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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:

**DCG. 152/80/02**

THIS SUBJECT PLEASE QUOTE NO: .....

22<sup>nd</sup> December 2016

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

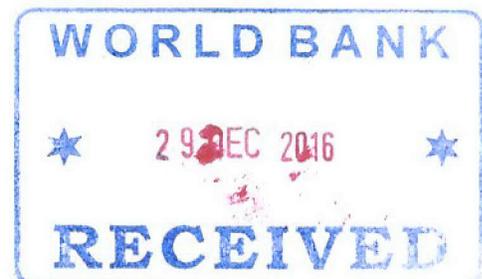
**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LTD (ERT II) FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE 2016**

In accordance with Article 163, (4) of the Constitution of Uganda 1995 (as amended), I forward herewith audited Financial Statements of Uganda Energy Credit Capitalization Company Ltd together with my report and opinion thereon.

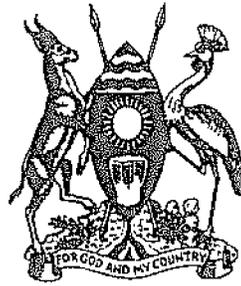
John F.S. Muwanga

**AUDITOR GENERAL**

- Copy to:
- " The Permanent Secretary/Secretary to the Treasury
  - " The Permanent Secretary, Ministry of Ministry of Energy & Mineral Development
  - ✓" The International Development Association (IDA) World Bank
  - " The Managing Director, UECCCL
  - " Mungereza & Kariisa, CPA
  - " The Project Accountant, UECCCL







**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF UGANDA ENERGY CREDIT CAPITALISATION**  
**COMPANY ENERGY FOR RURAL TRANSFORMATION PROJECT II (ERT II)**  
**IDA CR. NO.4554-UG AND GEF TRUST FUND GRANT AGREEMENT NO. TF:**  
**9094484 FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2016**

**OFFICE OF THE AUDITOR GENERAL**  
**KAMPALA**

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## **LIST OF ACRONYMS**

GoU	Government of Uganda
ERTP	Energy for Rural Transformation Project II
IDA	International Development Association
GEF	Global Environment Facility
UECCCL	Uganda Energy Credit Capitalization Company Limited
UETCL	Uganda Electricity Transmission Company Limited
UGX	Uganda Shillings
USD	United States Dollars

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LIMITED  
ENERGY FOR RURAL TRANSFORMATION PROJECT (ERTP II)  
(IDA CREDIT NO. 4554-UG AND GEF GRANT NO. TF9094484) FOR THE YEAR  
ENDED 30<sup>TH</sup> JUNE, 2016**

**THE RT. HON. SPEAKER OF PARLIAMENT**

I have audited the financial statements of Energy for Rural Transformation Project Phase II (ERTP II) - Uganda Energy Credit Capitalization Company Limited (UECCCL) Component funded by IDA Credit No.4554-UG and GEF Grant No.TF9094484 for the year ended 30<sup>th</sup> June 2016 which comprise of the Statement of Financial Position, Statement of comprehensive Income, Statement of Cash Flows, and a summary of significant accounting policies and explanatory notes.

**Management's responsibility for the financial statements**

The project management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Financing Agreement and the Global Environment Financing Agreement. 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.

**Auditors' responsibility**

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

An audit involves performing audit procedures to obtain evidence about the amounts and disclosures in the financial statements as well as evidence supporting compliance with relevant laws and regulations. The procedures selected depend on the Auditor's judgment including the assessment of risks of material misstatement of 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 financial statements in order to design audit procedures that are appropriate in the circumstances but not for

purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of this report sets out my opinions on the financial statements and Special Accounts 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 and form part of my Annual Report to Parliament.

## **PART "A"**

### **Opinion**

In my opinion, the financial statements present fairly in all material respects, the financial position of the Energy for Rural Transformation Project (ERTP II) as at 30<sup>th</sup> June 2016 and of its operational results for the year then ended, and are in accordance with the International Financial Reporting Standards, the Credit Agreement No. 4554 and Grant Agreement No. TF9094484.



John F.S. Muwanga

**AUDITOR GENERAL**

15<sup>th</sup> November, 2016

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNTS OPERATIONS**  
**OF UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LIMITED**  
**ENERGY FOR RURAL TRANSFORMATION PROJECT (ERTP II)**  
**(IDA CREDIT NO. 4554-UG AND GEF GRANT NO. TF9094484)**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2016**

During the course of the audit for the UECCC – ERTP II funded under IDA – Financing Agreement No. 4554 GoU and GEF Tf Grant Agreement TF9094484, I examined the Special Accounts statements for the year ended 30 June 2016 as set out under notes 17(a) and 17(b).

**Management’s responsibility for the Special Accounts**

Management is responsible for the preparation and fair presentation of the special accounts statements on the basis of cash deposits and withdrawals for the purpose of complying with the Financing Agreements and for such internal controls as Management determines is necessary to enable the preparation of the statement that is free from material misstatement whether due to fraud or error.

**Auditors’ responsibility**

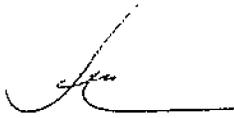
My responsibility is to express an opinion on the Special Accounts Statements, based on my audit. I carried out the audit in accordance with International Standards on Auditing and the World Bank guidelines on auditing. Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the special accounts statements. The procedures selected depend on the auditor’s judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances but not for 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 special accounts statements.

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

**Opinion**

In my opinion, the receipts were properly accounted for and withdrawals made for the purposes of the project in accordance with the Credit Agreement and GEF Grant Agreement. The Special Accounts statements contained in notes 17(a) and 17(b), thereon fairly present in all material respects the accounts operations for the year ended 30 June 2016 in accordance with the World Bank reporting guidelines.



John F.S. Muwanga

**AUDITOR GENERAL**

15<sup>th</sup> November, 2016

## **PART "B"**

### **DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA ENERGY CREDIT CAPITALIZATION COMPANY LIMITED ENERGY FOR RURAL TRANSFORMATION PROJECT (ERTP II) (IDA CREDIT NO. 4554-UG ANDA GEF GRANT NO.TF9094484) 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 Mungereza & Kariisa, Certified Public Accountants, to carry out the audit of the project on my behalf and report to me to enable me report to Parliament.

#### **2.0 BACKGROUND**

##### **2.1 General background**

Uganda Energy Credit Capitalisation Company Limited (UECCCL) is a Government of Uganda owned Company set up for purposes of managing and administering the Uganda Energy Capitalisation Trust (the Trust). The Trust's main function is to provide financial, technical, and other support for renewable energy infrastructure development in Uganda. The Trust financiers include Government of Uganda as well as multilateral and bilateral development partners.

The Trust is a framework which enables the Company to pool, hold, invest and disburse funds in order to meet the Company's objectives. The Trust was established by a Trust Deed dated 23<sup>rd</sup> January 2006, and became effective in November 2009 upon operationalization of the UECCC.

##### **2.2 Background information about the ERTP II – UECCCL Component**

The Government of Uganda (GoU), supported by the World Bank through the International Development Association (IDA) and Global Environment Facility (GEF)

represented by the International Bank for Reconstruction and Development (IBRD), is funding the Energy for Rural Transformation Phase II Project (ERTP II) with the aim of increasing access to modern, clean affordable energy to rural Ugandans over the next decade. The ERTP has a number of components implemented jointly by various organisations, including UECCC.

Following the signing of the Financing and Global Environment Facility Agreements between IDA, IBRD and UECCC dated 27<sup>th</sup> August 2009 and Subsidiary Financing Agreements between the GoU and UECCC dated 6<sup>th</sup> November 2009, an amount of SDR 2.3 million (approximated as USD 3.5 million) from IDA and USD 3.1 million from GEF represented by IBRD was made available to UECCC as a non-refundable grant/seed capitalisation to kick start the UECCC. Out of the total funding of USD 6.6 million, USD 5.8 million was for investment into eligible projects, while USD 0.8 million was for Technical Assistance to operationalize the UECCC (Including working capital expense) and thereafter strengthen the capacity of Participating Financial Institutions (PFIs) and Project Developers, to undertake renewable Energy Projects.

In January 2010, UGX 1.2 billion was also contributed by GoU from the Reflows of the Energy for Rural Transformation Refinance Fund (ERTRF) implemented by Bank of Uganda (BoU) under ERT I. This funding was earmarked for meeting most of the operational expenses of the UECCC, including staff salaries.

### **3.0 OBJECTIVES OF THE COMPONENT**

The ERTP II funding is for setting up a Credit Support Facility (CSF) for private sector led renewable energy and or rural electrification projects. The ERTP II specifically provides for establishment of the following credit support instruments at the UECCC aimed at facilitating access to credit in the local financial market. The CSF also has a Technical Assistance element, aimed at strengthening the capacity of local financial institutions and project developers to undertake electrification projects.

Some of the key products under the project are:

#### **a. A liquidity insurance facility (Standby liquidity or Refinance Option)**

This product is aimed at enabling local Participating Financial Institutions (PFI's) to extend the tenure of the loans. PFI's can therefore structure the loans to amortize over a longer time frame as required by energy infrastructure projects.

Cash Reserving – in order for the Refinance Option to carry market legitimacy and as an incentive to the PFIs cash is reserved with the PFI in a fixed deposit account for each refinance option undertaken by the UECCC.

**b. The Partial Risk Guarantee facility**

This facility is aimed at mitigating the construction cost overrun risks associated with renewable energy projects. Under this facility the project sponsors have an option of purchasing a partial risk guarantee (PRG) from UECCC. This guarantee covers part of the cost overrun risk during the implementation phase of the project.

**c. Solar Refinance to Micro Finance Deposit Taking Institutions/Banks**

This facility is aimed at promoting the use of solar photo voltaic systems as an alternative off grid solution for rural electrification. In this case UECCC provides refinance facilities to eligible PFIs engaged in microfinance, in order to facilitate the provision of loans to end borrowers for the acquisition of solar systems.

**d The Connection Loan Finance Facility**

The Connection Loan finance facility is extended to PFIs for on-lending to rural households/enterprises to connect to the electricity grid. The aim is to facilitate access to the grid electricity by addressing the affordability barrier posed by upfront connection costs. It covers the costs of wiring premises, conversions from diesel-powered systems to grid-powered systems, and connection fees charged by the utility company.

**4.0 AUDIT SCOPE**

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 procedures were aimed at establishing:

- a. Whether the Project managers are managing the Project in accordance with the Financing Agreement;
- b. Whether all donor funds have been used in accordance with conditions of the Financing Agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided;

- c. Whether counterpart funds have been provided and used in accordance with the conditions of the Financing Agreements, with due attention to economy and efficiency and only for the purpose for which they are provided;
- d. Whether goods and services financed have been procured in accordance with the Financing Agreements and in accordance with the donor rules and procedures;
- e. Whether all necessary supporting documents, records and accounts have been kept in respect of all Project activities and whether linkages exist between the books of account and the financial statements;
- f. Whether the special accounts have been maintained in accordance with the provisions of the Financing Agreements and in accordance with the donor regulations and procedures; and
- g. Whether the financial statements present a true and fair view of project financial position as at 30<sup>th</sup> June 2016, and its receipts and expenditure incurred for the period, in conformity with Generally Accepted Accounting Principles (GAAP).

