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THE REPUBLIC OF UGANDA

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

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

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

IN ANY CORRESPONDENCE ON:

THIS SUBJECT PLEASE QUOTE NO: **DCG.151/253/01/16****29th December, 2016**The Rt. Hon. Speaker of Parliament
Parliament of Uganda**Kampala**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
COMPONENT 2-5, IDA CREDIT AGREEMENT CR 5269-UG FOR THE YEAR ENDED
30TH JUNE 2016**

In accordance with Article 163 (4) of the Constitution, I forward herewith audited financial statements of Competitiveness and Enterprise Development Project for the year ended 30th June 2016 together with my report and opinion thereon.

John F.S. Muwanga

AUDITOR GENERAL

- Copy to:
- The Permanent Secretary/Secretary to the Treasury
Ministry of Finance, Planning and Economic Development
 - " The International Development Agency/World Bank
 - " The Executive Director, Private Sector Foundation Uganda
 - " The Project Coordinator
CEDP







THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
COMPONENT 2-5 IDA CREDIT AGREEMENT CR 52690-UG
PROJECT ID P130471
FOR THE YEAR ENDED 30TH JUNE 2016

OFFICE OF THE AUDITOR GENERAL
UGANDA

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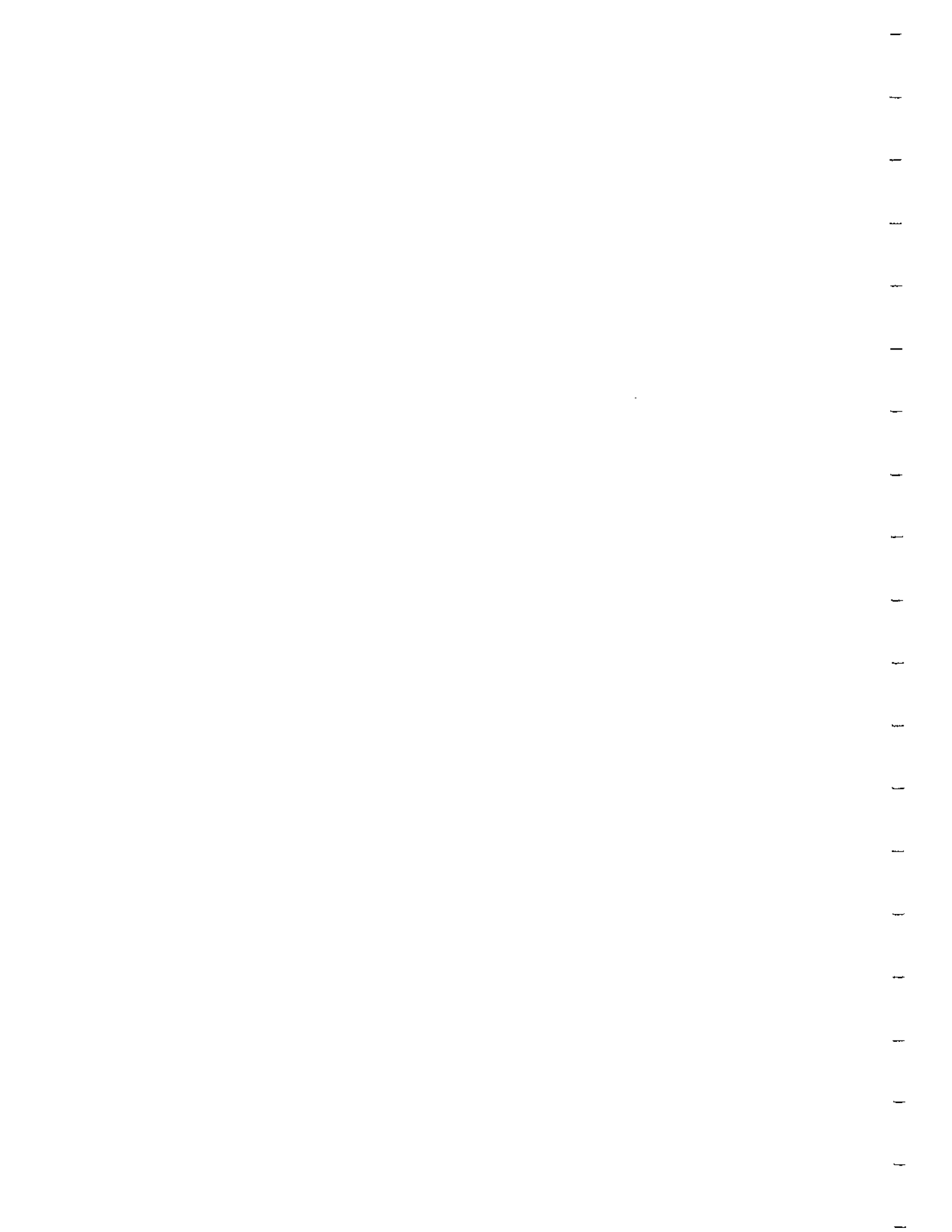
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ACRONYMS AND ABBREVIATIONS

AG	Accountant General
AGO	Accountant General's Office
BIK	Benefits in Kind
BoU	Bank of Uganda
CEDP	Competitiveness and Enterprise Development Project
CG	Central Government
DA	Designated Account
DP	Development Partner
DST	Deputy Secretary to Treasury
FA	Financing Agreement
GoU	Government of Uganda
HQ	Headquarters
HTTI	Hotel Tourism Training Institute
IDA	International Development Association
IECS	Information Education Communication Strategy
IFMS	Integrated Financial Management System
IFRs	Interim Financial Reports
ISM	Implementation Support Mission
ITA	Income Tax Act
KCCA	Kampala Capital City Authority
M&E	Monitoring and Evaluation
MDA	Ministries, Departments and Agencies
MGF	Matching Grant Facility
MLHUD	Ministry of Land Housing and Urban Development
MoFPED	Ministry of Finance, Planning and Economic Development
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
MTWA	Ministry of Tourism Wildlife and Antiquities
NSSF	National Social Security Fund
OAG	Office of the Auditor General
PA	Project Agreement
PAYE	Pay As You Earn
PCU	Project Coordination Unit
PDE	Procuring and Disposing Entity
PPDA	Public Procurement and Disposal of Public Assets Authority
PS/ST	Permanent Secretary/Secretary to Treasury
PSC	Project Steering Committee
PSCPII	Second Private Sector Competitiveness Project
PSFU	Private Sector Foundation Uganda
PTC	Project Technical Committee
SGA	Subsidiary Grant Agreement
TIMS	Tourism Information Management System
UGX	Uganda Shillings
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
USD	United States Dollars
UTB	Uganda Tourism Board
VAT	Value Added Tax



REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT
FOR THE YEAR ENDED 30TH JUNE 2016

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Competitiveness and Enterprise Development Project (CEDP) Component 2-5, (IDA Credit Agreement Cr 52690-UG) Project ID PI30471 for the year ended 30th June, 2016. The financial statements are set out on pages 29 to 41 of appendix 1 and comprise of:-

- Statement of receipts and payments
- Statement of financial position
- Statement of special account
- Statement of cash flows
- Notes to the accounts which contain the summary of significant accounting policies.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Standards on Auditing. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted the audit in accordance with International Standards on Auditing (ISA). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements 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 entity's internal control. An

— audit also includes evaluating the appropriateness of accounting policies used and the
— reasonableness of accounting estimates made by management, as well as evaluating the
— overall presentation of the financial statements. I believe that the audit evidence obtained is
— sufficient and appropriate to provide a basis for my audit opinion.

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

— **PART "A"**

— **Opinion**

— In my opinion, the financial statements give a true and fair view of the financial position of
— the Competitiveness and Enterprise Development Project Component 2-5, as at 30th June
— 2016 and of its financial performance and cash flows for the period then ended, in
— accordance with the terms of the agreements and in conformity with the basis of accounting
— described in Note 7.5.1 to the financial statements.

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— John F.S. Muwanga

— **AUDITOR GENERAL**

— KAMPALA

— 9th December, 2016

REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2016

I have audited the accompanying Special Accounts designated for Competitiveness and Enterprise Development Project (CEDP) activities and Financial Monitoring Reports submitted to the Bank during the year ended 30th June, 2016 in support of loan withdrawals under IDA Credit Agreement (Cr 5269-UG) Project ID PI30471.

Management Responsibility for the Special Accounts Statements

Management is responsible for preparation of the special account statements and fair presentation in accordance with the requirements of financing agreement. Management is 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.

Auditor's Responsibility

My responsibility is to express an opinion on the special account statements based on our audit. I 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 Accounts designated for Competitiveness and Enterprise Development Project (CEDP) activities. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. I believe my audit provides a reasonable basis for our opinion.

Opinion

In my opinion, the IDA Designated account statement gives a true and fair view of operations of the project for the year ended 30th June 2016 in accordance with the terms of the agreement and in conformity with the basis of accounting described in paragraph 7.5.1 of the report.



John F.S. Muwanga

AUDITOR GENERAL

9th December, 2016

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REPORT OF THE AUDITOR GENERAL ON THE INTERNAL CONTROL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2016

I have audited the financial statements of the Competitiveness and Enterprise Development Project (CEDP) Component 2-5 (IDA Credit Agreement CR 5269-UG) Project ID PI30471 and reviewed the Internal Control procedures relevant to generation of accounting information presented in the financial statements, and those relevant to control over programme finances and the safeguard of its assets. I obtained all the information and explanations I considered necessary for the audit.

Management Responsibility for the Internal Control System

Project management is responsible for the designing, establishing and maintaining a control structure that provides management with reasonable assurance that adequate procedures are followed for generation of accounting information for reliable financial statements, and control over finances and safeguarding assets against loss and unauthorized use or disposal. Management is also responsible for ensuring that conditions provided for in the funding agreements and other legal requirements are observed.

Auditor's Responsibility

My responsibility is to express an opinion on the internal control system based on my audit. I conducted the audit in accordance with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the internal control mechanisms for generation of accounting information and for the safeguard of assets are adequate. I assessed the control risk in order to confirm that my audit procedures are adequate to express an independent opinion on the control system. I believe that my audit provides a reasonable basis for my opinion.

I obtained an understanding of the design of the relevant policies and procedures and whether they have been in operation and I assessed the control risk.

I noted certain matters involving internal control and its operation that I consider to be reportable conditions under standards established by the International Standards on Auditing. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment could adversely affect the recipient's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. The results of my tests disclosed some internal control issue which is a reportable condition and is of material weaknesses as described in more details in section 8.2 of this report as summarised below;

- Wrong computation of per diem.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

9th December, 2016

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**REPORT OF THE AUDITOR GENERAL AND
SUPPLEMENTARY INFORMATION**

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP) FOR THE YEAR ENDED 30TH JUNE 2016

This Section outlines the detailed audit findings, management responses, and my recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended), requires me to audit and report on the public accounts of Uganda and all public offices including the courts, the central and local government administrations, universities, and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I appointed M/s PIM + CO, Certified Public Accountants to carry out the audit on my behalf and report to me to enable me report to Parliament.

2.0 PROJECT BACKGROUND

A financing agreement between Government of Uganda (GoU) and the International Development Association (IDA) was signed on 31st January 2014. Under the agreement, IDA agreed to provide SDR 66,100,00 (equivalent to USD 100,000,000) with USD 54,600,00 to finance land reforms for component 1 and USD 46,400,000 for 2-5 for (URBS, HTTI, MTWA, UTB and MGF) activities. The Government of Uganda (GOU) financing is USD 2,500,000. The Government of Uganda delegated the overall coordination of CEDP to the Private Sector Foundation Uganda (PSFU) through a subsidiary agreement entered on 28th March 2014 and it is expected to close on 31th March 2019.

3.0 PROJECT OBJECTIVES

The Project Development Objective (PDO) of CEDP is to improve the competitiveness of enterprises in Uganda by providing support for: (i) the implementation of business environment reforms, including land administration reform; and (ii) the development of priority productive and service sectors.

