government (URA).

Unless there is change in legislation, the Employer shall not release the VAT and contract price shall remain unreduced because the exemption occurred after the contract signing justifying the expected utilization of the IDA loan.
Generally, the supervising consultant carries out the necessary tests. From the availed information, it is indicated that the materials used meet the minimum specifications save for gravel mechanical modification for sub-base which visually was found unsatisfactory, the precoating activity being carried out from a dusty prone area (the quarry).

Gravel material used in the section between Km 71+400 and Km 72+000 sieve analysis indicates that the materials is slightly outside the envelope i.e. below the lower limit specified.

Particle size distribution for borrow pit located at Km 67+900 right hand side, the envelope was not included. Therefore, it wasn't easy to establish whether materials were within the specified limit.

Recommendation
UNRA Contract Management Team should ensure that all materials used in the road works meet the required specification, and the team should periodically carry out checks and inspection of laboratory tests carried out by the consultant.

Management response
The management response for aggregate precoating and mechanical modification above suffices. The gravel material shall be further investigated for a conclusive recommendation.
(xiii) General observations

During field inspection, also the following were observed;

a) Road Surface

Generally, the completed part was in fair to good condition. No cracks were observed. The defects observed were stripping of stone aggregates and edge failures in isolated sections. However, the consultant reported that the defects had been included on the list of defects.

On the issue of roughness, some sections appear to be rough. However, the consultant informed test carried out revealed that the Roughness Index (IRI) was 4. They were advised and agreed that another confirmatory test be carried out.

The stone aggregates being used for wearing course first seal are of size 23/14 instead of 20/14. Second seal is 14/10 instead of 14/6, and their performance was found to be satisfactory i.e. from they in section from Km 98 to Km 66 as opposed to the first section totaling 4.4Km four i.e. from Km100+400 to Km 96 where the small stones were used and is characterized with stone aggregate stripping of second seal.

b) Road safety

Generally, the warning signs were in place and were adequate, save for those placed at the Nguse Bridge at Km 83+300.

c) Edge breakage

It was observed that in some sections, the edges of the wearing course were breaking off. However, the contract has provision for edge protection and this is done by planting grass on embankment slopes with height ≥ 3m and putting top on embankment with height ≤3. See photos.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(xiii) General observations (Contd.)

Photo 9: Grass planted on embankments

d) Stone pitching
At the time of audit, this activity was in progress (see photo 10)
The method of work was is good and UNRA should recommend it to other projects.
Quality control is being carried out on daily basis by making 75 mm mortar cubes. The mixture for mortar is 1:6 (Cement:Sand). However, the design seems to have omitted installation of score checks is especially for very long drain with steep slopes.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)
(xiii) General observations (Contd.)

Photo 10: A well lined side drain but without scour checks
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.5 Project Implementation (Contd.)

(xiii) General observations (Contd.)
From the availed documents, the progress on stone pitching was reported to be slow. However, at the time of audit, more sub-contractors had been engaged and work was progressing well. The Contract Management Team should ensure that the good production rate is maintained.

e) Excavation in side drains
It was observed the excavated soil from side drains was being placed at the edge of the drains. See Photo 11.

Photo 11: Excavated soil placed just next to the edge of the side drain
Recommendation
UNRA is advised to ensure that the excavated soil is disposed in such a way that allows easy maintenance in the future i.e. disposing the material away from tops of side drains.

f) Borrow pits
It was observed from the inspected borrow pits that they had been properly restored as can be seen from photo 12 taken at Km 96. The borrow pit was restored and given back to owner. The consultant reported that after restoration they prepared a report which they submitted to NEMA.

Photo 12: A well reinstated borrow pit
7.2.6.5 Project Implementation (Contd.)

(xiii) General observations (Contd.)

(g) Securities

It was observed that all the securities had expired. See detail in Table 3 below.

Table 3: Status of securities

<table>
<thead>
<tr>
<th>Type</th>
<th>Value</th>
<th>Validity</th>
<th>Issued by</th>
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</thead>
<tbody>
<tr>
<td>Performance Security (Sub-Clause 4.2)</td>
<td>USD 4,710,393.31</td>
<td>Expired on 5th June, 2018.</td>
<td>Ecobank Kenya Limited&lt;br&gt;Ecobank Towers&lt;br&gt;13th Floor Muindi Mbingu Street&lt;br&gt;P. O. Box 49581 – 00100, Nairobi, Kenya</td>
</tr>
<tr>
<td></td>
<td>USD 4,000,000.00</td>
<td>Expired on 5th June, 2018.</td>
<td>Ecobank Uganda Limited&lt;br&gt;Plot 4, Parliament Avenue&lt;br&gt;P. O. Box 7368, Kampala, Uganda</td>
</tr>
<tr>
<td>Advance Payment Guarantee (Sub-Clause 14.2)</td>
<td>UGX 20,826,496,721.28</td>
<td>Expired on 25th July, 2018.</td>
<td>Ecobank Kenya Limited&lt;br&gt;Ecobank Towers&lt;br&gt;13th Floor Muindi Mbingu Street&lt;br&gt;P. O. Box 49581 – 00100, Nairobi, Kenya</td>
</tr>
<tr>
<td></td>
<td>USD 5,636,453.04</td>
<td>Expired on 25th July, 2018.</td>
<td>Ecobank Kenya Limited&lt;br&gt;Ecobank Towers&lt;br&gt;13th Floor Muindi Mbingu Street&lt;br&gt;P. O. Box 49581 – 00100, Nairobi, Kenya</td>
</tr>
</tbody>
</table>