## **5.0 PROCEDURES PERFORMED**

### **a) Receipts from World Bank**

- Through enquiry, I documented the process of recording receipts from World Bank; and confirmed that a separate bank account was opened for these receipts.
- Agreed all receipts of funds from bank statements and cashbooks and reconciled the balance with the release from the World Bank.
- Reconciled the application totals to bank receipts and confirmed completeness of recording.

### **b) Other receipts**

- Obtained understanding of the account, agreed balances to the ledgers, analyzed their respective ledgers whilst obtaining explanations and tested the transactions to supportive documents for validity.

### **c) Expenditure**

- Obtained a list of all contracts in the period showing the contract price and payments to contractors, service provider did agree to prices/rates.

- Vouched payments from cashbooks and ledgers against respective invoices, and against evidence of receipt of goods or services, and whether they were checked by management for arithmetic accuracy, pricing, condition, authorization and eligibility.
- Reviewed the work contracts to confirm that Economy, Efficiency and Effectiveness of resources was obtained with due reference to the Project Work Plan.
- Checked completeness and consistence of recording and confirmed appropriate categorization of costs to correct eligible codes.

**d) Fixed asset/equipment**

- Obtained a fixed assets/equipment register and physically inspected a sample of assets to confirm existence, proper engravement and working condition.
- Reviewed the adequacy of the internal control procedures over the safeguards of assets procured for the Project.
- Verified the asset titles and confirmed ownership by the UECCC.

**e) Cash and bank balances**

- Agreed the reported balances to the cashbook and the reconciled bank statements.
- Reviewed to confirm whether bank reconciliations are prepared on a regular basis and reviewed by a senior official.
- Obtained direct confirmations from the bank for the balance held on account as of 30 June 2016.

**Other audit procedures**

- Received minutes for management meetings during the year for corroborative evidence to confirm assertions of financial statements.
- Reviewed internal controls as a basis for detection and reporting of frauds and suspicious transactions
- Made inquiries to establish evidence of any pending litigation for or against the UECCC and verified information for evidence of any related party transactions.

**6.0 PROJECT IMPLEMENTATION**

The Uganda Energy Credit Capitalization Company Limited (UECCCL) performance highlights for the year ended 30<sup>th</sup> June 2016 are as follows:

a. **ERT II Project**

ERT II Project entails provision of Credit Enhancement Instruments and Technical Assistance to Participating Financial Institutions (PFIs) to facilitate provision of credit for renewable energy development.

These include:

◦ **Solar Refinance facility to PFI for on-lending for solar acquisition**

Disbursements of USD 580,000 were made under the Solar Refinance Facility as follows;

Post Bank Uganda: USD 180,000

Finance Trust Bank: USD 250,000

Pride Micro Finance: USD 150,000

By June 2016, the number of households reached as a result of this refinance was 1,468;

237 loans from Post Bank Uganda,

286 loans from Centenary Bank,

230 loans from Pride Microfinance and

1,197 loans from Finance Trust Bank

◦ **Connection Loan Refinance Facility**

The aim is to facilitate access to the grid electricity by addressing the affordability barrier posed by upfront connection costs. It covers the costs of wiring premises, conversions from diesel-powered systems to grid-powered systems, and connection fees charged by the utility company.

The Connection Loan pilot scheme with Centenary Bank in WENRECo Service Territory was concluded in FY 2015/16 with 63 connections made out of a pilot facility amount of UGX 200,000,000.

A new Facility of USD 650,000 (UGX2.27bn) was approved for roll out of the Connection Loan Facility by Centenary Bank, to cover the entire country through the Bank's 65 branches. The first tranche of US\$ 300,000 was disbursed in May 2016.

**b. Technical Assistance (TA) to Participating Financial Institutions (PFIs) and Project Developers**

Design of Stand Alone Solar Loan Products for Participating Financial Institutions (PFIs)

- Design of Stand Alone Solar Loan Products was concluded and Loan Product Manuals officially handed over to five PFIs, namely; Centenary Bank, Post Bank, Finance Trust Bank, Pride Microfinance, and Opportunity Bank.

**7.0 COMPLIANCE WITH FINANCING AGREEMENT AND GOVERNMENT OF UGANDA FINANCIAL REGULATIONS**

It was noted that management had in all material respects complied with the covenants contained in the Financing Agreements and the Government of Uganda Financial Regulations.

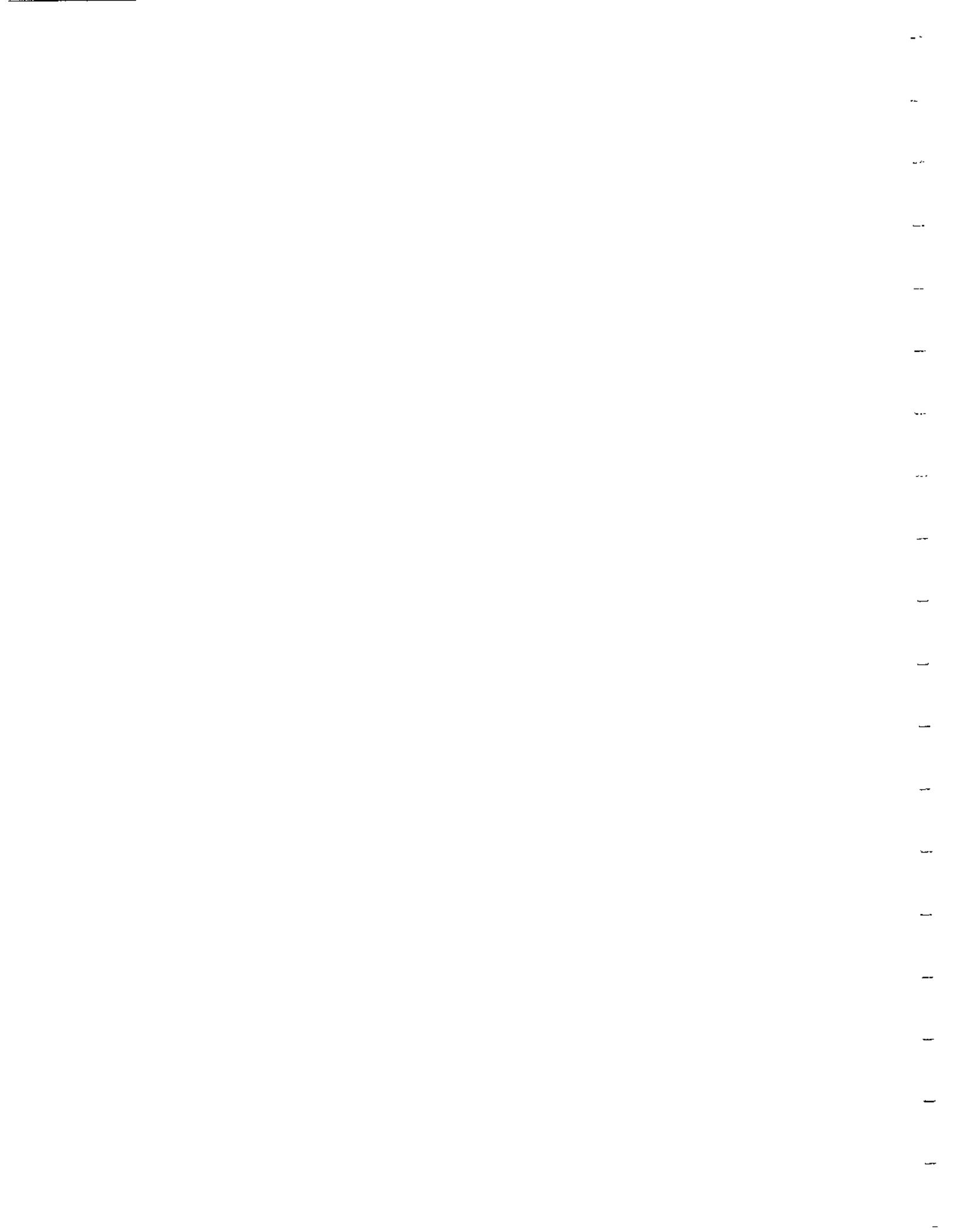
**8.0 GENERAL STANDARDS OF ACCOUNTING AND INTERNAL CONTROL**

A review of the following areas was carried out:

- Accounting system and policies
- Book keeping
- Management and control of both bank and cash accounts
- Purchases and payments
- Fixed assets management

I noted that management's internal control structure environment, accounting system and policies and control procedures were generally adequate to ensure prudent use of and accountability for all project funds.

**FINANCIAL STATEMENTS**



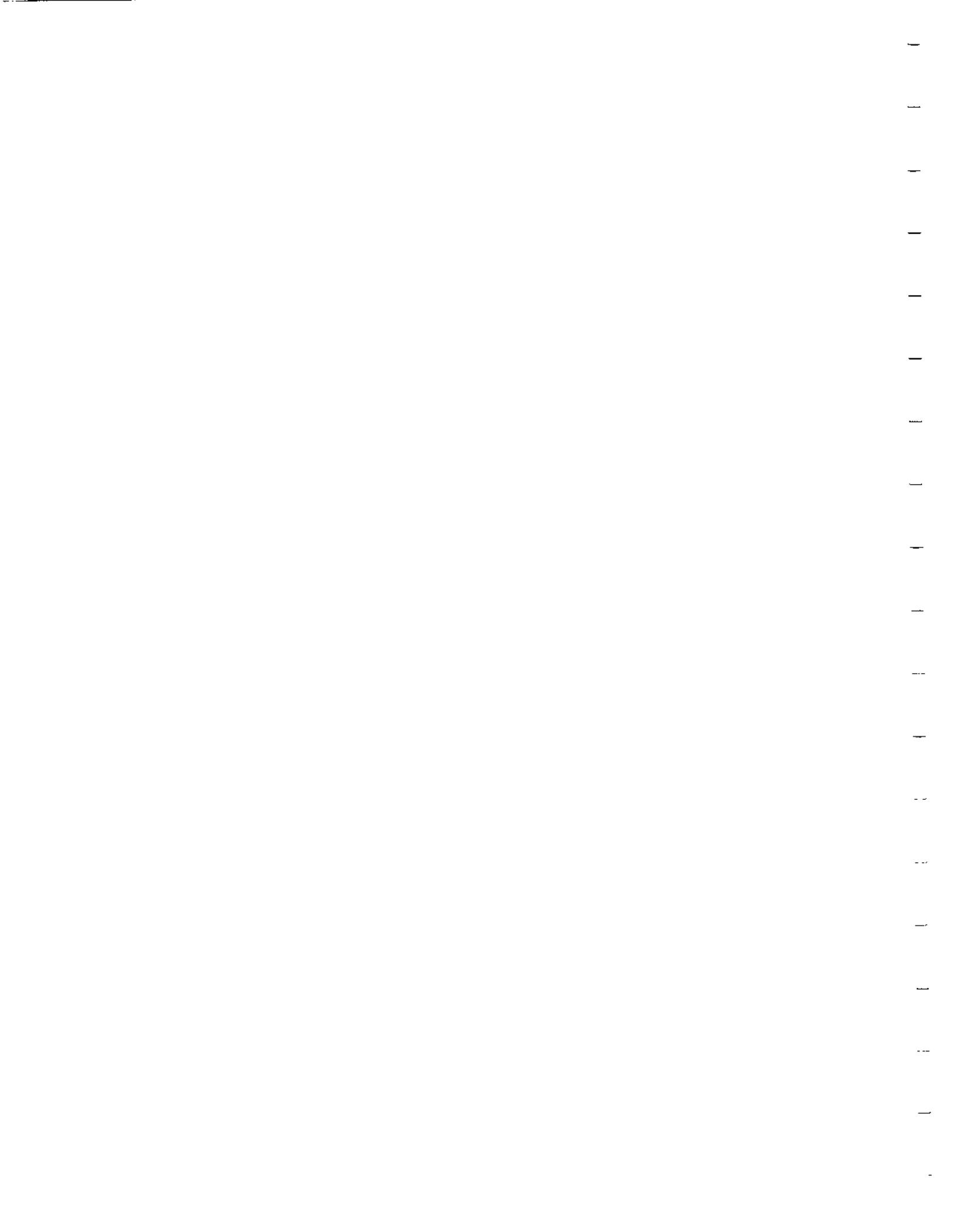
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## Abbreviations