4.0 PROJECT COMPONENTS

The project is being implemented by the Ministry of Lands, Housing and Urban Development for Component I and Private Sector Foundation Uganda (PSFU) for Component 2-5 as indicated below;

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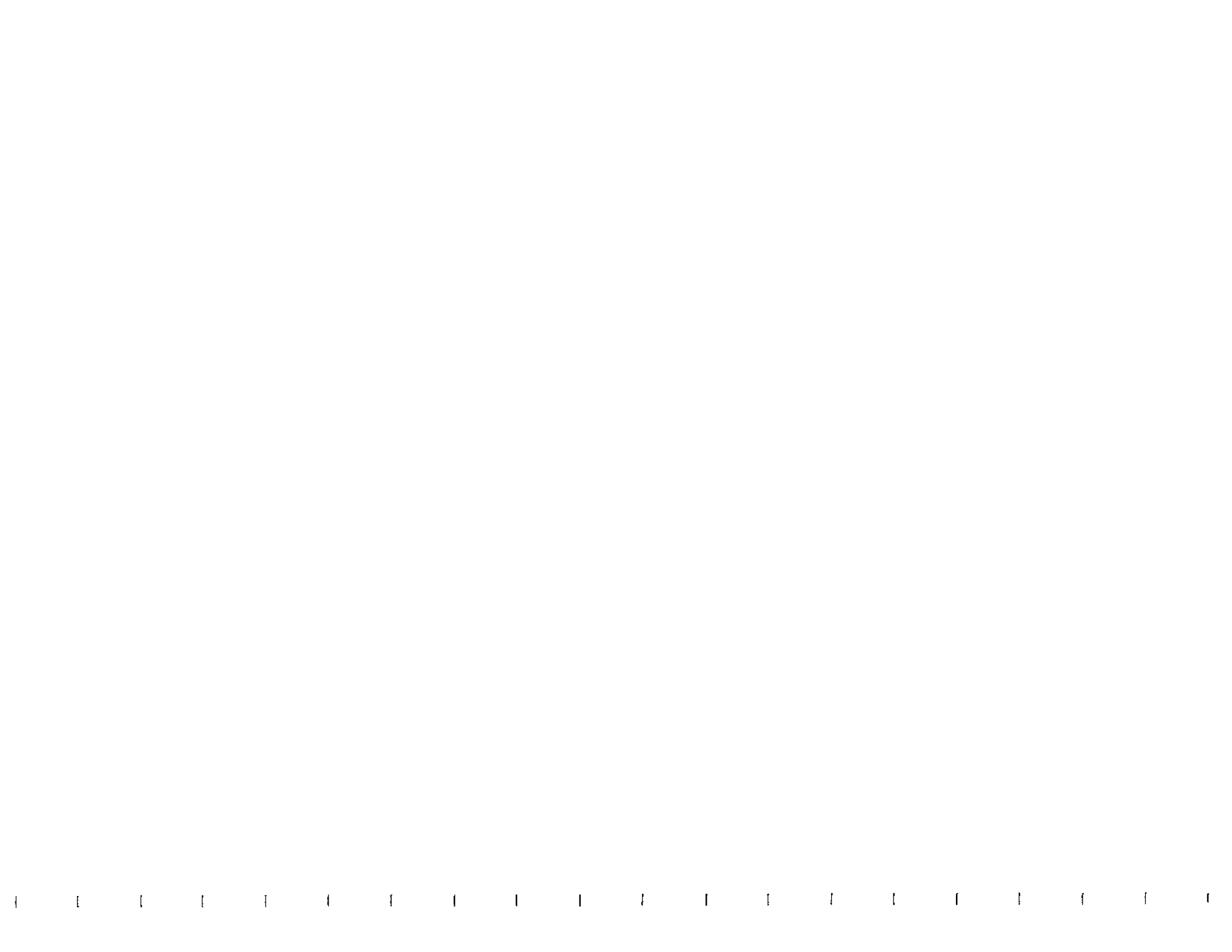
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Component	Scope of Work
<p>Component 1: Land Administration Reform</p>	<p>The Component is supporting the continuation and scale up of Land Reform processes carried out under the PSCP II. It involves:</p> <ul style="list-style-type: none"> a) Improving land administration including rolling out the land information system (LIS) b) Strengthening land Valuation and land use planning functions, developing and strengthening Geodetic, Surveying and mapping policies and infrastructure, supplying base maps for the project and supporting the Uganda Land Commission's Housing and Urban Policies and Programmes c) Systematic Registration of Communally and Individually owned lands d) Strengthening Systems and Institutions for Land Dispute Resolutions e) Strengthening Land Administration and Management Institution.
<p>Component 2: Business Registration and Licensing Reforms</p>	<p>This component objective is to reduce the burden for businesses in dealing with registration and licensing procedures by creating an online one-stop-shop for business registration and e-registry for business licensing, and by implementing measures aimed at simplifying and streamlining business registration and licensing procedures. The component is financing the following broad activities: -</p> <ul style="list-style-type: none"> (a) Strengthening business registration and licensing processes, in particular: (i) Construction of Uganda Business Facilitation Centre that will accommodate URSB/UIA/CMA and a physical One Stop Centre (ii) Establishing an e-Registry for business Licensing including, an appropriate technology platform and software application (iii) Establishing One Stop Shop for Business Registration, including a network of local and regional offices (iv) Streamlining Business Registration and Licensing procedures (Eliminating



Component	Scope of Work
	<p>unnecessary procedures) (v) Carrying out an impact assessment of the said reforms.</p> <p>(b) To Implementing capacity building activities for URSB and other relevant regulatory agencies staff.</p> <p>(c) Developing and implementing information, education & communication strategy (IECS).</p>
<p>Component 3: Tourism Competitiveness Development</p>	<p>The objective of this component is to provide support to the tourism sector through strengthening public and private sector stakeholders and their collaboration to develop a competitive tourism offering. The activities supported under this component include:</p> <p>(a) Development of the Labour force for the Tourism Sub sector through the following;</p> <ul style="list-style-type: none"> i. Construction and equipping the Hotel and Tourism Training Institute ii. Provision of training for the Institute Instructors and Administrators iii. Reviewing and Accrediting the Institutes and Curriculum and Instructional Programmes iv. Developing and implementing a sustainable business model including a revenue generating strategy for the institute <p>(b) Strengthening the capacity of the MoTWA and UTB through:</p> <ul style="list-style-type: none"> i. Developing technical skills of tourism sector staff ii. Tracking tourism sector performance iii. Designing and implementing lodging classification and grading system iv. Implementing relevant policies, including the national tourism levy <p>(c) Tourism product planning, packaging and promotion through: Developing and</p>

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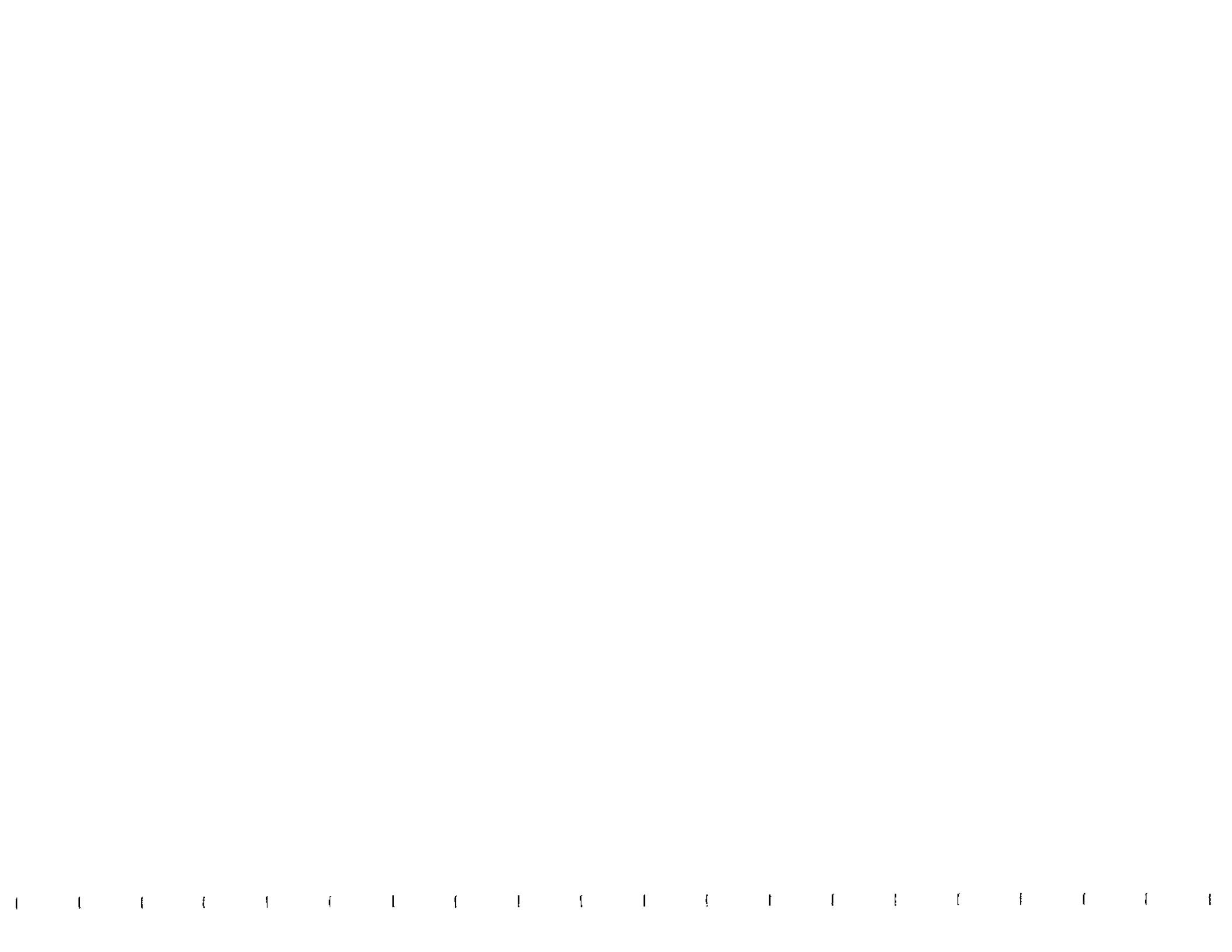
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Component	Scope of Work
	implementing: <ol style="list-style-type: none"> i. Tourism products ii. Tourism value chain packages and supporting linkages between public and private sector entities iii. Marketing and promotional materials iv. Strengthening the capacity of sector institutions/agencies.
Component 4: Matching Grant Facility	The component objective is to enhance the capacity productivity and competitiveness of the private sector enterprises through provision of Matching Grants for undertaking business development services including but not limited to technology improvement, management training, record keeping, quality certification and marketing. The grants are being made to enterprises operating in the key priority sub-sectors namely: tourism; coffee; grains and pulses; horticulture; edible oils; fisheries and information technology/business process outsourcing. The component will contribute to increasing productivity sales revenues and provision of employment at firm level.
Component 5: Project Implementation	The objective of the component is to Strengthen the capacity of the PSFU for overall coordination and management of activities through: <ol style="list-style-type: none"> (a) Provision of technical advisory services, goods, non-consulting services, training, and operating costs (b) Strengthening transparency and governance arrangement for the project (c) Develop and implementing an information, education and communications strategy for the project.

5.0 AUDIT PROCEDURES

The audit was carried out in accordance with International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as



was considered necessary. The audit was carried out with regard to the following objectives:-

- a. To express an opinion whether the financial statements present fairly, in all material respects, project receipts and expenditure incurred for the period, and are in conformity with generally accepted accounting principles;
- b. To evaluate and obtain a sufficient understanding of the internal control structure of the Project, assess control risk and identify reportable conditions, including material internal control weakness;
- c. To perform tests to determine whether the Project complied, in all material respects, with agreement terms and applicable laws and regulations;
- d. To establish whether all external funds have been used in accordance with conditions of the relevant legal agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided;
- e. To establish whether counterpart funds have been provided and used only for the purposes for which they were provided and in accordance with the relevant financing agreement, with due attention to economy and efficiency;
- f. Establish whether goods and services financed have been procured in accordance with relevant financing agreement;
- g. To establish whether proper books of accounts were duly kept in accordance with the generally accepted accounting principles.

6.0 PROCEDURES PERFORMED

The following audit procedures were undertaken:-

a. Revenue

Obtained schedules of all revenues collected and reconciled the amounts to the Project's cashbooks and bank statements.

b. Expenditure

The Project payment vouchers were examined for proper authorization, eligibility and budgetary provision, accountability and support documentation.

c. Internal Control System

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

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d. Procurement

Reviewed the procurement of goods and services under the Project during the period under review and reconciled with the approved procurement plan.

e. Fixed Assets Management

Reviewed the use and management of the assets of the Project during the period under review.

f. Periodic Reports about the project Activities

Reviewed the Agreement provisions, operational manual and the Financial Monitoring Reports and reconciled them with the project activities during the period under review.

g. Project Financial Statements

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

7.0 CATEGORIZATION AND SUMMARY OF FINDINGS

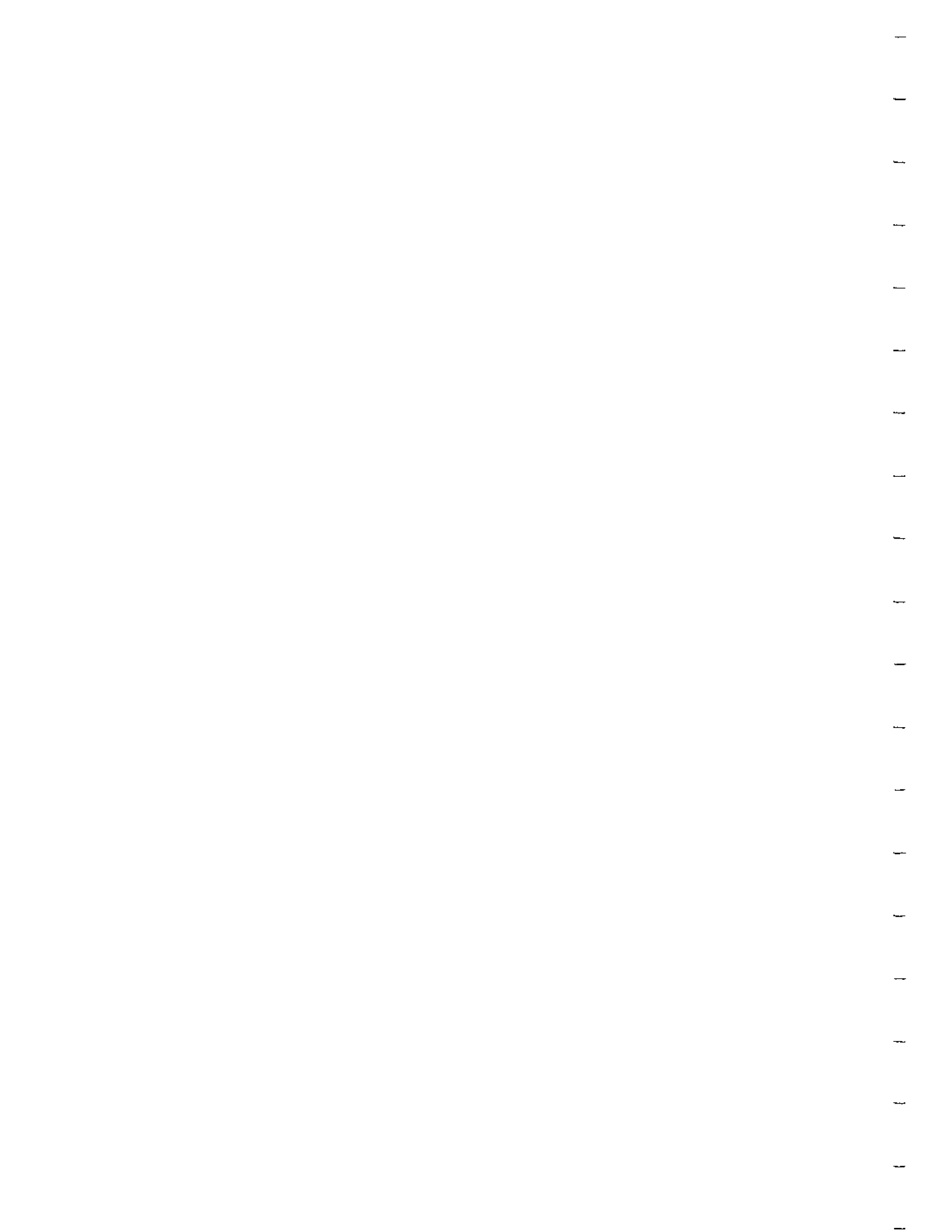
7.1 Categorization of findings

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

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

7.2 Summary of findings

No	Finding	Significance
8.1.1	Wrong computation of per diem	Moderate



8.2.2	Budget performance	High
8.3	Follow up of World Bank review recommendations	Moderate

8.0 DETAILED FINDINGS

8.1 Compliance with the Financing Agreement & GoU Financial Regulations

It was observed that management had complied in all material aspects with the financing agreement and GoU financial regulations.