**Recommendation**

i) UNRA should in future ensure that the securities cover the period of defects liability

ii) UNRA Contract Management Team should in future ensure that the securities are renewed in time before expiry

iii) Copies of renewed securities should be availed to the supervision consultant

**Management response**

The management response under contractor’s obligation has showed that the securities were extended and are now active.
7.0 ENGINEERING AUDIT REPORT (Contd.)
7.2 ENGINEERING AUDIT (Contd.)
7.2.6 Detailed Audit Findings (Contd.)
7.2.6.6 Supervision Consultant

i) In the Consultancy Services Contract, in the Terms of Reference (ToR) section 3.1.2, the Consultant was required to provide a feedback on Ministry of Works and Transport (MoWT) Road Design Manual (2010). However, it was difficult to establish if this was done because the design review report was not availed to the audit team.

ii) In the ToR section 3.1.2 (c) the Consultant is required to support UNRA in preparing for mobilisation of the Contractor. There is no evidence that this was successfully done because at the time of audit the Contractor was still under mobilised at 75.4% with a number of key equipment.

iii) The consultancy design Review/Supervision services does not have a valid professional indemnity

Recommendation
i) UNRA's weak contract management should be strengthened to minimize on contractor's delay to mobilize the minimum equipment required for the project.

ii) The outcome from the design review in particular those which improve the road quality should be communicated to MoWT.

iii) UNRA should expedite obtaining a valid professional indemnity for consultancy supervision services.

Management response
The design review is available and the Audit team can have it. The general mobilization of the contractor was done only the equipment has not been completed and could cause the contractor to pay liquidated damages under Employer claim.
8.0 NOTE ON AUDIT OBJECTIVES, SCOPE AND APPROACH

8.1 Audit objectives

The objective of the audit is to establish whether:

- The financial statements present fairly in all material respects, the project revenue and expenditure incurred for the period, and the state of affairs as at year end in conformity with the applicable financial reporting framework.
- The Project has adhered to established financing agreement.
- The project internal control structure for financial reporting and/or safeguarding assets, including controls in computer based systems are suitably designed and implemented to achieve the control objective.
- The transactions are made in compliance with relevant laws, policies procedures and Regulations governing financial management, procurement, accounting and human resource management with due attention to economy, efficiency and effectiveness.

8.2 Audit Scope

The audit was carried out in accordance with International Standards of Auditing (ISA) as well as the World Bank guidelines for Financial Reporting and Auditing of Projects and included such tests and controls, as the auditor considered necessary under the circumstances. In addition, we performed our duties in close collaboration with the Auditor General. In conducting the audit, special attention was paid to the following:

i) Evaluated whether the operations of the Project are in line with the Financing Agreement, Government of Uganda Regulations and Project objectives.

ii) Appropriate supporting documents, records and books of accounts relating to all Authority activities have been kept. Clear linkages exist between the books of accounts and the financial statements presented by the Project.

iii) The financial statements have been prepared by management in accordance with applicable accounting standards and give a true and fair view of the financial position of the Project as at the year end and of its operating results for the period ended on that date;

iv) Comprehensive assessment was carried out of the adequacy and effectiveness of the accounting and overall Internal control system to monitor expenditures and other financial transactions and ensure safe custody of the project financed assets.

v) In accordance with International Standards on Auditing, we paid attention to the following:

(a) Upgrading of approximately 100km stretch of Road from Kyenjojo to Kabwoya

We established whether the Project is being implemented as per agreed timelines. We followed up and reviewed the procurement for the roads consultant and contractor. Reviewed contract agreements and made follow up on terms and conditions in agreement. We also followed up project implementation in view of project timelines and quality of works done.
8.0 NOTE ON AUDIT OBJECTIVES, SCOPE AND APPROACH (Contd.)

8.2 Audit Scope (Contd.)

(b) Works plans
Reviewed the Project funding agreement to ascertain agreed budget line activities and checked whether funds had been utilized in accordance with the approved work plan.

(c) Receipts
Vouched transactions of the programme related to funding received from World Bank and other sources during the period covered by the audit in order to establish that documentation in support of the receipts agree with the amount of the applications, bank statements and was properly controlled and accounted for.

(d) Expenditure
Vouched transactions of the Project related to 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, bank statements and was properly controlled and accounted for.

(e) Governance
Assessed issues regarding governance and communicated with Management significant audit issues related to governance in accordance with ISA 260: (Communication with those charged with Governance).

The Auditors are expected to carry out any other audit procedures that will be found necessary after assessment of risk pertaining to the Project and the entity.
8.0 NOTE ON AUDIT OBJECTIVES, SCOPE AND APPROACH (Contd.)

8.3 AUDIT APPROACH

We designed our audit approach in accordance with the agreed terms of reference in order to achieve the audit objective.

8.4 CONCLUSION

Our audit opinion is given under audit report Section 4. During the course of our audit, we made certain observations which are presented in the management letter together with management response under Section 6 of this report.