BTC	Belgium Development Agency
CDM	Clean Development Mechanism
CSF	Credit Support Facility
ERTP	Energy for Rural Transformation Project
FA	Financing Agreement
GEF	Global Environment Facility
GOU	Government of Uganda
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
OAG	Office of Auditor General
PFI	Participating Financial Institutions
PoA	Programme of Activities
GIZ	German Federal Enterprise for International Cooperation



## Corporate Information

### **Project Officers : Board of Directors**

Mr. Muhakanizi Keith - Chairman

Mr. James Byagaba - Deputy Chairman

Mr. FA. Kabagambe Kalliisa - Member

Mr. Gideon Badagawa - Member

Mr. Patrick Byabakama Kaberenge - Member

Dr. Frank Bunnya Ssebowa - Member

Ms. Specioza Kimera Ndagire – Managing DirectorM/s  
Ligomarc Advocates –Company Secretary

### **Management Personnel**

Ms. Specioza Kimera Ndagire- Managing Director

Mr. Roy Baguma – Director, Transaction Execution

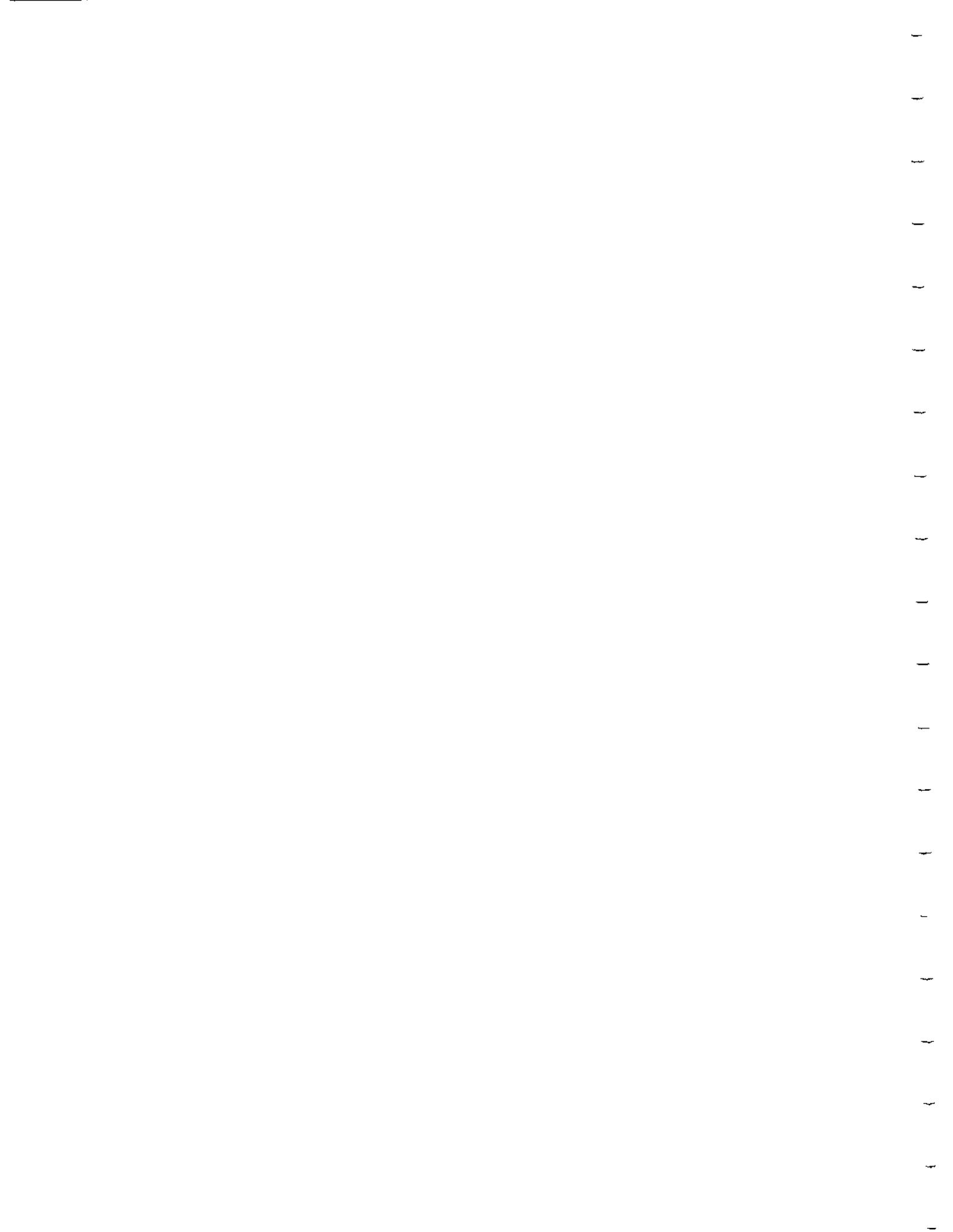
Ms. Joseline Kabembura – Ag. Director, Finance and  
Administration

**Registered office** : Uganda Energy Credit Capitalisation Company Ltd  
Amber House  
Plot 29/33 Kampala Road  
P.O Box 29725  
Kampala  
Uganda

**The Auditors** : Mungereza & Kariisa  
Certified Public Accountants  
Plot 9 Lower Kololo Terrace  
P.O Box 6565  
Kampala

**The Bankers** : Bank of Uganda  
P.O.Box 7120  
Kampala

**Company Secretary** Ligormarc Advocates  
5th floor, Western Wing Social Security House  
P.O Box 8230 Kampala, Uganda



## **1.0 Introduction**

### **1.1 General Background**

Uganda Energy Credit Capitalisation Company Limited (UECCC) is a government of Uganda owned Company set up for purposes of managing and administering the Uganda Energy Capitalisation Trust (The Trust). The Trust's main function is to provide financial, technical and other support for renewable energy development in Uganda. The Trust financiers include Government of Uganda as well as multilateral and bilateral development partners.

The Trust is a framework which enables the Company to pool, hold, invest and disburse funds in order to meet the Company's objectives. The Trust was established by a Trust Deed dated 23 January 2006, and became effective in November 2009 upon operationization of the UECCC.

### **1.2 Background information about the ERTP II – UECCC Component**

The Government of Uganda (GOU), supported by the World Bank through the International Development Association (IDA) and Global Environment Facility (GEF) represented by the International Bank for Reconstruction and Development (IBRD), is funding the Energy for Rural Transformation Phase 11 Project (ERTP II) with the aim of increasing access to modern, clean affordable energy to rural Ugandans. The ERTP has a number of components implemented jointly by various organizations, including UECCC.

Following the signing of the Financing and Global Environment Facility Agreements between the IDA, IBRD and GoU dated 27 August 2009 and Subsidiary Agreements between the GOU and UECCC dated 6 November 2009, an amount of SDR 2.3 million (approximated as USD 3.5 million) from IDA and USD 3.1 million from GEF represented by IBRID was availed to UECCC as a non-refundable grant/seed capitalization to kick start the establishment of a Credit Support Facility for renewable energy projects at the UECCC. Out of the total funding of USD 6.6M, USD 5.8M was for investment into eligible projects, while USD 0.8M was for Technical Assistance to operationalise the UECCC (including working capital expense) and there after strengthen the capacity of Participating Financial Institutions (PFIs) and Project Developers, to undertake renewable Energy Projects.

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### **1.3 Objectives of the Component**

The ERTP II funding is for setting up a Credit Support Facility (CSF) for private sector led renewable energy and or rural electrification projects. The ERTP II specifically provides for establishment of the following credit support instruments at the UECCC aimed at facilitating access to credit in the local financial market. The CSF also has a technical assistance element, aimed at strengthening the capacity of local financial institutions and project developers to undertake electrification projects.

#### **1.3.1 A liquidity insurance facility (Standby liquidity or Refinance Option)**

This product is aimed at enabling local Participating Financial Institutions (PFIs) to extend the tenure of the loans. PFIs can therefore structure the loans to amortize over a longer time frame as required by energy infrastructure projects.

Cash Reserving – in order for the Refinance Option to carry market legitimacy and as an incentive to the PFIs, cash is reserved with the PFI in a fixed deposit account for each refinance option undertaken by the UECCC.

#### **1.3.2 The Partial Risk Guarantee facility**

This facility is aimed at mitigating the construction cost overrun risks associated with renewable energy projects. Under this facility the project sponsors have an option of purchasing a partial risk guarantee (PRG) from UECCC. This guarantee covers part of the cost overrun risk during the implementation phase of the project.

#### **1.3.3 Solar Refinance to Micro Finance Deposit Taking Institutions/Banks**

This facility is aimed at promoting the use of solar photo voltaic systems as an alternative off grid solution for rural electrification. In this case UECCC provides refinance facilities to eligible PFIs engaged in microfinance, in order to facilitate the provision of loans to end borrowers for the acquisition of solar systems.