8.2 General Standards of Accounting and Internal Control

A review carried out on the General Standards of Accounting and internal control system revealed the following shortcomings;

8.2.1 Wrong computation of Per Diem

It was noted that an equivalent of US \$ 1,724 in respect of per diem was paid in Uganda Shillings using an incorrect exchange rate of UGX.3,393.43 instead of UGX.3,339.43 which translated into UGX.5,850,273 instead of UGX.5,757,177. Therefore, the computation error resulted into an over payment of UGX.93,096. There seems to have been an oversight in checking with regard to the computation.

Wrong computation may result into incorrect amount being paid.

Management explained that there was a transposition error in the exchange rate figure. The over-paid amount was recovered and a copy of the receipt and bank deposit slip were filed with the project accounting records.

I advised Management to ensure that payment documentation is subjected to adequate checking prior to effecting payment.

8.2.2 Budget performance

(a) Expenditure versus budget

I noted that planned activities were fully executed and their expenditure were within the budget, showing minor positive variances which were due to estimates in USD made at higher exchange rates than the exchange rates eventually used for effecting payments. However, there were two budget lines/activities that had material variances as shown below;

(i) Transport equipment – variance of UGX.517,569,670

This was due to planned activities not undertaken, namely the procurement of trip vehicles and buses.

(ii) Office accommodation – variance of UGX.630,000,000

This was due to the planned construction of the URSB office which was not undertaken due to delayed procurement process.

I advised project management to ensure project activities are executed as planned.

8.3 Follow up of World Bank review recommendations

It was noted that the agreed upon actions were attained, except for the following;

Agreed action	Status	Management comments
1. PSFU to finalize the procurement of the Smart Card system for UWA	Not applicable.	Roll out differed due to proposed changes in technical specifications for a more robust system. The system was abandoned in favour of another.
2. Establish a banking counter at the MLHUD headquarters to collect stamp duties and all fees.	Not attained.	A Memorandum of understanding has been entered between MLHUD and Diamond Trust Bank for establishment of a banking counter.

I await management's follow up action.

FINANCIAL STATEMENTS

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**COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
COMPONENT 2 – 5 (IDA CREDIT AGREEMENT CR 52690-UG) PROJECT ID P130471
AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2016**

**COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471**

Audit Report for the Year ended 30 June 2016

ACRONYMS

AG	-	Accountant General
AGO	-	Accountant General's Office
BIK	-	Benefits in Kind
BOU	-	Bank of Uganda
CEDP	-	Competitiveness and Enterprise Development Project
CG	-	Central Government
CMA	-	Capital Markets Authority
DA	-	Designated Account
DP	-	Development Partner
DST	-	Deputy Secretary to Treasury
FA	-	Financing Agreement
GOU	-	Government of Uganda
HQ	-	Headquarters
HTTI	-	Hotel and Tourism Training Institute
IDA	-	International Development Association
IECS	-	Information Education and Communication Strategy
IFMS	-	Integrated Financial Management System
IFRs	-	Interim Financial Reports
ITA	-	Income Tax Act
KCCA	-	Kampala Capital City Authority
LIS	-	Land Information System
M&E	-	Monitoring and Evaluation
MDA	-	Ministries, Departments and Agencies
MGF	-	Matching Grant Facility
MICE	-	Meeting Incentives Conventions and Events
MLHUD	-	Ministry of Land Housing and Urban Development
MOFPED	-	Ministry of Finance, Planning and Economic Development
MOU	-	Memorandum of Understanding

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 -5 (IDA Credit Agreement CR 52690-UG) Project ID P130471
Audit Report for the Year ended 30 June 2016

ACRONYMS

MTEF	-	Medium Term Expenditure Framework
MTWA	-	Ministry of Tourism Wildlife and Antiquities
NCDC	-	National Curriculum Development Centre
NCHE	-	National Council for Higher Education
NSSF	-	National Social Security Fund
OAG	-	Office of the Auditor General
PA	-	Project Agreement
PAYE	-	Pay As You Earn
PCU	-	Project Coordination Unit
PDE	-	Procuring and Disposing Entity
PPDA	-	Public Procurement and Disposal of Public Assets Authority
PR	-	Public Relations
PS/ST	-	Permanent Secretary/Secretary to Treasury
PSC	-	Project Steering Committee
PSCF II	-	Second Private Sector Competitiveness Project
PSFU	-	Private Sector Foundation Uganda
PTC	-	Project Technical Committee
SGA	-	Subsidiary Grant Agreement
TIMS	-	Tourism Information Management System
UGX	-	Uganda Shillings
UIA	-	Uganda Investments Authority
URA	-	Uganda Revenue Authority
URSB	-	Uganda Registration Services Bureau
USD	-	United States Dollars
UTB	-	Uganda Tourism Board
UWA	-	Uganda Wildlife Authority
VAT	-	Value Added Tax

**COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 -5 (IDA Credit Agreement CR 52690-UG) Project ID P130471
Audit Report for the Year ended 30 June 2016**

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471
Audit Report for the Year ended 30 June 2016

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

1.0 PROJECT INFORMATION

FUNDERS

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Government of Uganda represented by MoFPED
Plot 2-12 Apollo Kaggwa Road
P.O. Box 8147
Kampala, Uganda

OFFICE AND PLACE OF BUSINESS

Private Sector Foundation Uganda
CEDP Coordination Unit
Plot 43, Nakasero Road,
P.O Box 7683, Kampala
Tel: 0312-214600
Email: info@cedp.go.ug
Website: www.cedp.go.ug

PROJECT SECRETARIAT, COORDINATION UNIT AND COMPONENT MANAGERS

Mr. Gideon Badagawa - Executive Director, PSFU

PROJECT COORDINATION UNIT MANAGEMENT TEAM

John Marie Kyewalabye - Project Coordinator
Elijah Tugume - Financial Management Specialist
Stephen Alongu Ariko - Procurement Specialist
Richard Ojilong - M&E Specialist
Lillian Akot Okura - Communication Specialist
David Lutwama Kasule - Project Engineer
Joseph Lubega - Internal Auditor

COMPONENT MANAGERS

1 Richard Oput - Project Coordinator – PCU 1
2 Bemanya Twebaze - Registrar General, URSB
3A Miriam Amori Namutosi - Ag. Principal, HTTI
3B Grace Aulo Mbabazi - Ag. Director, Wildlife & Antiquities
3C Dr. Andrew Seguya - Executive Director, UWA
3D Stephen Asiiimwe - Chief Executive Officer, UTB
4 Dan Kisekka - Manager, Matching Grant Facility (MGF), PSFU
5 John Marie. Kyewalabye - Project Coordinator PCU 2

1.0 PROJECT INFORMATION

BANKERS

Bank of Uganda
P.O. Box 7120
Kampala, Uganda

AUDITORS: (For and on behalf of the Auditor General)

PIM + CO
Certified Public Accountants
10th Floor, Uganda House
Plot 8-10, Kampala Road.
P.O. Box 866
Kampala, Uganda.
E-mail : pimco@pimcoug.com
pim.company@yahoo.com
Website: www.pimcoug.com

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

2.0 PROJECT MANAGEMENT REPORT

The Management of the Competitiveness and Enterprise Development Project (CEDP) presents its Annual Report and Financial Statements for the year ended 30th June 2016.

2.1 PROJECT BACKGROUND

The Competitiveness Enterprise Development Project (CEDP) is a US \$102.5 million, five year Government of Uganda (GoU) Project financed under IDA credit of US\$ 100 million and Government of Uganda contribution of US\$ 2.5 million. The Project comprises five components and is implemented by seven Agencies as shown below:-

Component	Implementing Agency	Allocation in US \$ (000,000)
1. Land Administration Reform	MLHUD	54.0
2. Business Registration	URSB	10.0
3. Tourism Competitiveness Development	HTTI, UWA, UTB and MoTWA	25.0
4. Matching Grant Facility	PSFU	8.0
5. Project Implementation	PSFU (PCU I and II)	5.5
6. Total		102.5

The PCU at PSFU is directly responsible for components 2-5 having a total allocation of US \$46 million from IDA and manages GoU contribution.

2.2 PROJECT KEY DATES

The Project was approved by the WB Board on May 9, 2013, signed January 31, 2014, became effective June 6, 2014, and planned to close on March 31, 2019. Operations effectively commenced on July 2, 2014. The report details the projects' second year of implementation.

2.3 PROJECT DEVELOPMENT OBJECTIVE (PDO)

The Project Development Objective (PDO) is to improve the competitiveness of enterprises in Uganda by providing support for: (i) the implementation of business environment reforms, including land administration reform; and (ii) the development of priority productive and service sectors.

2.0 PROJECT MANAGEMENT REPORT

2.4 PROJECT SCOPE

The project activities focus on support for creating an enabling business environment specifically in business registration and licensing; Tourism competitiveness development and Enterprise development support to MSMEs through provision of matching grants to enterprises in selected sub-sectors of tourism; coffee; grains and pulses; horticulture; edible oils; fisheries and information technology/business process outsourcing.

2.5 GOVERNANCE

The Project Steering Committee (PSC)

The PSC is in place and provides policy/strategic guidance and oversight. It receives and takes action on reports from the PTC. The PSC provides a mechanism for GoU to plan and effectively monitor CEDP implementation towards attainment of the project development objective of enhancing competitiveness of the private sector. It is chaired by the Permanent Secretary/Secretary to the Treasury (PS/ST) and comprises of Permanent Secretaries from ministries responsible for the respective project components and private sector representatives with its secretariat at PSFU.

Project Technical Committee (PTC)

The PTC is responsible for providing day-to-day technical guidance and supervision of project implementation including: (i) review of consolidated annual work plans, budget, and procurement plan, as well as regular reviews of project M&E data to determine progress and propose any adjustments to the PSC to ensure project effectiveness and satisfactory achievement of end-of-project outcomes; (ii) consensus building on key policy issues related to implementation; and (iii) monitoring of issues related to implementation of reforms and environmental and social safeguard and due diligence work. The PTC, whose secretariat is at PSFU, meets monthly basis and prepares quarterly reports for presentation to the PSC. The PTC is chaired by the Executive Director, PSFU and comprises of all Heads/Chief Executives of implementing agencies with its secretariat at PSFU.

Project Coordination Unit (PCU)

The Executive Director of PSFU is the designated Accounting Officer of project and has overall responsibility for coordinating and implementing the Project components 2 - 5. The Project Coordinator with a team of technical staff under the Project Coordination Unit (PCU) support the implementation of the project.

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

2.0 PROJECT MANAGEMENT REPORT

2.6 PROJECT FINANCING

Total Project financing is US \$ 100 million (SDR 66.1 million) as IDA credit with \$ 54 million financing for component 1 (Land Reforms) and \$ 46 million for components 2-5 and GoU contribution of US \$ 2.5 million.

During the financial year 2015/16, total disbursements received from the IDA for components 2-5 amounted to US \$ 10.11 million and GoU contribution of Uganda Shillings 800 million. Cumulatively IDA has disbursed US \$ 12.4 million and GOU Uganda Shillings 1.6 billion for the components above.

