

**REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT
OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30TH JUNE 2013 VOLUME II CENTRAL
GOVERNEMENT**

(UGANDA NATIONAL ROADS AUTHORITY)

AUGUST 2015

[Handwritten signatures and initials are present below the date, including "Alfred", "Lawford", and others.]

ABBREVIATIONS

AO	Accounting Officer
FY	Financial Year
GoU	Government of Uganda
IPSAS	International Public Sector Accounting Standards
IAS	International Accounting Standards
JLOS	Justice, Law and Order Sector
MoFPED	Ministry of Finance, Planning and Economic Development
MoPS	Ministry of Public Service
PAC	Public Accounts Committee
OAG	Office of the Auditor General
PC	Parliamentary Commission
PFAA	Public Finance and Accountability Act
PPDA	Public Procurement and Disposal of Public Assets Authority
UNRA	Uganda National Roads Authority
UPF	Uganda Police Force

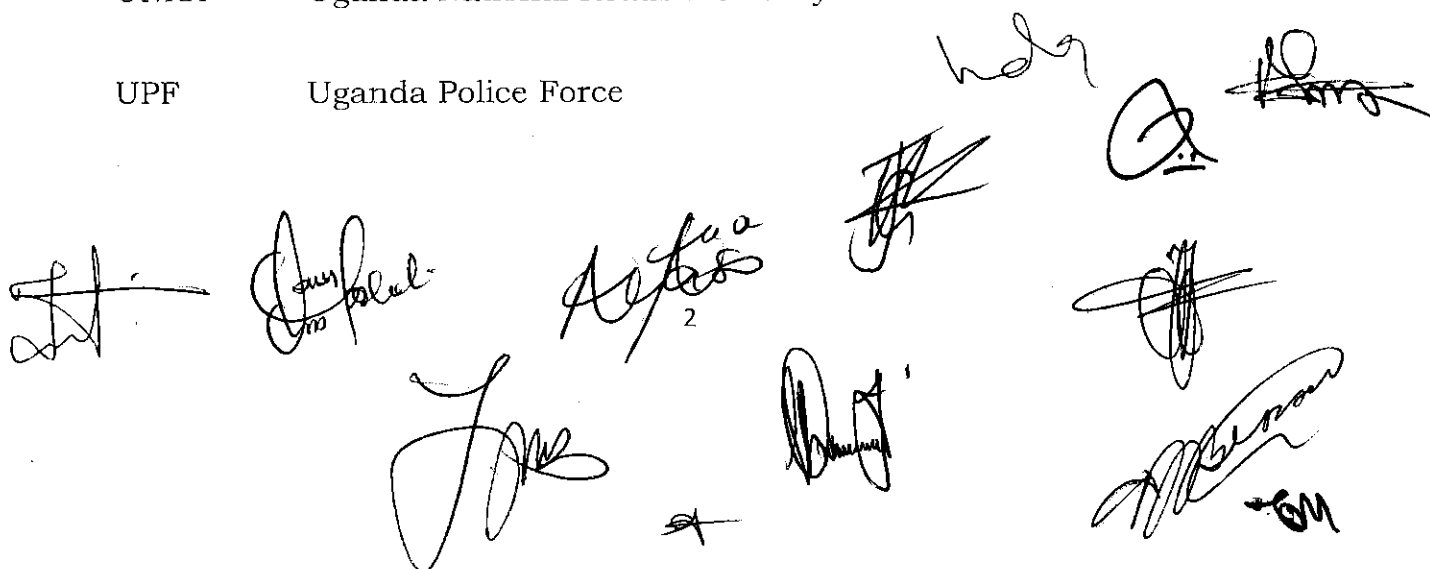


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1.0 Introduction

Article 163 (4) and (5) of the Constitution of the Republic of Uganda mandates the Auditor General to submit to Parliament annually a report of the accounts audited by him or her for the financial year immediately preceding and; that Parliament shall, within six months after the submission of the report referred to in clause (4) of this article, debate and consider the report and take appropriate action.

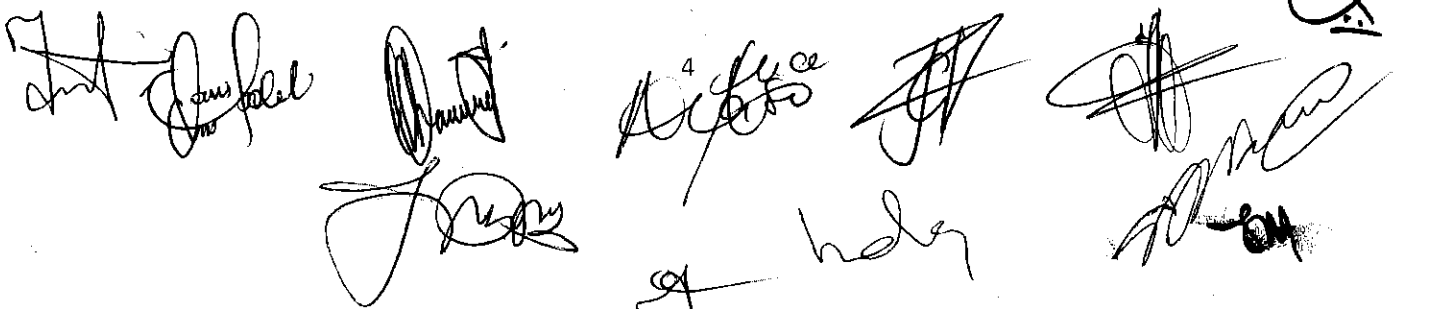
On Tuesday, 29th April 2014, the Annual Report of the Auditor General for the Year Ended 30th June 2013; Volume 2; Central Government was tabled in Parliament and referred to the Public Accounts Committee (PAC) for consideration.