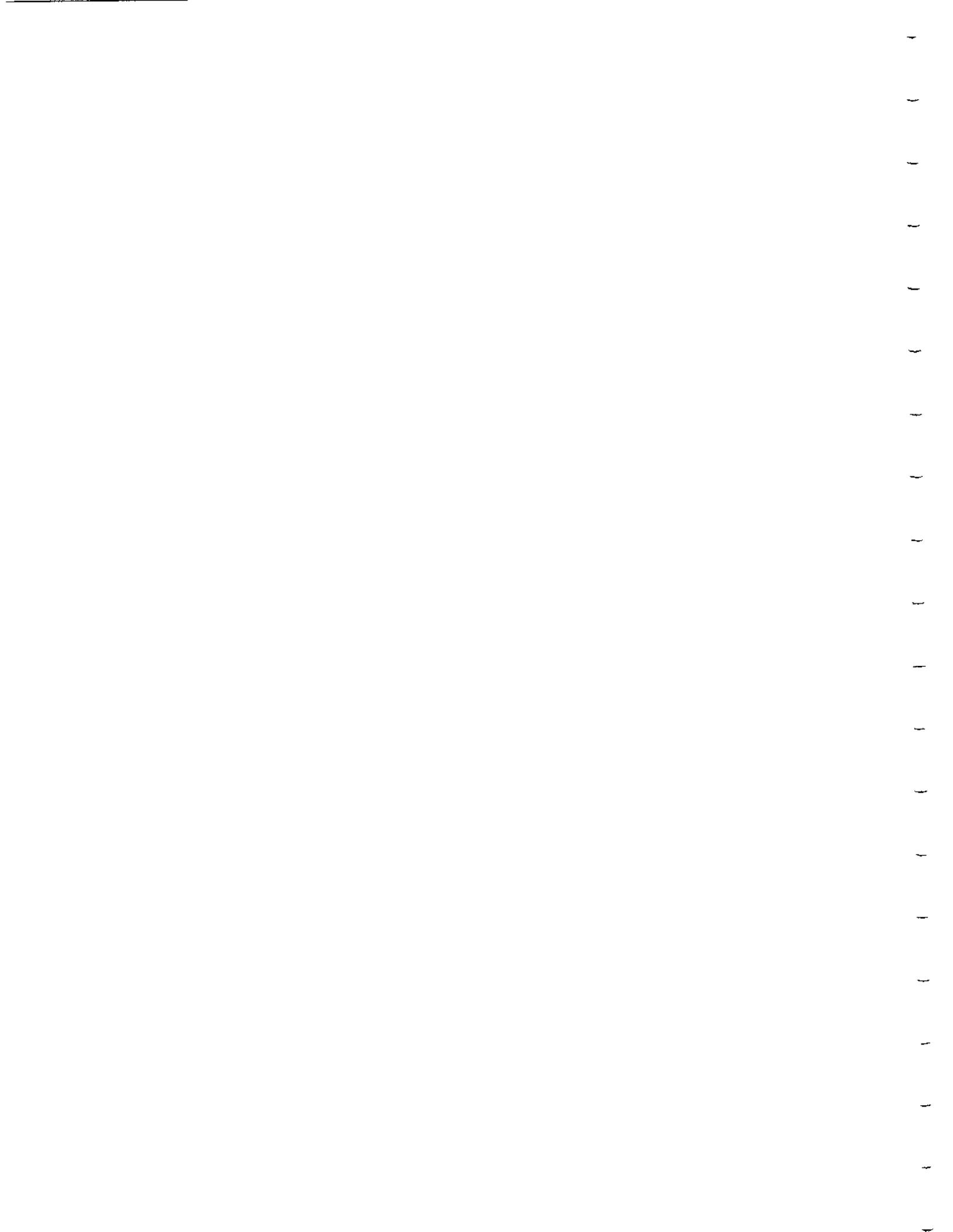


### **1.3.4 The Connection Loan Finance Facility**

The Connection Loan finance facility is extended to PFIs for on-lending to rural households/enterprises to connect to the electricity grid. The aim is to facilitate access to the grid electricity by addressing the affordability barrier posed by upfront connection costs. It covers the costs of wiring premises, conversions from diesel-powered systems to grid-powered systems, and connection fees charged by the utility company.

### **1.4 Governance requirements for an annual audit.**

As part of the transparency and accountability mechanisms, the financing Agreements provide that the financial statements of UECCC for the financial year covered by the Credit/Grant be subjected to an annual audit by a reputable audit firm of Certified Public Accountants. This report constitutes the deliverables for the audit of UECCC - ERTP II for the year ended 30 June 2016 as per the assignment Terms of Reference. The Financial statements are presented on pages 20 to 22.



## Report of the Directors

The directors present their report together with the audited financial statements for the year ended 30 June 2016.

### Activities

The principal activity of the company is to provide financial, technical and other support for renewable energy development in Uganda.

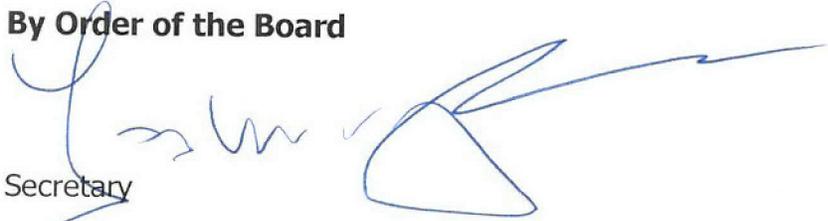
### Directors

The present membership of the Board of Directors is set out on Page 4.

### Auditors

Mungereza & Kariisa were engaged by the Office of the Auditor General to audit the UECCC-ERTP II financial statements for the year ended 30 June 2016 in accordance with the terms of reference set out in the service contract.

### By Order of the Board



Secretary

Kampala

15<sup>th</sup> November 2016



### ERTP II Performance Highlights during Financial Year 2015/2016

Project /Activity	Brief Description or Purpose	Status as at 30 <sup>th</sup> June 2016
ERT II Project	<p>ERT II Project entails provision of Credit Enhancement Instruments and Technical Assistance to Participating Financial Institutions (PFIs) to facilitate provision of credit for renewable energy development</p> <p>These include:</p> <ul style="list-style-type: none"> <li>Solar Refinance facility to PFI for on-lending for Solar acquisition</li> </ul> <p>Connection Loan Refinance facility to PFIs for on-lending to rural households/enterprises to connect to the electricity grid. The aim is to facilitate access to the grid electricity by addressing the affordability barrier posed by upfront connection costs. It covers the costs of wiring premises, conversions from diesel-powered systems to grid-powered systems, and connection fees charged by the utility company.</p>	<p>Solar Refinance Facility :</p> <ul style="list-style-type: none"> <li>Disbursements of USD 580,00 were made under the Solar Refinance Facility as follows;                             <ul style="list-style-type: none"> <li>✓ Post Bank Uganda: USD 180,000</li> <li>✓ Finance Trust Bank: USD 250,000</li> <li>✓ Pride Micro Finance: USD 150,000</li> </ul> </li> <li>By June 2016, the number of households reached as a result of this refinance was 1,468;                             <ul style="list-style-type: none"> <li>✓ 237 loans from Post Bank Uganda,</li> <li>✓ 286 loans from Centenary Bank,</li> <li>✓ 230 loans from Pride Microfinance and</li> <li>✓ 1,197 loans from Finance Trust Bank.</li> </ul> </li> </ul>
<p>Technical Assistance (TA) Participating Financial Institutions (PFIs) and Project Developers.</p>	<p>Design of Stand Alone Solar Loan Products for Participating Financial Institutions (PFIs)</p>	<p>Connection Loan Refinance Facility</p> <ul style="list-style-type: none"> <li>The Connection Loan pilot scheme with Centenary Bank in WENRECo Service Territory was concluded in FY 2015/16 with 63 connections made out of a pilot facility amount of UGX 200,000,000.</li> <li>A new Facility of USD 650,000 (UGX2.27bn) was approved for roll out of the Connection Loan Facility by Centenary Bank , to cover the entire country through the Bank's 65 branches. The first tranche of US\$ 300,000 was disbursed in May 2016.</li> </ul> <p>Design of Stand Alone Solar Loan Products was concluded and Loan Product Manuals officially handed over to five PFIs, namely; Centenary Bank, Post Bank, Finance Trust Bank, Pride Microfinance, and Opportunity Bank.</p>



## Statement of Directors' Responsibility

It is the responsibility of the directors to prepare financial statements for each financial year that gives a true and fair view of the state of affairs of the UECCC-ERTP II as at the end of the financial year. In preparing those financial statements, the directors are required to:

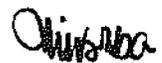
- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the UECCC -ERTP II Project and enable them to ensure that the financial statements comply with accounting requirements and guidelines. They are also responsible for safeguarding the assets of the Project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors accept responsibility for the financial statements and notes thereto set out on pages 20 to 29 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and Generally Accepted Accounting Principles (GAAP).

The directors assert that all funds have been expended in accordance with the intended purpose specified in the project agreements between UECCC, and IDA and IBRD as well as the Subsidiary agreement between GoU and UECCC.

  
.....  
SPECIOSA KIMERA NDACIRE  
Director

  
.....  
BYAGABA JAMES  
Director

Date 15<sup>th</sup> NOVEMBER 2016

Date 15<sup>th</sup> NOVEMBER 2016



## **2.0 Audit Objectives, Methodology and Procedures**

The audit was guided by a strategically driven audit approach to meet audit objectives and some of the audit procedures carried out included; strategic, operational and compliance reviews as described below.

### **2.1 Audit objectives**

The audit objectives for the UECCC/ERTP II – UECCC component for the year ended June 2016 were to:

- Express an opinion on whether the financial statements present a true and fair view of the project's financial position as at 30 June 2016, and of the funds received and expenditure incurred as well as an opinion on the special account.
- Provide management with timely information on financial management aspects of the project to enable follow up action.

### **2.2 Preparatory audit activities and strategic reviews**

Reviewed terms of reference after signing the contract and oriented the audit team towards achieving the audit objective within the agreed time frame and agreed work plan with UECCC management.

Prepared a strategy audit document including tailored audit programmes and checklists to meet audit objectives.

Reviewed background information including the programme document, the project implementation manual, the Project Agreements between UECCC, and IDA and IBRD as well as subsidiary Financing Agreement between the Government of Uganda and UECCC.

Identified and reviewed possibilities for relevant strategic risks and evaluated the strategic control environment.

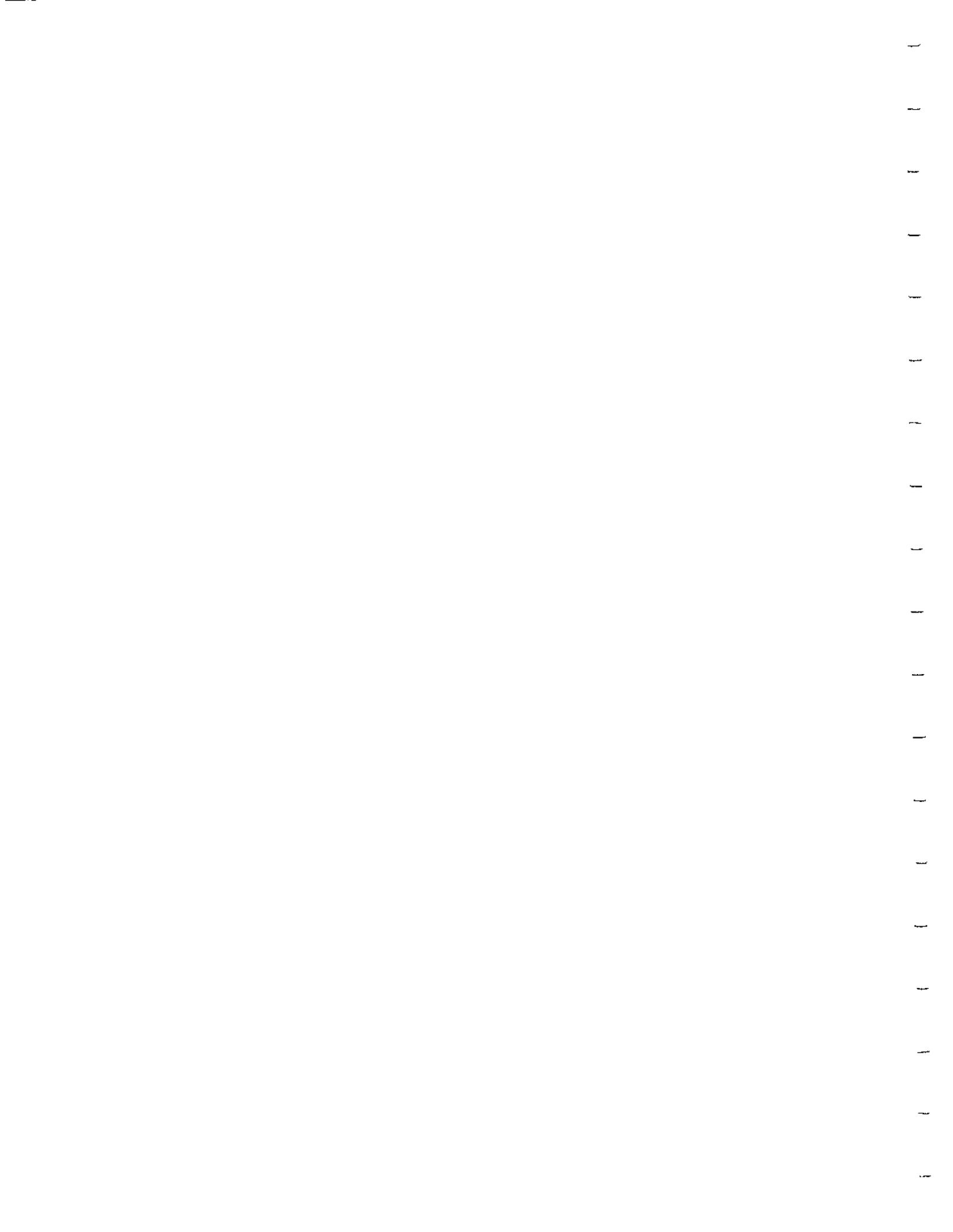
We conducted systems based audit – tests to assess the effectiveness of the internal control system.