Source of Funding	GoU	IDA (World Bank)
Channel:	Treasury	IDA Credit Account
Access	MoFPED Treasury Single Account / CEDP-GoU-UGX Account	Designated Account
Legal Document	Project Financing Agreement dated 31 January 2013 (CR. 5269 UG / Subsidiary Grant Agreement)	Project Financing Agreement dated 31 January 2013 (CR. 5269 UG/Project Agreement)

2.7 PROJECT COMPONENTS

Component	Scope of Work
Component 1: Land Administration Reform	The Component is supporting the continuation and scale up of Land Reform processes carried out under the PSCP II. It involves: a) Improving land administration including rolling out the land information system (LIS) b) Strengthening land Valuation and land use planning functions, developing and strengthening Geodetic, Surveying and mapping policies and infrastructure, supplying base maps for the project and supporting the Uganda Land Commission's Housing and Urban Policies and Programmes c) Systematic Registration of Communally and Individually owned lands d) Strengthening Systems and Institutions for Land Dispute Resolutions e) Strengthening Land Administration and Management Institution

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2.0 PROJECT MANAGEMENT REPORT

2.7 PROJECT COMPONENTS – (cont'd)

Component	Scope of Work
<p>Component 2: Business Registration and Licensing Reforms</p>	<p>This component objective is to reduce the burden for businesses in dealing with registration and licensing procedures by creating an online one-stop-shop for business registration and e-registry for business licensing, and by implementing measures aimed at simplifying and streamlining business registration and licensing procedures. The component is financing the following broad activities: -</p> <ul style="list-style-type: none"> (a) Strengthening business registration and licensing processes, in particular: (i) Construction of Uganda Business Facilitation Centre that will accommodate URSB/UIA/CMA and a physical One Stop Centre (ii) Establishing an e-Registry for business Licensing including, an appropriate technology platform and software application (iii) Establishing One Stop Shop for Business Registration, including a network of local and regional offices (iv) Streamlining Business Registration and Licensing procedures (Eliminating unnecessary procedures) (v) Carrying out an impact assessment of the said reforms. (b) To implementing capacity building activities for URSB and other relevant regulatory agencies staff. (c) Developing and implementing information, education & communication strategy (IECS)

2.0 PROJECT MANAGEMENT REPORT

2.7 PROJECT COMPONENTS – (cont'd)

Component	Scope of Work
<p>Component 3: Tourism Competitiveness Development</p>	<p>The objective of this component is to provide support to the tourism sector through strengthening public and private sector stakeholders and their collaboration to develop a competitive tourism offering. The activities supported under this component include:</p> <ul style="list-style-type: none"> (a) Development of the Labour force for the Tourism Sub sector through the following: <ul style="list-style-type: none"> i. Construction and equipping the Hotel and Tourism Training Institute ii. Provision of training for the Institute Instructors and Administrators iii. Reviewing and Accrediting the Institutes and Curriculum and Instructional Programmes iv. Developing and implementing a sustainable business model including a revenue generating strategy for the institute (b) Strengthening the capacity of the MoTWA and UTB through: <ul style="list-style-type: none"> i. Developing technical skills of tourism sector staff ii. Tracking tourism sector performance iii. Designing and implementing lodging classification and grading system iv. Implementing relevant policies, including the national tourism levy (c) Tourism product planning, packaging and promotion through: Developing and implementing: <ul style="list-style-type: none"> i. Tourism products ii. Tourism value chain packages and supporting linkages between public and private sector entities iii. Marketing and promotional materials iv. Strengthening the capacity of sector institutions/ agencies
<p>Component 4: Matching Grant Facility</p>	<p>The component objective is to enhance the capacity productivity and competitiveness of the private sector enterprises through provision of Matching Grants for undertaking business development services including but not limited to technology improvement, management training, record keeping, quality certification and marketing. The grants are being made to enterprises operating in the key priority sub-sectors namely: tourism; coffee; grains and pulses; horticulture; edible oils; fisheries and information technology/business process outsourcing. The component will contribute to increasing productivity sales revenues and provision of employment at firm level.</p>

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2.0 PROJECT MANAGEMENT REPORT

2.7 PROJECT COMPONENTS – (cont'd)

Component	Scope of Work
Component 5: Project Implementation	The objective of the component is to Strengthen the capacity of the PSFU for overall coordination and management of activities through: (a) Provision of technical advisory services, goods, non-consulting services, training, and operating costs (b) Strengthening transparency and governance arrangement for the project (c) Develop and implementing an information, education and communications strategy for the project

2.8 PROJECT AGREEMENT BETWEEN PSFU AND THE WORLD BANK AND SUBSIDIARY AGREEMENT BETWEEN GOVERNMENT OF UGANDA (GoU) AND PSFU FOR THE IMPLEMENTATION OF CEDP

The Project Agreement and the Subsidiary Grant Agreement show the responsibilities of PSFU, related Agencies and GoU in the implementation of CEDP. The Agreements cover the financial and technical support to the project, and spell out the coordinating framework for consultation between the signatories for joint reviews of performance, common procedures on disbursements, reporting and audits.

2.9 GoU RESPONSIBILITIES

GoU is fully responsible and accountable for the implementation and management of the credit. GoU delegated authority for the overall coordination of implementation of the Project to PSFU through a grant subsidiary agreement entered on March 28, 2014. However, GoU maintains the oversight roles and provides strategic guidance through the Project Steering Committee (PSC) chaired by the PSST.

PSFU is required to maintain financial records in accordance with GoU financial management and accounting regulations/guidelines. Under the Project Operations Manual, Financing Agreement and Project Agreement PSFU is required to clearly identify and incorporate activities financed under the project in the Medium Term Expenditure Framework and Annual National Budget.

2.10 SUBSIDIARY GRANT AGREEMENT

GoU entered into Subsidiary Grant Agreement with PSFU delegating authority for overall coordination and implementation of the project with respective Agencies. PSFU was required to establish a PCU to technically support implementation of the project. A fully constituted and functional PCU is in place. PSFU also has a delegated contracts committee and PSFU chairs the PTC.

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2.0 PROJECT MANAGEMENT REPORT

2.11 CEDP FUNDING FOR THE FY 2015/16

The project had an opening balance of US \$ 1,381,376 and received US \$ 10,110,000 from IDA applied for during the year. Government of Uganda released UGX 800 million as a contribution and UGX 17.8 million was received from sale of bidding documents.

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016

The main objectives for the second year of implementation were: -

- 1) To finalize designs and commence construction for infrastructural related activities majorly under MLHUD, HTTI and URSB and UWA.
- 2) Installations of the various IT systems to support automation of processes especially at MLHUD, URSB and UWA.
- 3) To undertake continuous monitoring of implementation progress, capturing the results, accountability and promoting learning.
- 4) Continue strengthening institutional capacity of agencies through provision of technical support and targeted staff training and equipping in bid to ensure sustainability post project.
- 5) To finalize and implement the communication strategy that will ensure continued stakeholder engagement and involvement to ensure buy in and support of the reforms being implemented as well as share project results.
- 6) Institute a robust M&E and results tracking mechanism/system aimed at supporting project as well as guide/inform project interventions.

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

2.0 PROJECT MANAGEMENT REPORT

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016 – (cont'd)

Implementation Progress

Component 2: Business Registration and Business Licensing Reforms

The component is directly implemented by URSB. The objective of the component is to reduce the burden for businesses in dealing with registration and licensing procedures by creating an online one-stop-shop for business registration and e-registry for business licensing, and by implementing measures aimed at simplifying and streamlining business registration and licensing procedures. During the FY the following activities have been undertaken.

- Engagement of the Consultant to undertake design of the Central Office for URSB/UIA/CMA/Physical One Stop Centre – Business Facilitation Centre was completed. Preliminary design was concluded, reviewed and approved in May 2016. The detailed design of the building will be concluded in October 2016.
 - The procurement process for the Consultant to undertake design and installation of an Electronic Document Management System (EDMS) was finalized and the contract was signed on the July 1, 2016.
 - Improvement of IT Infrastructure that involved structure cabling for local area network (LAN) and Wide area network (WAN) for both the headquarters and regional offices of URSB was completed. This has enabled linking of all the offices, easing communication and service delivery.
 - A Customer Call Centre was established and functional at URSB headquarters.
 - A review of the Business Licensing Reform Report and recommended reforms was undertaken and prepared a work plan for implementing the recommendations. A consultant was also engaged to support the MDAs in preparing principles for amending the laws on Business Licensing. 13 draft principles for amendment of business licensing related laws were delivered.
 - An upgrade of the E-licensing portal was finalized. This is a repository of over 520 licenses and provides vital information on business licences in terms of the type of license name, purpose and application/license fee, duration of license, licensee requirements, legal basis and application forms. www.businesslicenses.go.ug.
 - Seven staff from URSB and First Parliamentary Council undertook a benchmarking study tour on business licensing reforms to Zambia.
 - URSB established an interim records tracking system to enhance the process of registration through SMS/Email notification.
 - Two branches of URSB office were established at Nakivubo and Post Office building in Kampala. These have enabled decongesting the head office and easing access to services by the public.
 - Two pick-up trucks and four motor cycles were acquired and allocated to support Mbarara and Gulu regional offices.
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2.0 PROJECT MANAGEMENT REPORT

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016 – (cont'd)

Implementation Progress – (cont'd)

Component 2: Business Registration and Business Licensing Reforms – (cont'd)

- URSB was equipped with 95 desktop computers, 30 laptops, 4 generators, 7 servers, 6 thermal printers, CCTV security cameras, access control, carpeting, 3 motor vehicles and a range of assorted furniture.
- 36 staff have been recruited comprising technical and administrative to support implementation of project activities.
- A Consultant to undertake the Organization wide review of the structure, process and operations of URSB was engaged on the 18/3/2016 and will complete the assignment in September 2016. The study will inform the restructuring of the entity in a bid to improve its effectiveness.
- Radio infomercials have run on various radios to inform and educate the public on business registration.
- 16 stakeholders' engagements/ workshops were undertaken across all regions of Uganda to sensitise the masses on business registration and business licensing.
- Advertisement of the e- licensing portal in both the print and electronic media was undertaken and has resulted in increase of hits locally and internationally to 23,000.
- Specific Radio, TV talk shows, jingles & spot adverts for Gulu and Mbarara were ran at the respective media platforms.
- Contract for Media Campaigns on Bukede and NTV were concluded. However, the actual campaigns will commence next financial year.
- Business registration clinics/ barazas have been undertaken to sensitize and enhance registration where most of the business community members have benefited from instant registrations of business names and certificates given at ago.
- The following IEC materials have been developed Quarterly Newsletter, business registration information guide book, branded pens for conference usage, branded business registration folders, branded business registration notebooks, branded business registration out-door banners ,branded business registration car stickers branded tyre covers business name registration flyers

Key Achievements towards attainment of the PDO

- 1) Business Name search is now instant
- 2) Business name reservations and searches may be conducted online
- 3) Number of days to register a business has reduced from 33 days baseline in 2013/2014 to 1 day.
- 4) Cost to register a business as a percentage of income per capita fell from 76.7% baseline to 39.7% in 2016.
- 5) There is an increase in number of businesses registered from 16,234 in 2013/2014 to 19,818 in 2015.
- 6) Increase in NTR collections per year from UGX 5 billion in 2010/2011 to over UGX 23 billion in 2014/2015 (URSB Records).

2.0 PROJECT MANAGEMENT REPORT

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016 – *(cont'd)*

Implementation Progress – *(cont'd)*

Component 3: Tourism Competitiveness Development

The Component is directly implemented by 4 entities: The Ministry of Tourism Wildlife and Antiquities (MoTWA), Uganda Tourism Board (UTB), Uganda Wildlife Authority (UWA) and Hotel Tourism Training Institute (HTTI). The objective of this component is to provide support to the tourism sector through strengthening public and private sector stakeholders and their collaboration to develop a competitive tourism offering. Activities financed under the component are in three broad areas namely: Development of Labour force for tourism sub sector; Strengthening the capacity of the MoTWA and UTB and Tourism product planning, packaging, and promotion as detailed below: -

(i) Development of labour force for the tourism sub-sector (HTTI)

Key activities financed include: Preparation of the feasibility study and business plan to determine the viability of the investment (environmental, economic & financial), Design and construction supervision consultancy; training needs assessment, development and implementation of a training plan; a review of curricula and development of proposals for accreditation and engagement; development and implementation of a sustainable business model and revenue generation strategy. During the FY the following have been undertaken:

- Engagement of Salzburg School Austria to undertake the feasibility study and preparation of business plan which was finalised and will feed into the design of the proposed facilities for the Institute.
- Procurement of a consultant to undertake design and construction supervision of HTTI facilities was undertaken, finalised and consultants engaged. The execution has commenced.
- The first stage of the curriculum review that involved development of a curriculum outline to international standard was completed with support from the Salzburg School Austria. HTTI completed the second stage of developing the curriculum details including specific course unit durations in line with the Ugandan standards with support from NCDC. This is expected to be concluded in September 2016 with a draft curriculum being submitted to NCHE for approval.

(ii) Strengthening the capacity of MoTWA and UTB

Key activities financed include: Development of technical skills of tourism sector staff, track tourism sector performance including collection, analysis and dissemination of appropriate data, implementation of relevant policies including national tourism levy. During the FY the following have been accomplished:

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2.0 PROJECT MANAGEMENT REPORT

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016 – (cont'd)

Implementation Progress – (cont'd)

Component 3: Tourism Competitiveness Development – (cont'd)

(ii) Strengthening the capacity of MoTWA and UTB

- Completed the procurement of a consultant for design of the Tourism Management Information System (TIMS)
- Procurement of firm to conduct capacity assessment for the 4 agencies was undertaken and is in the final stages of contracting.
- The procurement of a consultant to support MoTWA in the development of the Meetings Incentives Conventions and Events (MICE) Policy commenced and will be concluded in October 2016.
- The procurement for a consultant to undertake a Value Chain Analysis for Uganda was initiated and will be completed in October 2016.

(iii) Tourism product planning, packaging, and promotion (UTB and UWA)

Key activities financed include: implementation of a lodging classification and grading system, development and implementation of tourism products development and implementation of marketing and promotion activities. During the FY the following have been accomplished:

- The procurement and engagement of the three PR firms to undertake market representation of Uganda in the USA, UK and Germany was concluded and firms commenced on the work.
- Procurement of a consultant to undertake research on Tourism Product Development was initiated and will be concluded in October 2016.
- UTB was supported to participate in 2 major international expos and run the 1st ever Pearl of Africa Expo to market Uganda.
- Procurement of 5 - 52 seater domestic tour buses for UWA was concluded and delivery is expected in December 2016.
- Procurement of 3 - 45 seater launches (motorized boats) was concluded and delivery is expected in December 2016.
- Designs for proposed construction of six (6) Visitors Centres/ Gates at selected National Parks was finalized.
- A Fleet management system was designed and installed for UWA.
- Procurement of an IFMIS for UWA was initiated and the process is on-going.

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2.0 PROJECT MANAGEMENT REPORT

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016 – (cont'd)

Implementation Progress – (cont'd)

Component 3: Tourism Competitiveness Development – (cont'd)

Key Achievements towards attainment of the PDO:

- 1) Increase in international tourist arrivals: The number of international tourist arrivals rose from 945,000 in 2010 to 1,206,000 in 2014 a percentage increase of 28%. The target for end of project is 1,500,000 arrivals in 2019.
- 2) Tourism sector employment: The number rose from 225,300 in 2010 to 520,000 in 2015 an increase of 130%. The Project is targeting 1,000,000.

Component 4: Matching Grant Facility

The component is directly implemented by PSFU. The objective of the component is to enhance the capacity productivity and competitiveness of the private sector enterprises through provision of Matching Grants for undertaking business development services including but not limited to technology improvement, management training, record keeping, quality certification and marketing etc. Major activities include: Enhancing the capacity of PSFU to manage MGF, provide T/A & Grants for business development, and provide logistical and operational support to MGF). The grants are being made to enterprises operating in the key priority sub-sectors namely: tourism; coffee; grains and pulses; horticulture; edible oils; fisheries and information technology/business process outsourcing. During the FY the following have been accomplished:

- Three rounds of call for proposals were published in June/ December 2015 and April 2016 with a total of 850 applications received.
- 244 Agreements have been entered with private sector enterprises with commitments totaling US\$ 2,384,411 (34 % of the allocated total grant).
- 67 Requests for re-imburements were received totaling US\$ 427,060 and reimbursement of US \$ 302,526.66 has been effected.
- A web Portal for the grant was developed and is being used for processing grants online.

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2.0 PROJECT MANAGEMENT REPORT

2.12 PERFORMANCE HIGHLIGHTS FOR FY ENDED 30 JUNE 2016 – (cont'd)

Implementation Progress – (cont'd)

Component 4: Matching Grant Facility

Key Achievements towards attainment of the PDO

- 1) Total number of enterprises approved is 235 up to the second call for proposals out of the targeted 500. An additional 170 applications under the third call are being reviewed and will change the total allocations.
- 2) Total number of direct project beneficiaries reached is 182,159 out of the targeted 400,000 for the 2nd year of implementation and the planned 1,000,000 over the project life time. With the completion of processing of the third call, this is expected to change.
- 3) Out of the reached beneficiaries, females comprise 50.3% above the target for two years' of 12% and the planned 18% over the project lifetime. Overall the targeting of the grant is very effective in reaching female beneficiaries.
- 4) The baseline values of the employees of the 235 supported enterprises is 7,801 staff (MGF database)

Component 5: Project Implementation Coordination (PCU)

The component is directly implemented by PSFU through a Project Coordination Unit (PCU). The objective of the component is to strengthen the capacity of the PSFU for overall coordination and management of activities through: (a) Provision of technical advisory services, goods, non-consulting services, training, and operating costs (b) Strengthening transparency and governance arrangement for the project (c) Developing and implementing an information, education and communications strategy for the project. During the FY the following has been accomplished:

- The PCU is fully constituted and continued to technically support the implementing agencies and undertaking coordination role of the project.
- The Contracts committee continued supporting project procurement processes.
- The PSC met 6 times and continues to provide oversight and strategic guidance
- The PTC meets regularly, reviews and discusses implementation progress.
- The World Bank conducted both the financial and procurement reviews and project was rated satisfactory.
- MTR for the project undertaken and completed in August 2016.
- The Project's Results Framework was reviewed to align it to the activities being financed and the indicators.
- The PCU submits timely Interim Financial Reports (IFRs) to IDA.
- Progress reports to GoU have been submitted up to June 2016.
- Project IEC materials have been developed, produced and circulated to various stakeholders.

Key Achievement towards attainment of the PDO

- 1) The project is currently rated moderately satisfactory by IDA and satisfactory by Office of the Prime Minister.
- 2) The project still remains on course towards attainment of the PDO.
- 3) The project has covered 44% of its lifecycle with disbursement of 32%.

2.0 PROJECT MANAGEMENT REPORT

Implementation Progress – (cont'd)

2.13 PROJECT IMPLEMENTATION CHALLENGES

The project faced a few challenges as detailed below:

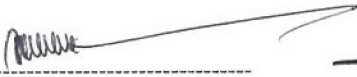
- 1) **Exchange rate risk** – The project suffered an exchange loss of about US\$ 8 million due to the significant appreciation/ gains of the US\$ against the SDR. This has resulted into a financing gap that is being closely monitored. The recovery has been rather slow and may not adjust. In the event that the loss persists, there will be an impact on implementation of planned activities.
 - 2) **Low absorption of funds** – The project absorption rate was low, largely attributed to delayed start of implementation of the project and the lengthy procurement processes it has begun picking up in line with concluded procurements. The project lost 1 year and 2 months between approval and declaration of effectiveness.
 - 3) **Delayed release of GoU contribution:** During FY 2015/2016 there were delays in releasing funding for quarter 2 and quarter 3. This affected execution of activities ear-marked for financing under GoU contribution.
 - 4) CEDP is under PSFU and financing is managed as a subvention, this has caused challenges in budget programming into one expenditure item. This distorts budget execution when operating using the IFMS system given that budget allocation is appropriated on a single transfer item which is not suitable for operating under IFMS. Addressing the anomaly requires breakdown of budget into various expenditure items to enable spending and reporting that is in line with the financial management requirement.
 - 5) **Preparation of ambitious plans:** There has been a tendency for implementing agencies to prepare rather ambitious work-plans including numerous activities which at the end of year remain un-implemented. This is partly caused by lack of proper scheduling/sequencing of activities within the project time lines.
 - 6) Delayed enactment of key legislation that complement the reforms being taken
 - 7) Inadequate capacity at agency level that affects the pace of implementation of activities and sustainability post project
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2.0 PROJECT MANAGEMENT REPORT

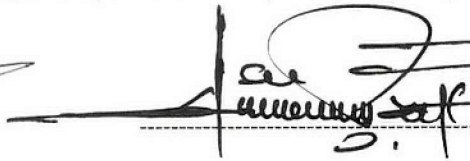
Implementation Progress – (cont'd)

2.14 INTERNAL AUDIT

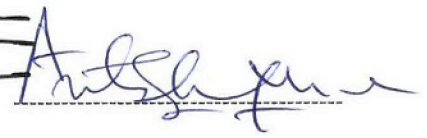
The internal audit function of the project is handled by the Internal Auditor with oversight of the Ministry of Finance Accountability Sector Audit Committee and the Project Steering Committee. The respective entity Internal Audit Departments are also involved in undertaking specific audits for example Uganda Registration Services Bureau (URSB) conducted a systems and internal audit review. The URSB conducted an internal audit review regarding functions of the components and audit verification for specific items acquired during the year.



Executive Director, PSFU



Project Coordinator



Financial Management Specialist

Kampala, Uganda

Date 7th December 2016




3.0 STATEMENT OF PROJECT MANAGEMENT'S RESPONSIBILITIES

Section II B.1 of the Project Agreement between IDA and the Government of Uganda requires that the Project management maintains a financial management system and prepares financial statements in accordance with consistently applied and acceptable accounting standards, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity; including the operations, resources and expenditure related to its respective Part of the Project.

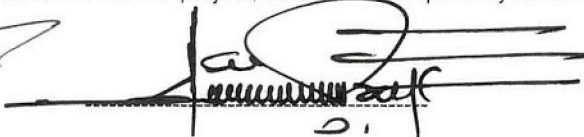
The management of Competitiveness and Enterprise Development Project (CEDP) is responsible for preparing the financial statements for each financial year which gives a true and fair view of the state of affairs of project as at the end of the financial year. The Project management are required to ensure 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.

The management is ultimately responsible for the internal controls. The overall management delegate responsibility for internal control to project management. 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.

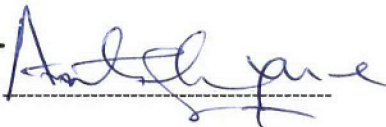
The management of the Project accept responsibility for statement of comprehensive income, statement of financial position and special account activity statement which has been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates. The management of the project are of the opinion that the statement of comprehensive income, statement of financial position and Special account activity statement gives a true and fair view of the state of the financial affairs of the project and of the results of its activities. The management of the project further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statement of the project, as well as adequate systems of internal financial control.



Executive Director



Project Coordinator



Financial Management Specialist



4.0 AUDIT OBJECTIVES, SCOPE, APPROACH AND RESULTS

The Auditors, Messrs PIM + CO. were appointed by the Auditor General to carry out the audit of Competitiveness and Enterprise Development Project (CEDP) Component 2-5, (IDA Credit Agreement CR.52690-UG) for the year ended 30 June 2016.

4.1 AUDIT OBJECTIVES ARE TO:

- Express an opinion on whether the project's financial statements present fairly, in all material respects, revenues received, costs incurred and commodities and technical assistance directly procured by IDA for the period audited is in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis).
- Evaluate and obtain a sufficient understanding of the recipient's internal control related to IDA funded project; assess the soundness and adequacy of the project's procedures, and whether those procedures are consistently applied by the project in the normal course of operations.
- Perform tests to determine whether the recipient complied, in all material respects, with agreement terms (including cost-sharing, if applicable) and applicable laws and regulations related to IDA - funded projects. All material instances of non compliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to required costs-sharing contributions, if applicable.
- To establish whether all external funds have been used in accordance with conditions of the relevant legal agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided;
- To establish whether counterpart funds have been provided and used only for the purposes for which they were provided and in accordance with the relevant financing agreements, with due attention to economy and efficiency;
- Establish whether goods and services financed have been procured in accordance with relevant financing agreements;
- To establish whether proper books of accounts were duly kept in accordance with the generally accepted accounting principles.

4.2 AUDIT SCOPE

The audit scope required us to design and carry out sufficient audit steps and procedures in accordance with International Standards on Auditing to ensure that the audit objectives were met for the year ended 30 June 2016.

The scope of the assignment covered loan by IDA and GoU contribution for the implementation of Competitiveness and Enterprise Development Project (CEDP) Component 2-5, (IDA Credit Agreement CR.52690-UG).

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4.0 AUDIT OBJECTIVES, SCOPE, AUDIT APPROACH AND RESULTS

4.2 AUDIT SCOPE – (cont'd)

Geographical coverage of the assignment

The coverage of the assignment was as follows: -

Project office of Private Sector Foundation Uganda, CEDP Coordination Unit, Plot 43 Nakasero Road, P.O.Box 7683, Kampala, Uganda location for all accounting records of the project where the audit was conducted.

4.3 AUDIT APPROACH (METHODOLOGY)

We designed our audit approach in accordance with International Standards on Auditing in order to achieve the audit objectives.

The following audit procedures were undertaken during the course of the audit:

- Held initial entry meeting with management of the Project on 2nd September 2016. The meeting was to agree on a detailed plan about how the audit was to be conducted;
- Performed audit procedures to ensure that the financial statement provided to us by the management reflected the operations relating to the conduct of the project's activities;
- Performed audit procedures on transactions relating to the project's activities to ensure that they were eligible expenditure and that they were properly authorized and adequately supported;
- Performed audit procedures to check the validity of the funds received from IDA processes and reflecting these in the bank account, and cash and bank balances existing as at the date of audit.
- Requests for confirmations were sent to confirm bank balances and the amounts received from the World Bank (IDA);
- Reviewed the internal control structure of the project and the extent to which financial management and reporting was adhered to by all parties;
- Requested and reviewed progress reports, contract agreements and other important correspondences.
- Examined the bank statements and cash books to determine that the funds were properly controlled and accounted for; investigated any unusual reconciling items in the bank reconciliations reviewed and in the cash book.

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4.0 AUDIT OBJECTIVES, SCOPE, AUDIT APPROACH AND RESULTS

4.3 AUDIT APPROACH (METHODOLOGY) - *(cont'd)*

- Carried out a detailed review of procurement transactions to ensure adherence to control procedures required by the funder.
- Assessed completeness of records and inquired from project management any changes during the period
- Reviewed and assessed compliance with applicable laws, regulations and procedures.
- Carried out verification of the expenditure incurred during the period and obtained an understanding of the project accounting system, assessed its adequacy as a basis for the preparation of the project financial statements and established whether adequate records were maintained.

Paid particular attention to establish whether;

- All Bank funds have been used in accordance with the conditions of the financing agreement, with due attention to economy and efficiency and only for the purposes for which the funds were provided;
 - Government contribution have been provided and used in accordance with the conditions of the funding agreement, with due attention to economy and efficiency and only for the purposes for which they were provided;
 - Goods, works and services financed have been procured in accordance with the funding agreement and in accordance with the Bank's rules and procedures; and have been properly accounted for ;
 - Appropriate supporting documents, records and books of accounts relating to all project activities have been kept and clear linkages exist between the books of accounts and the financial statements presented to the Bank; In particular the accuracy and propriety of expenditures withdrawn under IFR procedures were reviewed to provide assurance that the Project had maintained adequate supporting documentation to support claims for reimbursement of expenditures incurred.
 - Designated Account has been maintained in accordance with the provisions of the financing agreement and in accordance with the Bank's disbursement rules and procedures
 - The financial statements have been prepared by project management in accordance with applicable accounting standards mentioned above and give a true and fair view of the financial position of the Project as at the year end and of its receipts and expenditures for the period ended on that date;
 - Comprehensive assessment 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 project-financed assets and that they are being used for the intended purposes;
 - Project fixed assets are real, properly evaluated and project property rights or related beneficiaries' rights are established in accordance with loan conditions; and
 - Ineligible expenditure identified during the audit will be reflected in a separate paragraph of the audit report and if material, the point should be reflected in the auditor's opinion.
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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

4.0 AUDIT OBJECTIVES, SCOPE, AUDIT APPROACH AND RESULTS

4.4 RESULTS OF THE AUDIT

4.4.1 Summary of audit results

(i) Financial statements

a) *Statement of Income and Expenditure*

Below is a summary of funds disbursed to Competitiveness and Enterprise Development Project (CEDP) Component 2-5 and expenditure incurred during the year ended 30th June 2016.