Reviewed the progress in the implementation of agreed prior year audit recommendations

We carried out substantive tests on the significant Project cycles as below;

### **2.3 Receipts from World Bank**

Through enquiry, we documented the process of recording receipts from World Bank; and confirmed that a separate bank account was opened for these receipts.



We agreed all receipts of funds from bank statements and cashbooks and reconciled the balance with the release from the WorldBank.

Reconciled the application totals to bank receipts and confirmed completeness of recording.

#### **2.4 Other receipts**

We obtained understanding of the account, agreed balances to the ledgers, analyzed their respective ledgers whilst obtaining explanations and tested the transactions to supportive documents for validity.

#### **2.5 Expenditure**

Obtained a list of all contracts in the period showing the contract price and payments to contractors, service provider did agree to prices/rates.

Vouched payments from cashbooks and ledgers against respective invoices, and against evidence of receipt of goods or services, and whether they were checked by management for arithmetic accuracy, pricing, condition, authorization and eligibility.

Reviewed the work contracts to confirm that Economy, Efficiency and Effectiveness of resources was obtained with due reference to the Project Work Plan.

Checked completeness and consistence of recording and confirmed appropriate categorization of costs to correct eligible codes.

#### **2.6 Fixed asset/equipment**

Obtained a fixed assets/equipment register and physically inspected a sample of assets to confirm existence, proper engravement and working condition.

Reviewed the adequacy of the internal control procedures over the safeguards of assets procured for the Project.

Verified the asset titles and confirmed ownership by the UECCC.

#### **2.7 Cash and bank balances**

We agreed the reported balances to the cashbook and the reconciled bank statements.

We reviewed to confirm whether bank reconciliations are prepared on a regular basis and reviewed by a senior official.

We obtained direct confirmations from the bank for the balance held on account as of 30 June 2016.



## **2.8 Other audit procedures**

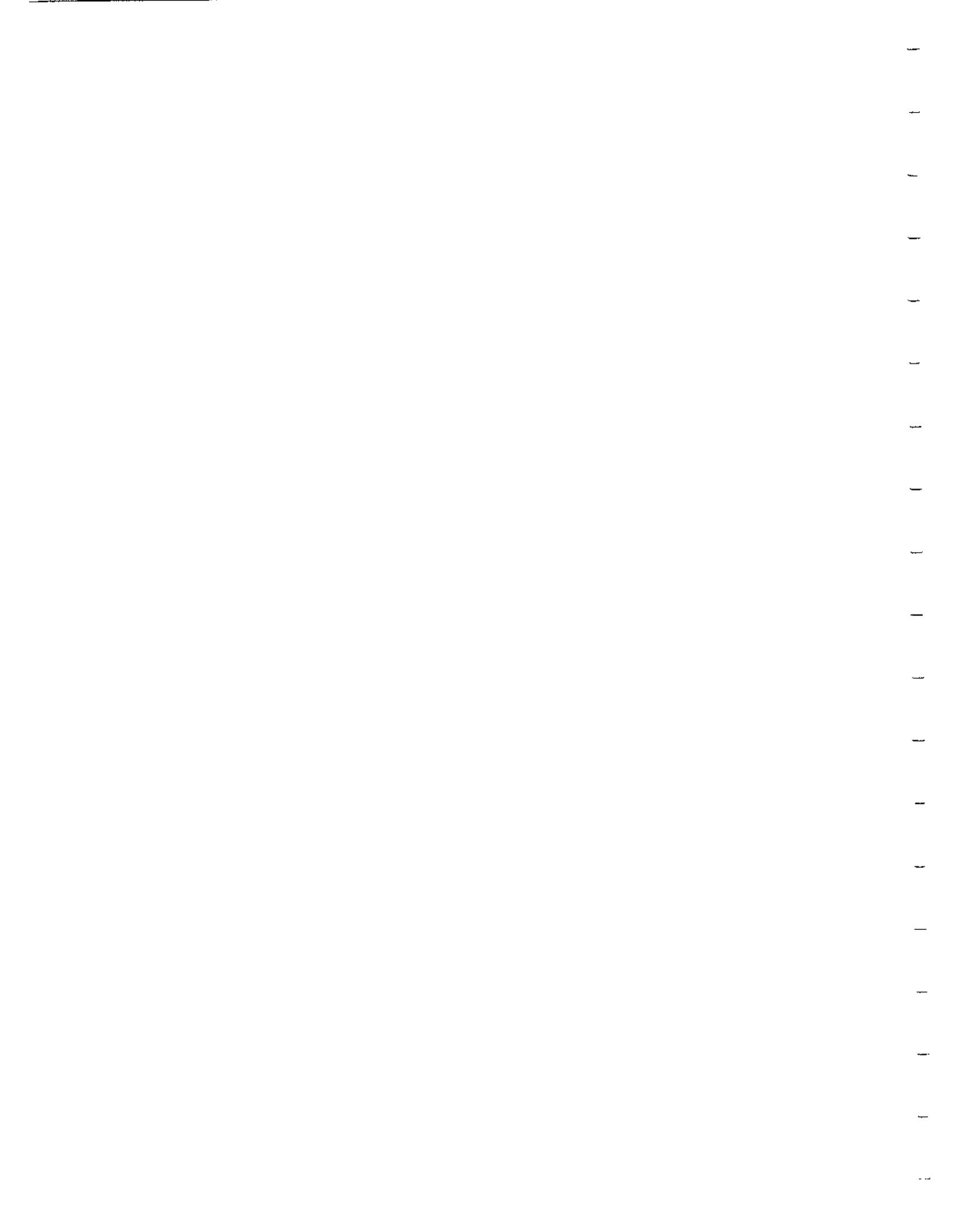
We received minutes for management meetings during the year for corroborative evidence to confirm assertions of financial statements.

We reviewed internal controls as a basis for detection and reporting of frauds and suspicious transactions

We made inquiries to establish evidence of any pending litigation for or against the UECCC and verified information for evidence of any related party transactions.

## **2.9 Audit Results**

Results from the audit are presented under: the auditor's report on compliance pages 14 to 15; the auditor's report on financial statements on pages 16 to 19; the audited financial statements on pages 20 to 22 and the management letter. All these reports form one integral part of the audit report



## **Auditor's Report on UECCC –ERTP II on compliance with the key convention of the Terms of Reference**

The audit was guided by the checklist presented under (i)-(viii) to review compliance with the key funding agreement covenants. Audit instructions on the checklist and audit findings are presented below. Audit instruments are bolded whilst audit conclusions and answers are inserted immediately after each instrument in italics.

- (i) Determine that all funds from the World Bank have been used in accordance with the conditions of the relevant financing agreements and only for purposes for which the funds were provided with due attention to value for money.**

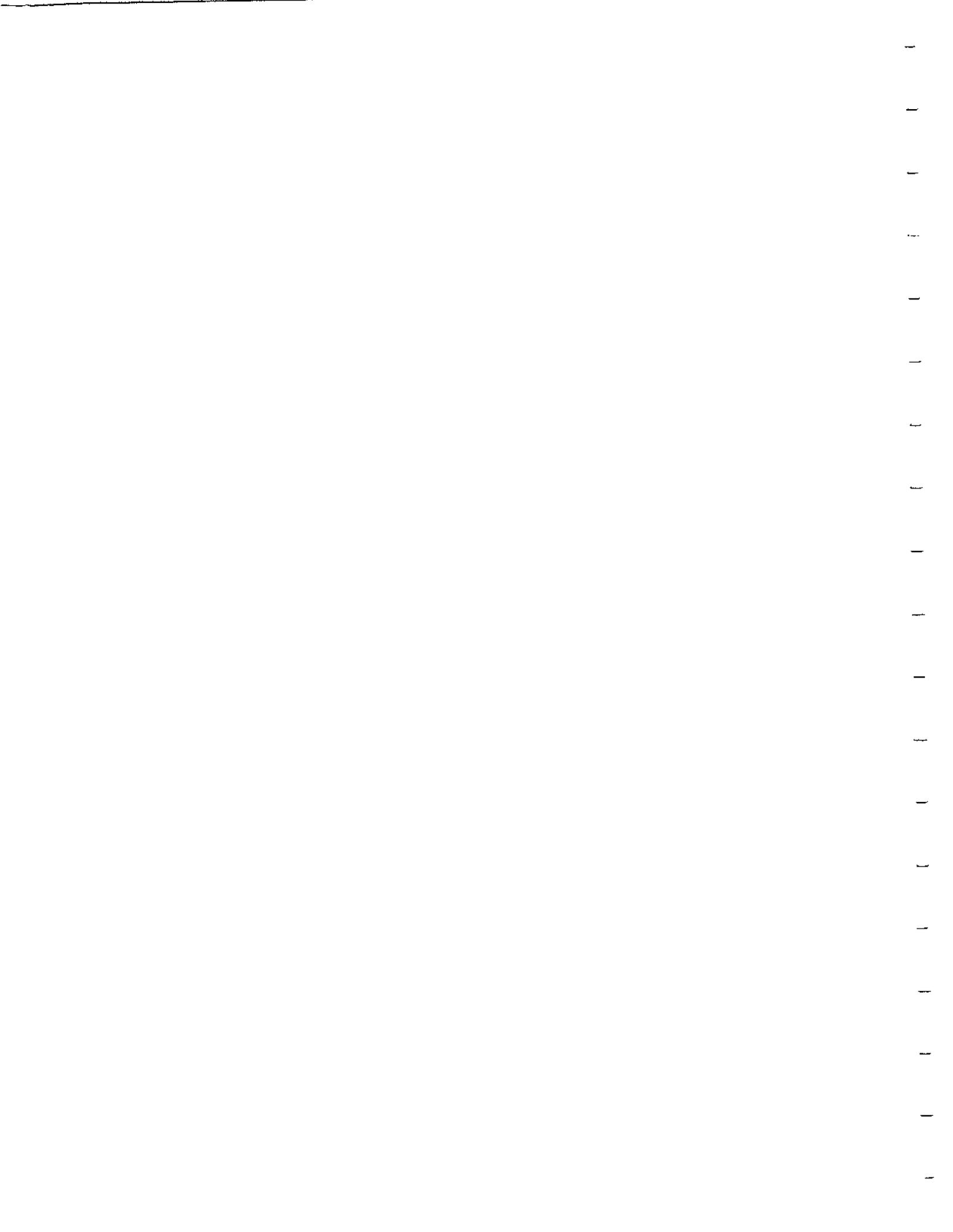
*During the year ended 30 June 2016, UECCC did not receive additional funds from GEF and IDA. Value for money was attained in all material respects for the funds available from the previous year.*