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	FY 2015/16		FY 2014/15	
		Actual (Ugx)	Actual (USD)	Actual (Ugx)	Actual (USD)
Income received					
Fund balance at 01-07-2015		4,554,077,786	1,381,376	-	-
IDA	7.5.2	34,421,489,427	10,110,000	6,785,760,060	2,328,136
Counterpart transfers from GOU	7.5.3	800,000,000	234,970	800,000,000	274,473
Other Income	7.5.4	24,515,800	7,201	2,000,000	686
Foreign exchange difference (Gains)		98,156,075	-	467,550,463	-
Total funds available		39,898,239,088	11,733,547	8,055,310,523	2,603,295
Operating expenses					
Employee costs	7.5.5	201,607,787	59,215	1,155,139,595	396,318
Goods and services consumed	7.5.6	10,727,488,618	3,155,284	1,993,609,365	703,464
Consumption of property, plant and equipment	7.5.7	3,923,246,474	1,152,304	382,732,258	131,312
Total expenses		14,852,342,879	4,366,803	3,531,481,218	1,231,094
Excess of funds over expenditure for the Year		25,045,896,209	7,366,744	4,523,829,305	1,372,201

Note:

Exchange gain of shs 98,156,075 arose as a result of rising currency exchange rates between Uganda shilling and US Dollar. Funds denominated in US Dollar at the time of receipt were translated into more UGX equivalent due to a higher exchange rate (3,404.70/\$1) as compared to the same amount in US dollars translated into a lower UGX equivalent when the exchange rate (3,399.86/\$1) had dropped by balance sheet date. The same amount in US dollars does not have any gain.

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4.0 AUDIT OBJECTIVES, SCOPE, AUDIT APPROACH AND RESULTS

4.4 RESULTS OF THE AUDIT – (cont'd)

4.4.1 Summary of audit results – (cont'd)

(i) Financial statements – (cont'd)

b) Statement of Financial Position

STATEMENT OF FINANCIAL POSITION

		2015/16		2014/15	
ASSETS	Notes	Ugx	US\$	Ugx	US\$
Non-current assets					
Fixed assets	7.5.1.(c)	-	-	-	-
Current assets					
Cash and cash equivalents	7.5.8	25,431,166,701	7,480,063	4,554,077,786	1,381,376
Total assets		25,431,166,701	7,480,063	4,554,077,786	1,381,376
REPRESENTED BY:					
Fund balance	7.5.10	25,015,647,729	7,357,846	4,523,829,306	1,372,201
Current liabilities					
Payables	7.5.11	415,518,972	122,217	30,248,480	9,175
Total funds and liabilities		25,431,166,701	7,480,063	4,554,077,786	1,381,376

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4.0 AUDIT OBJECTIVES, SCOPE, AUDIT APPROACH AND RESULTS

4.4 RESULTS OF THE AUDIT – (cont'd)

4.4.1 Summary of audit results – (cont'd)

(i) Financial statements - (cont'd)

c) Results on revenue and costs

- Reach an opinion as to the validity of the statement of income and expenditure, statement of financial position and Designated Account (DA) activity statement

The statement of income and expenditure, statement of financial position and Designated Account (DA) activity statement as at 30 June 2016 are fairly stated.

d) Identify, evaluate and report on the internal control structure.

Project management has established a functional system of internal controls. Internal control weaknesses identified which have been discussed in sections 8.2 of this report in details and now summarised below:

We have set out issues identified during the course of our normal audit work and have not attempted to indicate all possible improvements which a special review might develop.

Ranking

The issues have been ranked as high, medium or low using the criteria described below:

High: This indicates an issue we consider high risk and is critical. The project management should pay particular attention to this area to ensure that the issue is given high priority to be addressed and resolved.

Medium: This indicates a medium level of risk, where we felt there is some scope of a material misstatement in this area and therefore the responsible manager should review it carefully.

Low: Any issues in this area are regarded as having a low level of risk. Whilst not critical, the responsible manager should be aware of this issue and monitor it to ensure it does not become medium or high risk.

Ref	Summary of the issues/weaknesses	Priority (high/medium/low)
8.2.1	Wrong computation of per-diem	Low

e) Reach an opinion as to whether or not the audit complied in all material respects with terms of financing agreement and applicable laws and regulations.

PSFU complied in all material respects with applicable laws and regulations.

(ii) Follow up on prior year (2014/15) audit issues

Establish whether the prior year audit recommendations were actioned.

Prior year audit recommendations were all actioned.

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**COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471**

Audit Report for the year ended 30 June 2016

5.0 INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Report on the Financial Statements

We have audited the financial statements of the Competitiveness and Enterprise Development Project (CEDP) Component 2-5, (IDA Credit Agreement CR.5269-UG), for the year ended 30th June 2016 set out on pages 32 to 37. 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 page 38.

Project Management's Responsibility for the Financial Statement

As stated on page 18, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained was sufficient and appropriate to provide a basis for our audit opinion.

5.0 INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Competitiveness and Enterprise Development Project (CEDP) Component 2-5, as at 30 June 2016 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 7.5.1 of the report.

Report on other Regulatory requirements

Section II B.2 of the Project Agreement between IDA and the Government of Uganda requires that the Project Implementing Entity shall have its financial statements audited by independent auditors acceptable to the Association, 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 books of accounts

PIM+CO.
PIM + CO.
Certified Public Accountants

Kampala

Date:



**COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471
Audit Report for the year ended 30 June 2016**

6.0 INDEPENDENT AUDITOR'S REPORT ON THE IDA DESIGNATED ACCOUNT STATEMENT

Report on the IDA Designated Account Statement

We have audited the IDA Designated Account Statement of the Competitiveness and Enterprise Development Project (CEDP) Component 2-5, for the year ended 30th June 2016 set out on page 35 - 37 which has been prepared on the basis of the accounting policies set out in note 7.5.1.

Project Management's Responsibility for the Designated Account Statement

Management of the Project is responsible for the preparation and fair presentation of the Designated Account Statement on the basis of cash deposits and withdrawals for the purpose of complying with the Credit Agreement. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the Designated Account Statement 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the Designated Account Statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Designated Account Statement is free of material misstatement.

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

We believe that the audit evidence we have obtained was sufficient and appropriate to provide a basis for our audit opinion.

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Audit Report for the year ended 30 June 2016

6.0 INDEPENDENT AUDITOR'S REPORT ON THE IDA DESIGNATED ACCOUNT STATEMENT

Report on the IDA Designated Account Statement – *(cont'd)*

Opinion

In our opinion, IDA Designated Account Statement for the Competitiveness and Enterprise Development Project (CEDP) Component 2-5 give a true and fair view of operations of the Project for the year ended 30 June 2016 in accordance with the terms of the agreement and in conformity with the basis of accounting described in paragraph 7.5.1 of the report.

PIM + CO.
PIM + CO.

Certified Public Accountants

Kampala



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7.0 FINANCIAL STATEMENTS

7.2 STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2016

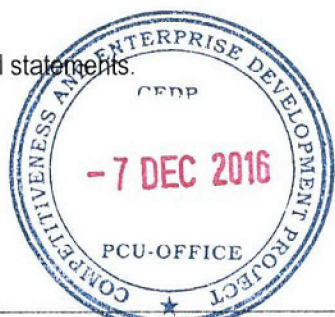
ASSETS	Notes	2016		2015	
		Ugx	US\$	Ugx	US\$
Non-current assets					
Fixed assets	7.5.1 (c)	-	-	-	-
Current assets					
Cash and cash equivalents	7.5.8	25,431,166,701	7,480,063	4,554,077,786	1,381,376
Total assets		25,431,166,701	7,480,063	4,554,077,786	1,381,376
REPRESENTED BY:					
Fund balance	7.5.10	25,015,647,729	7,357,846	4,523,829,306	1,372,201
Current liabilities					
Payables	7.5.11	415,518,972	122,217	30,248,480	9,175
Total funds and liabilities		25,431,166,701	7,480,063	4,554,077,786	1,381,376

The financial statements were approved by CEDP management on 7th December 2016
 and signed on their behalf by:




 Executive Director Project Coordinator Financial Management Specialist

The accounting policies and notes on 35 to 41 form part of these financial statements.



COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

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

	2015/16		2014/15	
	Ugx	US\$	Ugx	US\$
Excess funds over expenditure for the year	25,045,896,209	7,366,744	4,523,829,306	1,372,201
Increase in payables	385,270,492	113,319	30,248,480	9,175
Cash and cash equivalents at 30-06-2016	25,431,166,701	7,480,063	4,554,077,786	1,381,376

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.4 IDA DESIGNATED ACCOUNT STATEMENT FOR THE YEAR TO 30TH JUNE 2016

7.4.1 IDA Designated Account	FY2015/16	FY2014/15	*Cumulative Expenditure
	US \$	US \$	US \$
Balance at 1 st July 2015	1,353,356.42 ¹	-	-
Designated account receipts during the year	10,110,000.00	2,328,135.52	12,438,136
	11,463,356.42	2,328,135.52	12,438,136
Business registration and business licensing reforms			
Civil works	-	108,370.11	108,370
Consultant's services	223,564.23	42,799.99	266,364
Training/workshops/study tours	262,022.43	255,706.01	517,728
Goods, vehicles equipment	826,447.28	81,989.45	908,437
Operating costs	155,528.40	-	155,528
	1,467,562.34	488,865.56	1,956,428
Tourism competitiveness development			
Civil works	-	-	-
Consultant's services	71,892.41	-	71,892
Training/workshops/study tours	7,038.71	12,940.18	19,979
Goods, vehicles equipment	766,884.39	-	766,884
Operating costs	6,866.53	-	6,867
	852,682.04	12,940.18	865,622

¹ The closing balance of US\$ 1,353,356.42 reflected in IFR includes amount from Ug. Shillings account recorded at an exchange rate used at the time of transfer. This amount give rise to exchange difference when translated using exchange rate of shs 3.399.86 at the balance sheet date. This is in accordance with accounting policy on exchange rates in Note 7.5.1(d).

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.4 IDA DESIGNATED ACCOUNT STATEMENT FOR THE YEAR TO 30TH JUNE 2016

7.4.1 IDA Designated Account	FY2015/16	FY2014/15	Cumulative Expenditure
	US \$	US \$	US \$
Matching Grant Facility			
Civil works	-	-	-
Consultant's services	174,251.40	60,690.20	234,942
Training/workshops/study tours	-	-	-
Goods, vehicles equipment	471,635.68	-	471,636
Operating costs	15,138.60	576.61	15,715
Total	661,025.68	61,266.81	722,292
Project Implementation			
Civil works	-	-	-
Consultant's services	488,343.63	260,358.13	748,702
Training/workshops/study tours	26,879.67	-	26,880
Goods, vehicle equipment	489,819.42	37,864.68	527,684
Operating costs	42,889.99	113,484.22	156,374
Total	1,047,932.71	411,707.03	1,459,640
Sub-total	4,029,202.77	974,779.58	5,003,982
Cumulative adjustments (IFR June 30, 2016)	1,971.79 ²	-	-
Total expenditure from Designated Account	4,031,174.56	1,353,356.42	
Bank balances as at 30th June 2016	7,432,181.87	1,353,356.42	
BOU IDA Ugx Account No. 000080088000227	330,823.64 ³	129,704.35	
BOU IDA US \$ Account No. 000080088400043	7,101,358.23	1,223,652.07	
	7,432,181.87	1,353,356.42	

² Amount of \$1,971.79 related to payment from the designated account awaiting documentation and claim of replenishment.

³ The balance reflected in IFR includes of \$330,823.64 translated from Ug. Shillings account recorded at an exchange rate used at the time of transfer. This amount gives rise to exchange difference when translated using exchange rate of shs3,399.86 as at the balance sheet date. This is in accordance with accounting policy on exchange rates in Note 7.5.1(d).

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
 Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.4 IDA DESIGNATED ACCOUNT STATEMENT FOR THE YEAR TO 30TH JUNE 2016 - (cont'd)

7.4.2 IDA Designated Account and Direct Payments from IDA

	FY2015/16	FY2014/15	*Cumulative Expenditure
	US \$	US \$	US \$
Total expenditure from IDA Designated Account	4,029,202.77	974,779.58	5,003,982
Direct Payments from IDA during the year ended June 2016	-	-	-
Cumulative adjustments (IFR June 30, 2016)	1,971.79	-	1,971.79
Total Project Expenditure	4,031,174.56	1,353,356.42	5,005,953.79


 Executive Director


 Project Coordinator


 Financial Management Specialist



The accounting policies and notes on 35 to 41 form part of these financial statements.

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7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS

7.5.1 Accounting policies

a) Basis of accounting

The financial statements are prepared on a modified cash basis. The day today transactions are recorded on a cash basis. Adjustments are made at the end of the accounting period including outstanding accounts payable and receivable.

b) Receipts and payments

The receipts are recorded when physically received and payments recorded when actually paid.

c) Fixed assets

Fixed assets are expensed in full in the year of purchase. No depreciation is charged in the accounts. A memorandum record / fixed assets register is maintained for the record and safeguard of assets acquired for the project.

d) Reporting Currency

Funds from the IDA are translated into the reporting currency (UGX) using the Bank of Uganda ruling rates on the respective dates of transactions. Payment transactions in foreign currency are translated in reporting currency at BOU transfer rate to which the transactions relate. Bank account balances denominated in foreign currency are translated into reporting currency using the Bank of Uganda rates at which the transfers were made. Exchange differences are realized in the Statement of Comprehensive Income in the year in which they arise.

e) Reporting Currency

The financial statements are prepared in Uganda Shillings, but also indicating the equivalent in US dollars.