- (ii) Determine whether goods, works and services financed have been procured in accordance with the financing agreements including specific provisions of the World Bank Procurement Policies and Procedures.**

*We concluded that UECCC complied with the provisions of the World Bank Procurement Policies and Procedures and the GoU Public Procurement and Disposal of Public Assets guidelines.*

- (iii) Determine that all necessary supporting documents, records and accounts have been kept in respect of all project activities, including expenditures reported using Unaudited Interim Financial Reports (IFR) methods of reporting.**

*We concluded that the necessary supporting documents, records and accounts are kept in respect of all Project activities.*



- (iv) Determine whether designated accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the accounts were only used for the purpose intended in the financing agreement.**

*We concluded that designated accounts for credits and grants were maintained in accordance with the provisions of the funding agreements.*

- (v) Determine whether UECCC complied in all material respects with applicable national laws and regulations and that the financial and accounting procedures approved for the ERTP II were followed and used.**

*The Company did comply with all the applicable laws and regulations. Financial and accounting procedures approved for the project were also used and followed. We concluded that UECCC complied with all the terms of the agreement*

- (vi) Determine the financial performance of the UECCC/ERTP II is satisfactory.**

*We concluded that the financial statements prepared by the company give a true and fair view of the financial situation of the Project during and at the close of the year ended 30 June 2016. Expenditure was incurred in respect to budgeted activities.*

- (vii) Determine whether all assets of UECCC, including those procured for the purpose of the ERTP II exist and are duly owned by the Company as per the Financing Agreement.**

*We concluded that assets procured for the project are in existence and are safeguarded and adequate records are kept.*

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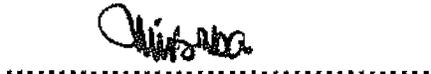
**Statement of Comprehensive Income**

	Notes	2016 USD	2015 USD
<b>Income</b>			
Grant Income	12	69,405.39	69,630.22
<b>Total Income</b>		<b>69,405.39</b>	<b>69,630.22</b>
<b>Expenditure</b>			
Administration Costs	4	5,625.35	6,872.53
Corporate Costs	5	140.00	40.00
Capital Expenses	6	12,066.33	62,717.69
Product portfolio Costs	7	51,573.71	
<b>Total Expenditure</b>		<b>69,405.39</b>	<b>69,630.22</b>
<b>Surplus /(deficit) for the year</b>			

The financial statements on pages 20 to 22 were approved by the Board of Directors of UECCC on ~~10<sup>th</sup> NOVEMBER 2016~~ and signed on its behalf by

  
 .....  
 KEITH MUHAKANI  
 Chairman Board of Directors

  
 .....  
 SPECIOSA KIMERA NDAGIRE  
 Managing Director, UECCC

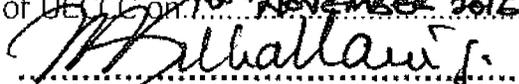
  
 .....  
 BIACABA JAMES  
 Director-

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**Statement of Financial Position as at 30 June 2016**

	Notes	2016 USD	2015 USD
<b>Asset</b>			
<b>Non-Current assets</b>			
Long term Investment	8	2,208,126.86	1,328,126.86
<b>Current Assets</b>			
Cash at Bank	9	434,142.17	1,475,241.18
<b>Total Asset</b>		<b>2,642,269.03</b>	<b>2,803,368.04</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Capital Reserve	10	2,208,126.86	1,328,126.86
Accumulated Reserve	11	434,142.17	1,383,547.55
<b>Total Equity</b>		<b>2,642,269.03</b>	<b>2,711,674.41</b>
<b>Current Liabilities</b>			
Other liabilities	13	-	91,693.63
<b>Total Equity &amp; Liabilities</b>		<b>2,642,269.03</b>	<b>2,803,368.04</b>

The financial statements on pages 23 to 25 were approved by the Board of Directors of UECCC on ~~10th~~ <sup>10th</sup> November 2016, and signed on its behalf by:

  
 ..... Chairman Board of Directors  
 KEJJA MUHAKANIZI

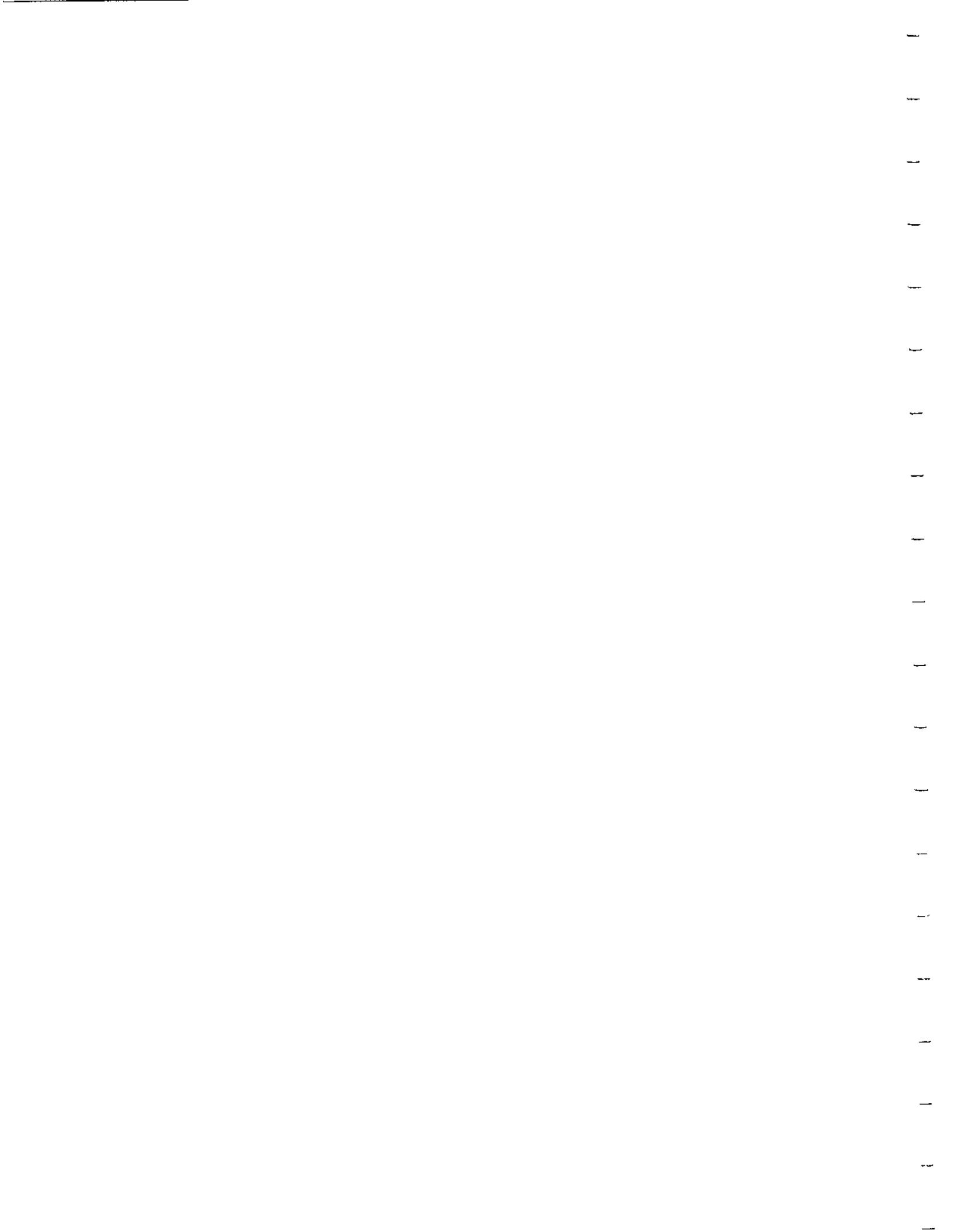
  
 ..... Managing Director, UECCC  
 SPECOZA KIMEZA NDAGIRE

  
 ..... Director  
 BWALYABA JAMES



**Statement of Cash flows for the year ended 30 June 2016**

	Notes	2016 USD	2015 USD
Cash flows from operating Activities		-	-
<b>Operating profit before working capital Changes</b>			
Working Capital Adjustments:			
Increase in Payables		(91,693.63)	91,693.63
Net Cash flows from operations		(91,693.63)	91,693.63
<b>Cash flows from investing Activities</b>			
Increase in long term investments		(880,000.00)	(350,000)
Net Cash flows from Investing activities		(880,000.00)	(350,000)
<b>Cash flows from financing Activities</b>			
Increase in Capital Reserves		880,000.00	350,000
(Increase)/Decrease in Operational Reserves		(949,405.39)	393,042.15
Net Cash flows from financing Activities		(69,405.39)	743,042.15
Net (decrease)/ increase in cash & cash equivalents		(1,041,099.01)	484,735.78
<b>Changes in Cash and Cash equivalents</b>			
Cash & cash equivalents as at 1 July		1,475,241.18	990,505.40
Cash & cash equivalents as at 30 June	9	<b>434,142.17</b>	<b>1,475,241.18</b>



## Notes To The Financial Statements

### 1. About the reporting entity and project

Uganda Energy Credit Capitalisation Company Limited (UECCC) is a duly registered company by the Registrar of Companies as a Company Limited by guarantee and has no share capital, certificate number 78005. The Company is mandated to manage the Uganda Energy Capitalisation Trust, which includes among others the Credit Support Facility for the ERTP II funded the World Bank (IDA) under Development Credit Agreement number 45540 UG and the GEF Grant Agreement number TF9094484 signed on 27 August 2009. The Energy for Rural Transformation Project II became effective on 25 November 2009 and closed on 30 June 2016.

### 2. Summary of Significant Accounting Policies

The principal accounting policies in the preparation of these financial statements are set out below. These policies will consistently be applied throughout the project life cycle unless otherwise stated.

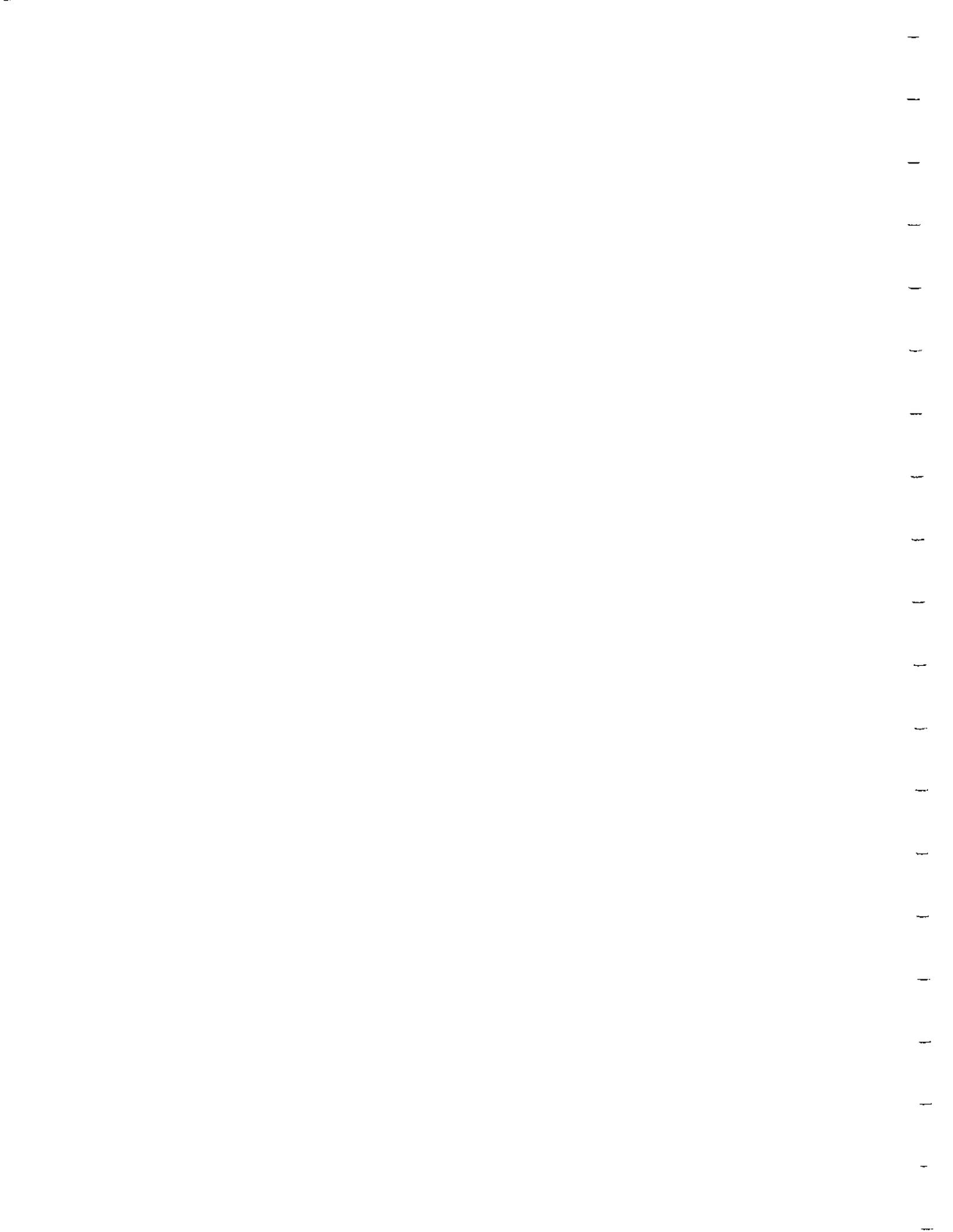
#### a) Basis of Preparation

The Project financial statements are prepared in compliance with General Accepted Accounting Principal (GAAP). The Project financial statements are presented in United States Dollars (USD).

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Projects accounting policies.

#### Receipts

Receipts from IDA and GEF are recognized in the financial statements when earned.



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **Summary of Significant Accounting Policies (continued)**

#### **b) Expenditure**

Payments including capital expenditure are recorded in the financial statements in the period in which they are incurred.

#### **c) Loan advances**

Loans are recognized when cash is advanced to Participating Financial Institutions. Loans and advances are shown at the gross amount adjusted for any provision for impairment losses. A provision for loan impairment is established if there is objective evidence that the project will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and estimated recoverable amount.

#### **d) Capital grants**

Grants disbursed by the World Bank and IBRD to support and facilitate the provision of loans to PFIs for on lending of long term finances to CSF eligible enterprises are capitalized and any grant received for purposes of meeting operational costs are recognized through the Statement of Comprehensive Income over the life of the grant.

#### **e) Fixed Assets**

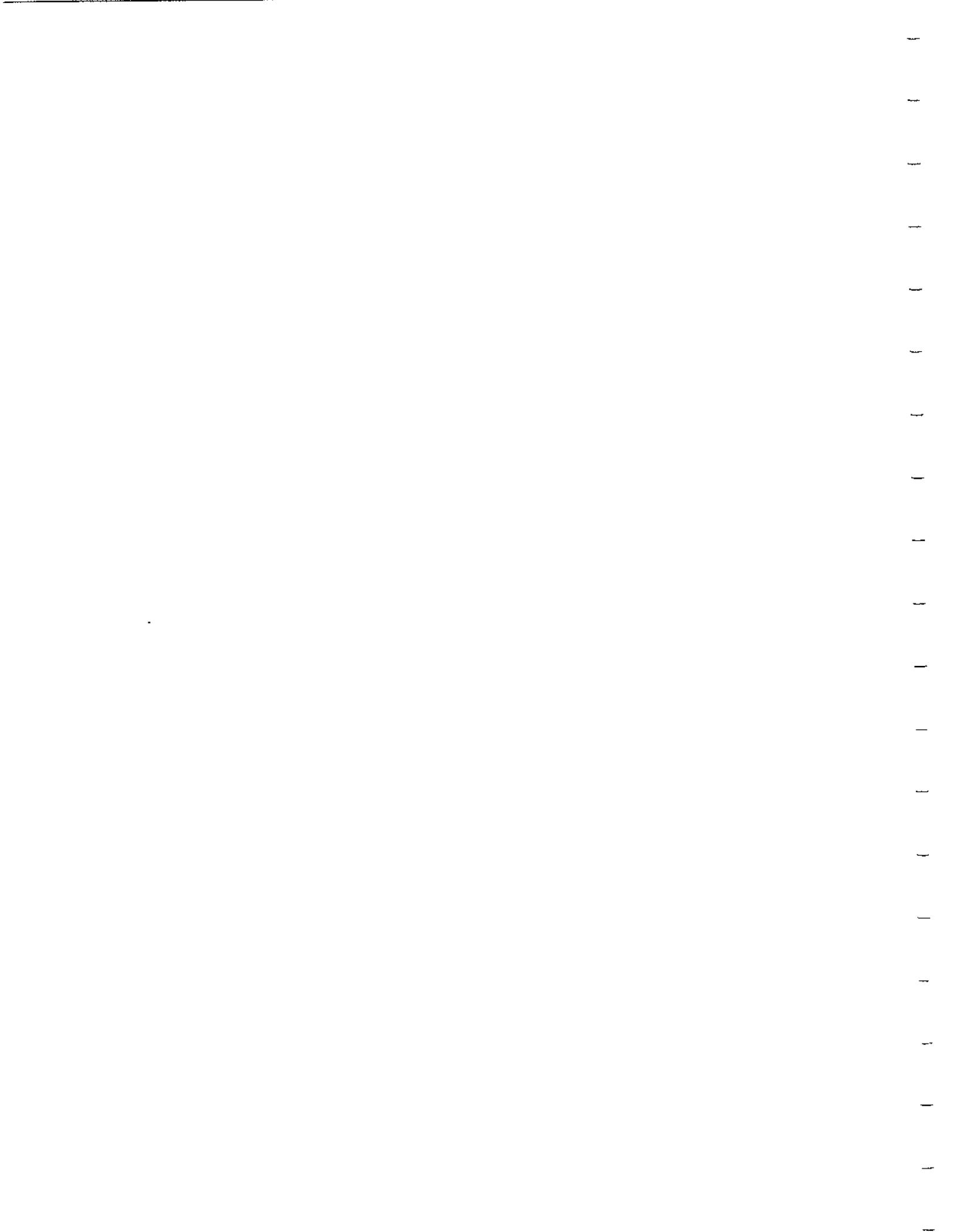
Fixed Assets are expensed in full in the year of purchase. Fixed assets purchased held at the period end are not presented in the Statement of Financial Position.

#### **f) Budget**

Budget figures have been provided for comparison purposes and have been derived from the project approved work plan for the year under review. The approved budget is used to manage project spending according to the agreements with the funding partners.

#### **g) Comparatives**

The comparatives in the financial statements relate to the balances in the audited financial statements for the year ended 30 June 2015. However the comparative figures have been reinstated and adjusted to conform with changes in presentation in the current year.



Notes to the financial statements (*Continued*)

3. Funds received by the project

a) Receipts from the World Bank

These are amounts from IDA, IBRD deposited on the Credit and Grant special accounts respectively. The receipts reconciled to the amounts confirmed by IDA, GEF as disbursed to the project comprised the following;

**Receipts from IDA**

<b>Year</b>	<b>Particulars</b>	<b>Amount (USD)</b>
2009/2010	Credit Received from IDA	134,100.00
2010/2011	Credit Received from IDA	545,501.24
2012/2013	Credit Received from IDA	1,068,339.46
2013/2014	Credit Received from IDA	-
2014/2015	Credit Received from IDA	303,058.00
2015/2016	Credit Received from IDA	-
<b>Total</b>		<u>2,050,998.70</u>

**Receipts from GEF**

<b>Year</b>	<b>Particulars</b>	<b>Amount (USD)</b>
2010/2011	Credit Received from GEF	185,649.10
2012/2013	Credit Received from GEF	292,705.90
2013/2014	Credit Received from GEF	262,380.00
2014/2015	Credit Received from GEF	609,254.00
2015/2016	Credit Received from GEF	-
<b>Total</b>		<u>1,349,989.00</u>