The IDA Designated Account is maintained in US dollars and Project Account into which transfers from DA are made is maintained in Uganda Shillings.

f) Foreign currency rate

Average exchange rate	Shs 3,404.70/US\$ 1
Closing exchange rate (BOU)	Shs 3,399.86/US\$ 1

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS – (cont'd)

7.5.2 Loans and grants from foreign Governments and Agencies

Donor - IDA	Budget Ugx	FY 2015/16	FY 2014/15		
		Actual (Ugx)	Actual US \$	(Ugx)	US \$
Receipts During the Year		34,421,489,427	10,110,000	6,785,760,060	2,328,136
Total	-	34,421,489,427	10,110,000	6,785,760,060	2,328,136

7.5.3 GOU Counterpart funding

Transfers to Project counterpart Account	-	800,000,000	234,970	800,000,000	274,473
	-	800,000,000	234,970	800,000,000	274,473

7.5.4 Other income

Sale of Bidding Documents	-	17,558,800	5,157	2,000,000	686
Miscellaneous receipts/income	-	6,957,000	2,044	-	-
	-	24,515,800	7,201	2,000,000	686

7.5.5 Employment costs

Contract Staff Salaries	207,384,310	201,607,787	59,215	1,155,139,595	396,318
	207,384,310	201,607,787	59,215	1,155,139,595	396,318

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS – (cont'd)

7.5.6 Goods and services consumed	Budget	FY 2015/16		FY 2014/15	
	(Ugx)	Actual (Ugx)	Actual (USD)	(Ugx)	(USD)
Advertising and public relations	245,400,000	229,239,330	67,330	194,722,656	66,808
Workshops and seminars	1,600,274,570	1,529,315,650	449,178	396,328,100	135,977
Allowances (For Activity Facilitation)	119,080,000	117,966,642	34,848	57,958,740	19,885
Staff training	700,600,000	698,635,127	205,198	-	-
Recruitment expenses	-	-	-	21,811,400	7,483
Computer supplies and communication	267,700,000	262,679,719	77,152	33,453,843	11,478
Printing, stationery and photocopying	314,000,000	312,237,013	91,708	123,674,043	42,431
Telecommunications	8,700,000	8,601,291	2,526	1,512,000	519
Postage and courier services	-	-	-	437,785	150
Information and communication technology	1,339,500,879	1,321,901,871	388,258	710,146,739	243,645
Electricity	16,300,000	16,200,220	4,758		
Water	7,500,000	7,281,646	2,139		
Rental	380,826,637	380,270,670	111,690	171,227,230	58,747
General supply of goods and services	124,400,000	123,574,768	36,296	14,394,396	4,939
Consultancy services - Short term	774,584,518	749,405,222	220,109	138,234,800	47,427
Consultancy services - Long term	3,435,620,720	3,428,782,450	1,007,074	86,524,989	29,686
Insurance	173,900,000	136,387,556	40,059	7,312,715	2,509
Travel inland	-	-	-	-	-
Travel abroad	260,000,000	253,558,020	74,473	-	-
Sub-total c/fwd	9,768,387,324	9,576,037,195	2,812,596	1,957,739,436	671,683

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS – (cont'd)

7.5.6 Goods and services consumed - (cont'd)	Budget (Ugx)	FY 2015/16		FY 2014/15	
		Actual (Ugx)	Actual (USD)	(Ugx)	(USD)
Sub-total b/fwd	9,768,387,324	9,576,037,195	2,812,596	1,957,739,436	671,683
Small office equipment	12,000,000	11,450,480	3,363	8,819,200	3,0256
Fuel, oils and lubricants	27,304,000	24,459,700	7,184	14,468,200	4,964
Maintenance - Buildings	17,500,000	17,371,388	5,102		
Maintenance - Vehicles	59,000,000	27,477,524	8,071	7,372,900	2,530
Maintenance - Equipment	27,000,000	26,974,870	7,923	680,000	233
Maintenance - Other	27,400,000	2,309,520	678	4,107,000	1,409
Other Government units to enterprises	1,100,000,000	1,028,640,156	302,124		
Bank charges	-	12,767,785	3,750	422,628	145
Foreign Exchange difference (loss)	-	-	4,493		19,474
	11,038,591,324	10,727,488,618	3,155,284	1,993,609,365	703,464
7.5.7 Consumption of property, plant and equipment					
Buildings office accommodation	-	-	-	-	-
Machinery and equipment	3,117,635,366	2,600,065,696	763,670	311,596,976	106,906
Transport equipment	1,226,428,800	1,223,751,527	359,430	38,270,875	13,130
Furniture	100,200,200	99,429,251	29,204	32,864,407	11,276
	4,444,264,366	3,923,246,474	1,152,304	382,732,258	131,312

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)

Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS – (cont'd)

7.5.8 Cash and cash equivalents	Notes	FY 2015/16		FY 2014/15	
		(Ugx)	(USD)	(Ugx)	(USD)
BoU - IDA Designated Account	7.5.9(a)	24,143,623,792	7,101,358	4,034,099,435	1,223,652
BoU - IDA Operations Account	7.5.9(b)	1,106,370,194	325,417	403,882,498	122,509
BoU - GOU Contribution Account	7.5.9(c)	181,172,715	53,288	116,095,853	35,215
		<u>25,431,166,701</u>	<u>7,480,063</u>	<u>4,554,077,786</u>	<u>1,381,376</u>

7.5.9 Reconciliation of cash and bank

(a) Designated Account IDA Credit 52690 - UG

Account No. 000080088400043

Depository Bank : Bank of Uganda

Currency : US Dollars

	FY 2015/16		FY 2014/15	
	(Ugx)	(USD)	(Ugx)	(USD)
Receipts				
Balance at 01-07-2015	4,034,099,435	1,223,652	-	-
Receipts during the year	34,421,489,427	10,110,000	6,785,760,060	2,328,136
Exchange gain	-	-	467,550,463	-
	<u>38,455,588,862</u>	<u>11,333,652</u>	<u>7,253,310,523</u>	<u>2,328,136</u>
Payments				
Total direct expenditure	(7,132,184,482)	(2,123,637)	(1,178,938,088)	(404,484)
Transfer to IDA	(7,490,334,000)	(2,200,000)	(2,040,273,000)	(700,000)
	<u>23,833,070,380</u>	<u>7,010,015</u>	<u>4,034,099,435</u>	<u>1,223,652</u>
Add payables at 30-06-2016	310,553,412	91,343	-	-
	<u>24,143,623,792</u>	<u>7,101,358</u>	<u>4,034,099,435</u>	<u>1,223,652</u>

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS – (cont'd)

7.5.9 Reconciliation of cash and bank

(b) Designated Account IDA Credit 52690 - UG Account No. 00008008800027

Depository Bank : Bank of Uganda Currency : UGX

	FY 2015/16		FY 2014/15	
	(Ugx)	(USD)	(Ugx)	(USD)
Receipts				
Balance at 01-07-2015	403,882,498	122,509 ⁴	-	-
Miscellaneous receipts	6,957,000	2,043	-	-
Funds transferred	7,490,334,000	2,200,000	2,040,273,000	700,000
	7,901,173,498	2,324,552	2,040,273,000	700,000
Payments				
Total direct expenditure	(6,891,540,864)	(2,024,126)	(1,636,390,502)	(561,431)
Exchange difference	-	(3,463)	-	(16,060)
	1,009,632,634	296,963	403,882,498	(122,509)
Add payables	96,737,560	28,453	-	-
Balance at 30-06-2016	1,106,370,194	325,417	403,882,498	122,509

(c) Government of Uganda

Account No. 000080088000228

Depository Bank : Bank of Baroda Currency : UGX

	FY 2015/16		FY 2014/15	
	(Ugx)	(USD)	(Ugx)	(USD)
Receipts				
Balance at 01-07-2015	116,095,853	35,215	-	-
Funds from GoU	800,000,000	234,969	800,000,000	274,473
Miscellaneous income	17,558,800	5,157	2,000,000	686
	933,654,653	275,341	802,000,000	275,159
Payments				
Total expenses incurred	(730,461,458)	(214,545)	(716,152,627)	(245,706)
Exchange difference	-	(3,451)	-	(3,413)
	203,193,195	(57,345)	85,847,373	26,040
Add payables at 30-06-2016	8,228,000	2,420	30,248,480	9,175
Less previous year payables paid	(30,248,480)	(6,477)	-	-
Balance at 30-06-2016	181,172,715	53,288	116,095,853	35,215

⁴ The closing balance of US\$ 1,353,356.42 as of 30 June 2016 reflected in IFR includes amount of \$35,215 translated from Ug. Shillings account recorded at an exchange rate used at the time of transfer. This amount gives rise to exchange difference when translated using exchange rate of shs 3,399.86 as at the balance sheet date. This is in accordance with accounting policy on exchange rates in Note 7.5.1(d).

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471

Audit Report for the year ended 30 June 2016

7.0 FINANCIAL STATEMENTS

7.5 NOTES TO THE FINANCIAL STATEMENTS – (cont'd)

7.5.10 Fund balance	FY 2015/16		FY 2014/15	
	(Ugx)	(USD)	(Ugx)	(USD)
Balance at 01-07-2015	4,523,829,306	1,372,201	-	-
Excess funds for the year transferred	25,045,896,209	7,367,021	4,523,829,306	1,372,201
Adjust bank balances at 01-07-2015	(4,554,077,786)	(1,381,376)	-	-
Balance at 30-06-2016	25,015,647,729	7,357,846	4,523,829,306	1,372,201

7.5.11 Payables	FY 2015/16		FY 2014/15	
	(Ugx)	(USD)	(Ugx)	(USD)
Computer Point Ltd	-	-	26,828,480	8,138
Computer Shopping Center	-	-	450,000	136
Recruitment costs	-	-	650,000	197
PSC meeting expenses	-	-	2,320,000	704
Staff costs	101,259,569	29,784.00	-	-
Tourismusschulem Salzberg	284,017,505	83,538.00	-	-
Swanair Travel & Safaris Uganda Ltd.	11,124,342	3,272.00	-	-
Uganda Association of Consulting Engineers	3,059,874	900.00	-	-
Unity Investment Ltd	1,120,000	329.43	-	-
New Vision Printing & Publishing Co. Ltd.	4,207,682	1,237.60	-	-
Hotel Africana Ltd.	2,632,000	774.15	-	-
MB Bbaale Engravers	3,920,000	1,152.99	-	-
TPS Uganda Ltd.	2,834,000	833.56	-	-
Brand Momentum	1,344,000	395.31	-	-
	415,518,972	122,217	30,248,480	9,175

COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
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7.0 FINANCIAL STATEMENTS

7.6 BUDGET PERFORMANCE

7.6.1 Analysis of budget performance

a) Income

Account code	Account details	Budget shs	Actual shs	Variance shs	Variance Percentage
	IDA funds	16,330,000,000	34,421,489,427	18,091,489,427	111%

b) Expenditure

Account code	Account details	Budget shs	Actual shs	Variance shs	Variance Percentage
211102	Contract staff salaries	207,384,310	201,607,787	5,776,523	3%
211001	Advertising and public relations	245,400,000	229,239,330	16,160,670	6%
221002	Workshops and seminars	1,600,274,570	1,529,315,650	70,958,920	4%
211103	Facilitation allowance	119,080,000	117,966,642	1,113,358	1%
221003	Staff training	700,600,000	698,635,127	1,964,873	0.3%
221007	Books, periodicals	13,960,000	-	13,960,000	100%
221008	Computer supplies and communications	262,700,000	262,679,719	20,281	-
221011	Printing, stationery and photocopies	314,000,000	312,237,013	1,762,987	0.5%
222001	Telecommunication	8,700,000	8,601,291	98,709	1%
222003	Information and communication technology	1,339,500,879	1,321,901,871	17,599,008	1%
222005	Electricity	16,300,000	16,200,220	99,780	0.6%
222006	Water	7,500,000	7,281,646	218,354	3%
223901	Rental	380,826,637	380,270,670	555,967	0.1%
224002	General supply of goods and services	124,400,000	123,574,768	825,232	0.7%

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7.0 FINANCIAL STATEMENTS

7.6 BUDGET PERFORMANCE – (cont'd)

7.6.1 Analysis of budget performance – (cont'd)

b) Expenditure – (cont'd)

Account code	Account details	Budget shs	Actual shs	Variance shs	Variance Percentage
225001	Consultancy services – short term	774,584,518	749,405,222	25,179,296	3%
225002	Consultancy services	3,435,620,720	3,428,782,450	6,838,270	0.2%
226001	Insurances	173,900,000	136,387,556	37,512,444	2.2%
227002	Travel abroad	260,000,000	253,558,020	6,441,980	2%
221012	Small office equipment	12,000,000	11,450,480	549,520	5%
227004	Maintenance – fuel, oil and lubricants	27,304,000	24,459,700	2,844,300	10%
228001	Maintenance – buildings	17,500,000	17,371,388	128,612	1%
228002	Maintenance - vehicles	59,000,000	27,477,524	31,522,476	53%
228004	Maintenance – others	27,400,000	2,309,520	25,090,480	92%
263104	Other Government units	1,100,000,000	1,028,640,156	71,359,844	6%
231002	Residential buildings	630,800,000	-	630,800,000	100%
231004	Transport equipment	3,117,635,366	2,600,065,696	517,569,670	17%
231005	Machinery and equipment	1,226,428,800	1,223,751,527	2,677,273	0.2%
231006	Furniture and fittings	100,200,200	99,429,251	770,949	1%
228003	Maintenance equipment	27,000,000	26,974,870	25,130	0.1%
	Bank charges	-	12,767,785	(12,767,785)	(100%)
	Total	16,330,000,000	14,852,342,879	1,477,657,121	

7.0 FINANCIAL STATEMENTS

7.6 BUDGET PERFORMANCE – *(cont'd)*

7.6.2 Explanations/Comments on the budget performance

(a) Expenditure versus budget

Except as explained below, planned activities were fully executed and their expenditure were within the budget, showing minor positive variances which were due to estimates in USD made at higher exchange rates than the exchange rates eventually used for effecting payments. However, there were two budget lines/activities that had material variances as shown below:

- i. Transport equipment – variance of shs 517,569,670

This is due to planned activities not undertaken, namely the procurement of trip vehicles and buses.

- ii. Office accommodation – variance of shs 630,000,000

This was due to the planned construction of the URSB office which was not undertaken due to delayed procurement process.

(b) Substantial bank balances at year-end

The project had bank balances totaling to shs 25,431,166,701 at the end of the financial year.

This was due to the fact that US \$ 5,000,000 was received in May 2016 and was meant to cover the period April to September 2016. This, therefore, included money meant for subsequent budget period.

The above explanation also covers the substantial bank balances brought forward from the previous year.

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COMPETITIVENESS AND ENTERPRISE DEVELOPMENT PROJECT (CEDP)
Component 2 - 5 (IDA Credit Agreement CR 52690-UG) Project ID P130471
Audit Report for the year ended 30 June 2016

8.0 INTERNAL CONTROL STRUCTURE

8.1 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

We have audited the financial statements of Competitiveness and Enterprise Development Project (CEDP) Component 2-5 for the year ended 30 June 2016, and have issued our report on it dated 09-12- 2016.

We conducted our audit in accordance with International Standards of Auditing. The standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

The management of Competitiveness and Enterprise Development Project (CEDP) Component 2-5 is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by the management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control structure are to provide the management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the statement in conformity with the basis of accounting described in section 7.5.1 as notes to the statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Competitiveness and Enterprise Development Project (CEDP) Component 2-5 for the year ended 30 June 2016, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the International Standards on Auditing. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the recipient's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement.

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8.0 INTERNAL CONTROL STRUCTURE

8.1 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL- (cont'd)

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. The results of our tests disclosed an internal control issue which is a reportable condition and is of material weaknesses as described in more details in section 8.2 of this report as now summarised below:

- Wrong computation of per diem


PIM + CO.
Certified Public Accountants



Kampala, Uganda

Date: 09/12/2016

8.0 INTERNAL CONTROL STRUCTURE

8.2 FINDINGS AND RECOMMENDATIONS ON INTERNAL CONTROLS

8.2.1 Wrong computation of Per Diem

Observation

We noted that an equivalent of US \$ 1,724 in respect of per diem was paid in Uganda Shillings using an incorrect exchange rate of shs 3,393.43 instead of shs 3,339.43 which translated into shs 5,850,273 instead of shs 5,757,177. Therefore, the computation error resulted into an over payment of shs 93,096. There seems to have been an oversight in checking with regard to the computation.

Risk/Implication

Wrong computation may result into incorrect amount being paid.

Recommendation

Management should ensure that payment documentation is subjected to adequate checking prior to effecting payment.

Management comments

The auditors' observation on the error is correct. There was a transposition error in the exchange rate figure. The over-paid amount was recovered and a copy of the receipt and bank deposit slip were filed with the project accounting records.

8.0 INTERNAL CONTROL STRUCTURE

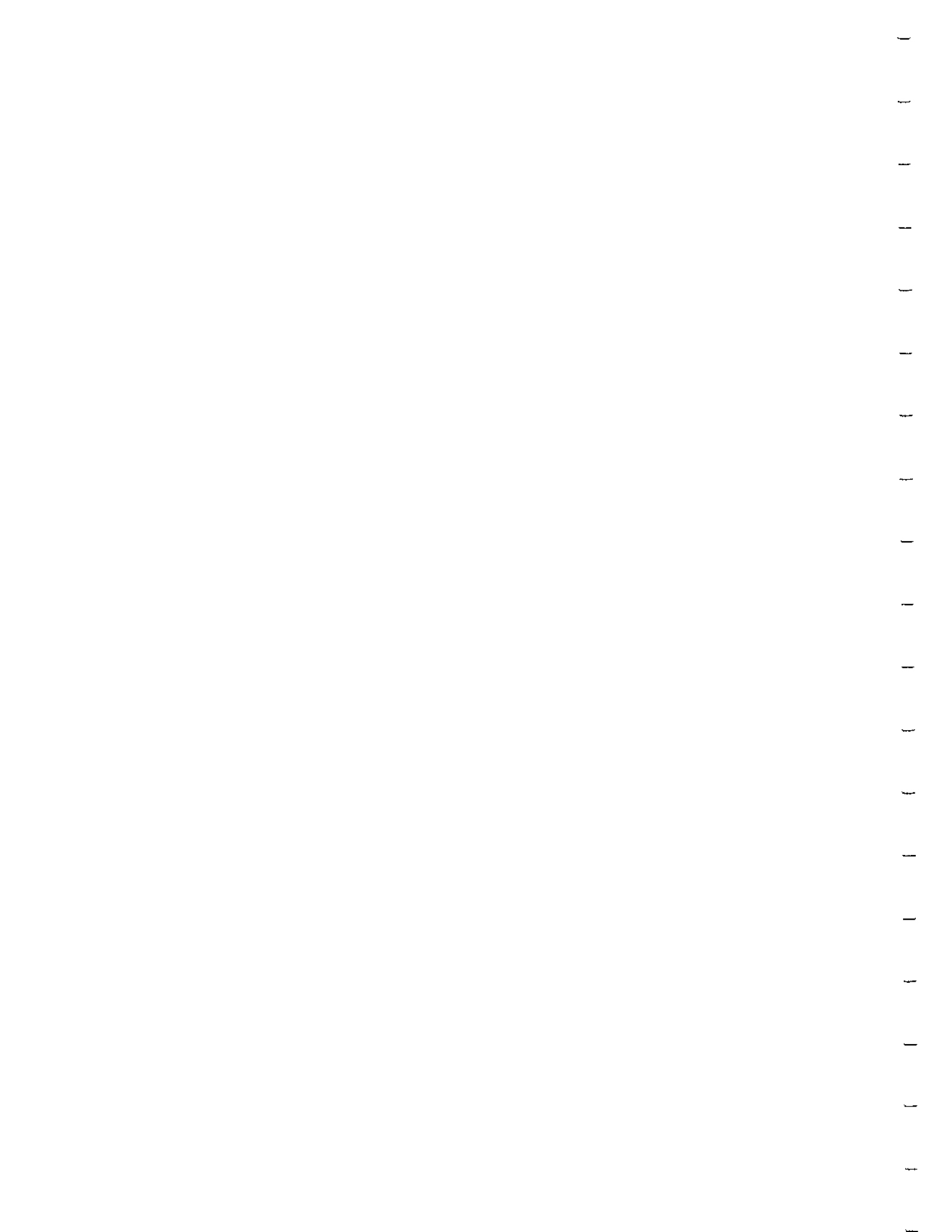
8.3 FOLLOW UP OF PREVIOUS YEAR 2014/15 AUDIT ISSUES

	Observation	Recommendation	Status
8.3.1	Discrepancies were noted between amount paid as per payment voucher and amount requisitioned for payment	Project management should ensure that payment documentation is adequately checked before payments are made.	Action was taken. Documentation was reviewed and updated accordingly
8.3.2	Discrepancies were noted between amount as per bank transfer and amount as per payment voucher	Project management should ensure that payment documentation is adequately checked before payments are made.	Action was taken. The over payment of USD 10 was recovered from the subsequent payment.
8.3.3	Internal audit function not fully constituted		
	The internal audit function of the project was supported by the Internal Audit department of the Ministry of Finance Planning and Economic Development (MoFPED) in absence of a full time Internal Auditor and by the component internal audit departments. Reports for respective audits were available and confirmation checks were kept of findings.	Consideration for carrying out internal audit and preparing internal audit reports should be evaluated so that it can add value to the various components under Project This will enhance the internal control systems of the project	Action was taken. The internal audit department became functional during the current financial year under review when the Internal Auditor was appointed and assumed office.

8.0 INTERNAL CONTROL STRUCTURE

8.3 FOLLOW UP OF PREVIOUS YEAR 2014/15 AUDIT ISSUES -- (cont'd)

Observation	Recommendation	Status
<p>8.3.4 Delays in the Recruitment of Staff</p>		
<p>As per project agreement Section 1 A- Institutional arrangements; Project Coordination Unit, the project implementing entity shall, not later than three (3) months after the effective date (6th June 2014) appoint, in accordance with the provisions of section III of schedule 2 to the Financing Agreement, and thereafter maintain at all times Project implementation, a civil engineer, a monitoring and evaluation specialist, a financial management specialist, an environmental and social management specialist, a Matching Grants specialist and a Tourism and Hotel Development Specialist.</p> <p>However, it was noted that the following staff had not yet been recruited by the time field work was finished on 2nd September 2015.</p> <ul style="list-style-type: none"> • Environmental and Social Safeguards Specialist • Tourism and Hotel Development Specialist 	<p>The project management should ensure that the contract is followed as per terms of the contract to avoid delay in project implementation.</p>	<ul style="list-style-type: none"> • Addressed. The Environment and Social Safeguards Specialist was appointed during the financial year ended 30th June 2016. • By the end of October 2016 the Tourism and Hotel Development Specialist had not yet been recruited. <p>Management response</p> <p><i>The procurement process for recruitment of a tourism and hotel development specialist was unsuccessful and no eligible candidate was identified to fill the position. However, the project engaged the Tourism School Salzburg, Austria that is playing the role. Rather than an individual, the school provides an array of competencies and skills set which the individual would not provide.</i></p>
<p>8.3.5 Discrepancy between PAYE as per payroll and PAYE as per URA return</p>		
<p>Discrepancies were noted between PAYE as per payroll and PAYE as per return forms.</p>	<p>The Project should ensure that a URA PAYE return with total amount deducted is filled to URA.</p>	<p>Action taken. Subsequent period PAYE deductions were agreed to returns filed with URA.</p>



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8.0 INTERNAL CONTROL STRUCTURE

8.4 FOLLOW UP OF WORLD BANK REVIEW RECOMMENDATIONS

It was noted that the agreed upon actions were attained, except the following.

Agreed action	Status	Management comments
1. PSFU to finalize the procurement of the Smart Card system for UWA	Not applicable.	Roll out differed due to proposed changes in technical specifications for a more robust system. The system was abandoned in favour of another.
2. Establish a banking counter at the MLHUD headquarters to collect stamp duties and all fees.	Not attained.	A Memorandum of understanding has been entered between MLHUD and Diamond Trust Bank for establishment of a banking counter.

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8.0 INTERNAL CONTROL STRUCTURE

8.5 VERIFICATION EXERCISE

8.5.1 Verification of equipment

The verification exercise covered a sample picked from the following locations.

a) PSFU Office

A sample of equipment items selected from the Fixed Assets Register were inspected and existence and ownership verified. The assets were found to be operating efficiently. This included office furniture, equipment and motor vehicles.

b) URSB Office

A sample of equipment items selected from the Fixed Assets Register were inspected and existence and ownership verified. The assets were also found to be operating efficiently.

The installed URSB equipment is operating well. This has resulted into the establishment of the electronic registration and licensing of businesses thus reducing on the time taken to register and obtain a licence for a new business.

8.5.2 Verification of MGF clients

A sample of MGF clients in and around Kampala shown below was selected and visited.

1. Platinum Tours and Travel Agencies – La Bonita Theatre Building
2. Great Lake Safaris Ltd. - Mutungo – Port Bell
3. Cheetah Safaris Ltd. – Pope Paul Community Centre – Rubaga
4. D. Mark Company – Plot 109, Kira Road, Kampala
5. True African (U) Ltd. – Spear House, Kampala 3rd Floor
6. Hostaline Ltd. – Kanjokya Street, Kamwokya, Kampala
7. Digida FM Ltd. – Plot 3A – 3B, Bukoto, Kiwanuka Street

The objective of the visit was to evaluate the impact of the grant on their business through the answers to a designed questionnaire.

The result was that all MGF clients visited talked positively about the MGF, especially in boosting their turnover.

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9.0 COMPLIANCE WITH FUNDING TERMS, APPLICABLE LAWS AND REGULATIONS

We have audited the financial statements of Competitiveness and Enterprise Development Project (CEDP) Component 2-5 for the year ended 30 June 2016, and have issued our report on it dated09-12-.....2016.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Financial Statements amounts.

Compliance with agreement terms and laws and regulations applicable to Competitiveness and Enterprise Development Project (CEDP) Component 2-5 is the responsibility of its management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Project management compliance with certain provisions of agreement terms, laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the financial statements. The results of our tests disclosed no non-compliance with the relevant laws and regulations.

We considered material instances of non-compliance in forming our opinion on whether Competitiveness and Enterprise Development Project (CEDP) Component 2-5 financial statements are presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 7.5.1 to the financial statements, and this report does not affect our report on the financial statements dated09-12-..... 2016.

With respect to item not tested, nothing has come to our attention that caused us to believe that the Project management had not complied in all material respects with those provisions.


PIM + CO.

Certified Public Accountants

Kampala

Date: 09/12/2016