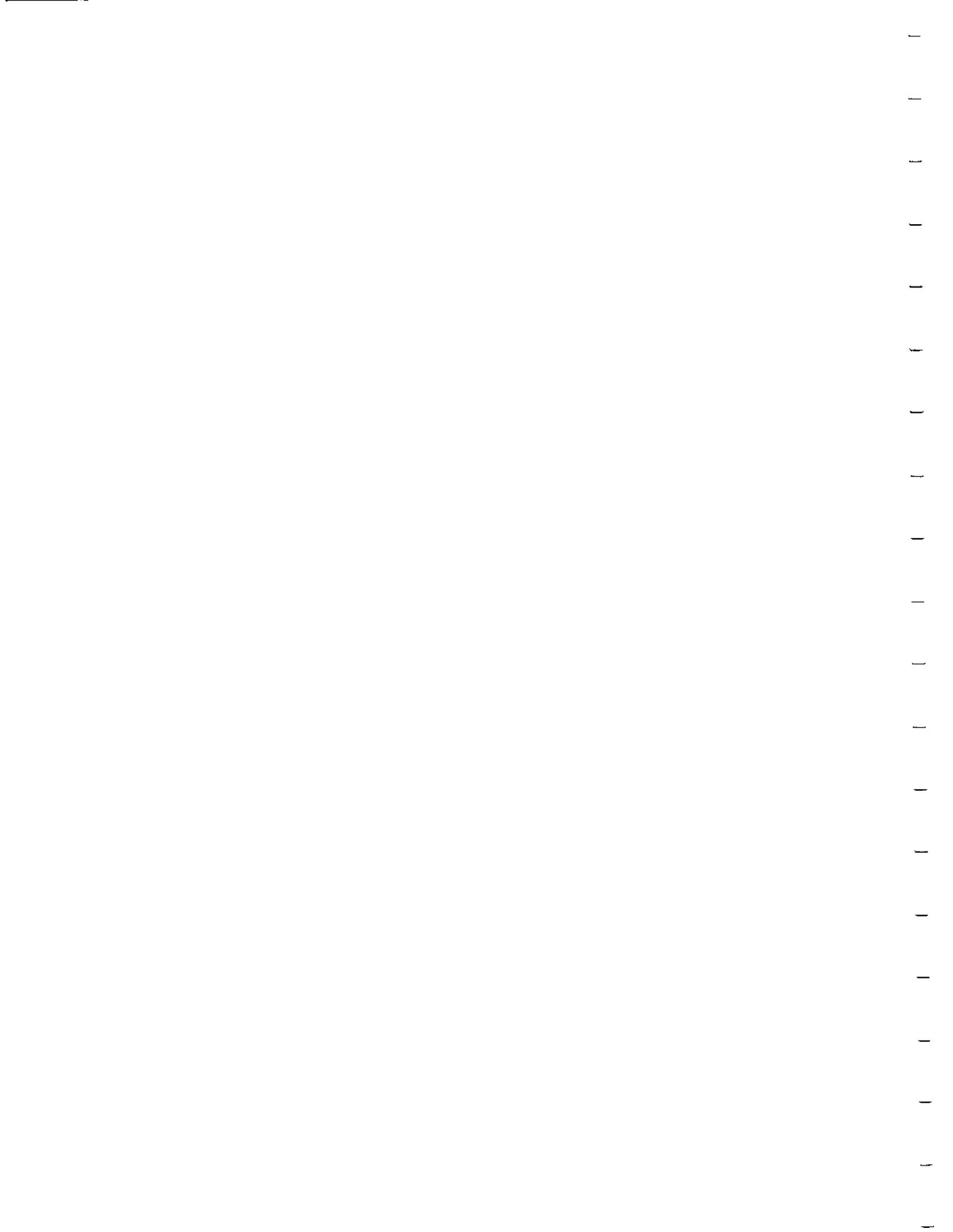
**Notes to the financial statements (Continued)**

<b>4 Administration costs</b>	<b>2016 USD</b>	<b>2015 USD</b>
Internet Connectivity	191.60	6,872.53
IT Systems Maintenance	5,433.75	-
	<u>5,625.35</u>	<u>6,872.53</u>
<b>5. Corporate costs</b>		
Bank Charges	140.00	40.00
	<u>140.00</u>	<u>40.00</u>
<b>6. Capital Expenses</b>		
Furniture & Fixtures	1,839.35	-
Computers & Accessories	10,226.98	-
Accounting Software & Hardware	-	2,717.69
	<u>12,066.33</u>	<u>62,717.69</u>
<b>7. Product Portfolio Costs</b>		
Technical Assistance	51,573.71	-
Business Development	-	7,946.00
	<u>51,573.71</u>	<u>7,946.00</u>

**8. Long term investments**

During the year under review, the company advanced credit support instruments/loan facilities to Participating Financial Institutions (PFIs) as shown in the table below.

	<b>2016 USD</b>	<b>2015 USD</b>
Standby Liquidity Option	401,000.00	401,000
Solar Refinance Option (PFIs)	1,430,000.00	850,000.00
Connection Loan Finance	377,126.86	77,126.86
Total Long term Investments as at June	<u>2,208,126.86</u>	<u>1,328,126.86</u>



**Notes to the financial statements (Continued)**

**9. Cash at bank**

Bank balances refer to reconciled cash book balances for accounts in Bank of Uganda. These are as follows:

<b>Bank account details</b>	<b>2016 USD</b>	<b>2015 USD</b>
IDA A/c no 000170088400023	434,142.17	928,111.22
IDA A/c no 000170088400038	-	1,186.75
GEF A/c no 000170088400024	-	515,531.00
GEF A/c no 000170088400039	-	30,412.21
	<u>434,142.17</u>	<u>1,475,241.18</u>
Total Cash & Bank as at 30 June	<u>434,142.17</u>	<u>1,475,241.18</u>

**10. Capital Reserves**

	<b>2016 USD</b>	<b>2015 USD</b>
Opening balance as previously reported	1,328,126.86	978,126.86
Long term Investments	<u>880,000.00</u>	<u>350,000</u>
Total Capital Reserves as at June	<u>2,208,126.86</u>	<u>1,328,126.86</u>



**Notes to the financial statements (Continued)**

**11. Accumulated Operational reserve**

Opening Balance	1,383,547.55	990,505.40
<b>Add:</b>		
Contribution from IDA	-	303,058.00
Contribution from GEF	-	609,254.00
<b>Less:</b>		
Long term Investments – Transferred to Capital Reserve	(880,000.00)	(350,000)
Expenditure for the year	<u>(69,405.39)</u>	<u>(169,269.85)</u>
Total Operational Reserves as at June	<u>434,142.17</u>	<u>1,383,547.55</u>

**12. Grant income**

Grant Income has been recognized in the statement of Comprehensive Income on a systematic basis over the period in which the entity recognizes the expenses relating to the Grants. Thus total expenditure equals to income i.e.USD 69,405.39.

**13. Other Liabilities**

	<b>2016 USD</b>	<b>2015 USD</b>
Solar Loan Development Consultancy Payable	-	87,213.00
Business Synergies	-	4,480.63
	<u>-</u>	<u>91,693.63</u>

**14. Contingent Liabilities/ assets**

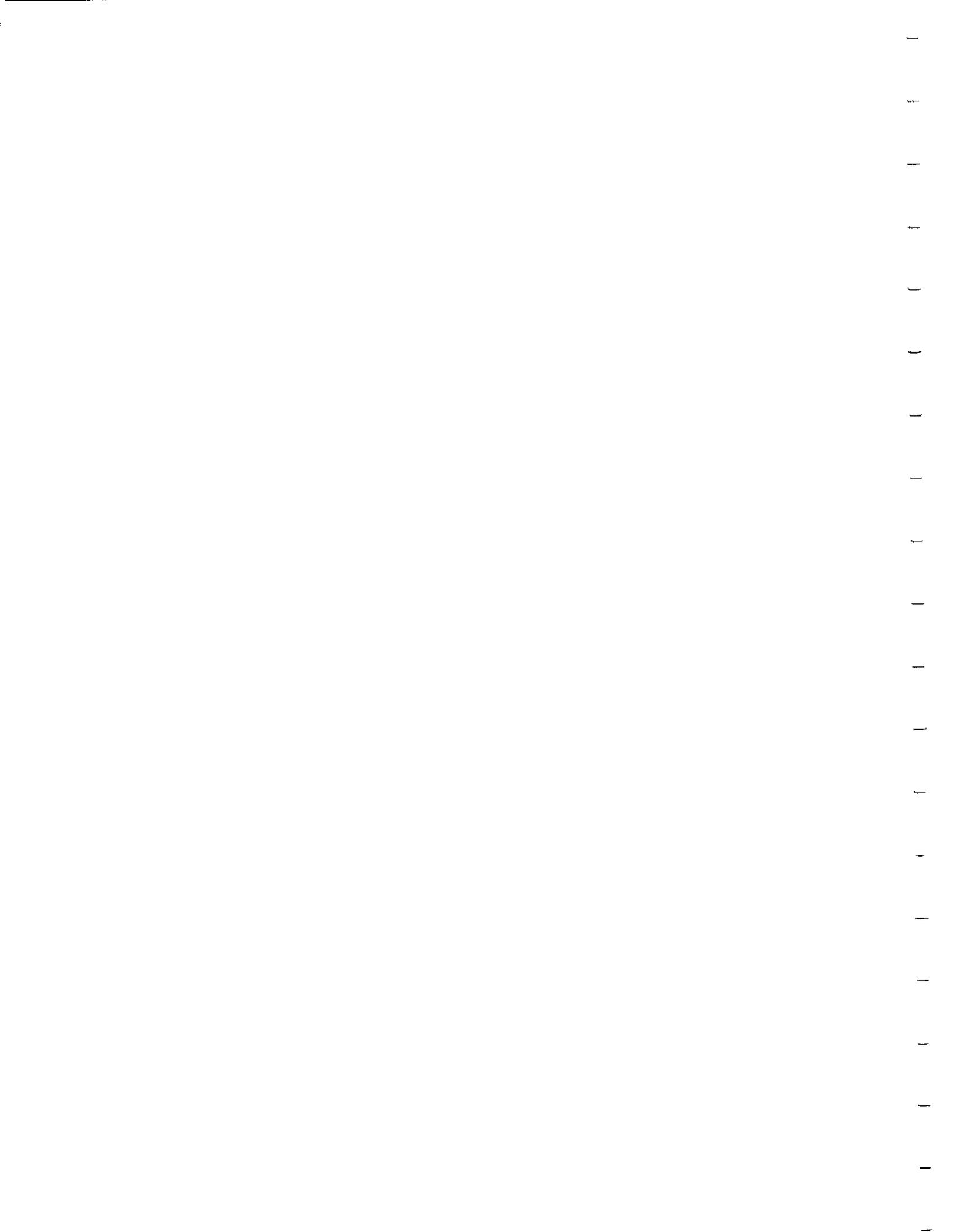
There were no known contingent liabilities/assets that qualify for accrual or disclosure as at 30 June 2016.

**15. Accounting period**

The financial statements have been prepared for the period 1 July 2015 to 30 June 2016.

**16. Reporting currency**

The financial statements are prepared in United States Dollars (USD).



**Notes to the financial statements (Continued)**

**17 (a) Special Account**

IDA Credit Agreement No. 45540

Designated account reconciliation statement as at 30 June 2016

	<b>2016 USD</b>	<b>2015 USD</b>
Opening Balance at 1 <sup>st</sup> July	929,297.96	633,132.49
<b>Add:</b>		
Total IDA Replenishments	-	<u>303,058.00</u>
Funds available during the year	929,297.96	936,190.49
<b>Less:</b>		
Payments for expenditures during the period	<u>(495,155.79)</u>	<u>(6,892.53)</u>
Closing Bank Balance as at 30 June	<u>434,142.17</u>	<u>929,297.96</u>
Reconciled Balance as at 30 June	<u>434,142.17</u>	<u>929,297.96</u>

**(b) Special Account**

Global Environment Facility Grant Agreement No. TF 9094484

Designated account reconciliation statement as at 30 June 2016

	<b>2016 USD</b>	<b>2015 USD</b>
Opening Balances as at 1 <sup>st</sup> July	545,943.21	357,372.92
<b>Add:</b>		
Total GEF Replenishments	-	<u>609,254.00</u>
Funds available during the year	545,943.21	966,626.92
<b>Less:</b>		
Payments for expenditures during the period	<u>(545,943.21)</u>	<u>(420,683.71)</u>
Closing Bank Balance as at 30 June	<u>-</u>	<u>545,943.21</u>
<b>Reconciled Balance as at June</b>	<u>-</u>	<u>545,943.21</u>