Volume 2 comprises a total of 103 entities comprising Ministries, Agencies, Commissions, Departments, Uganda Missions abroad, Public Universities, Referral Hospitals and the Consolidated Government of Uganda Financial Statements.

In the FY 2012/13, out of the 103 entities audited, 60 entities had unqualified opinions, 39 had qualified opinions and 4 had disclaimed opinions. The basis upon which the audit opinion is premised forms the gist of the audit observations in the separate reports issued on individual entities, which PAC ultimately considered.

Pursuant to Article 90 of the 1995 Constitution and Rule 162 of the Rules of Procedure, PAC commenced the consideration of this report with an inaugural meeting with all Accounting Officers of entities under its purview on 24th July 2014. This was followed with public hearings that commenced on 13th August 2014.

As a strategy for greater efficiency and effectiveness, PAC delineated the entities under its purview based on the peculiarity of audit opinion and



the reports will be clustered based on opinion with this first three batches containing those entities with Disclaimer of opinion, and two volumes with entities with qualified opinions tabled in the House in March, June and July 2015 respectively. This is therefore the fourth batch and it contains Uganda National Roads Authority.

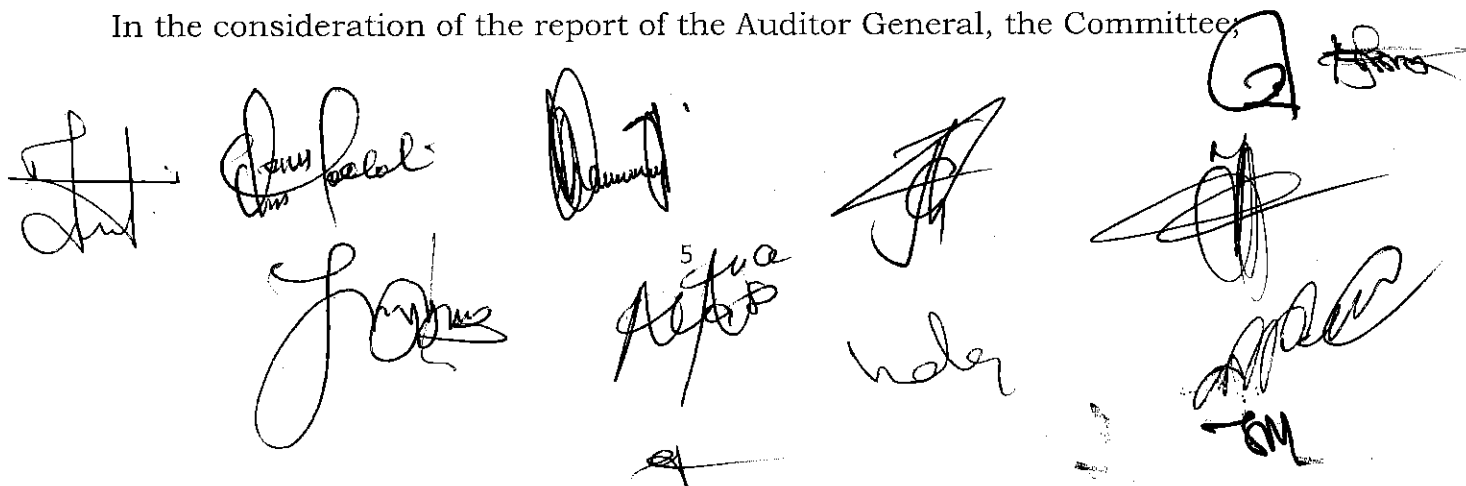
A qualified opinion implies that the information provided by the Accounting Officer was limited in scope and/or the entity being audited did not adhere to established International Accounting Standards. Contrary to its connotation, a qualified opinion is not a good thing. Auditors that deem audits as qualified opinions are advising whomever is reading the document that the information within the audit is not complete or that the accounting methods used by the company do not follow International Accounting Standards.

2.0 Scope of the Report

This report is on the financial audit for the year ended 30th June 2013 and covers an in-depth analysis of the audit observations of those entities with qualified opinions. The thrust of the Committee is on the need for improvement of management systems and corporate governance. This in the view of the Committee is integral in plugging the debilitating reality of fragile institutions that have to be strengthened if governmental efficiency and effectiveness and ultimately better service delivery is to be attained.

3.0 Methodology

In the consideration of the report of the Auditor General, the Committee,



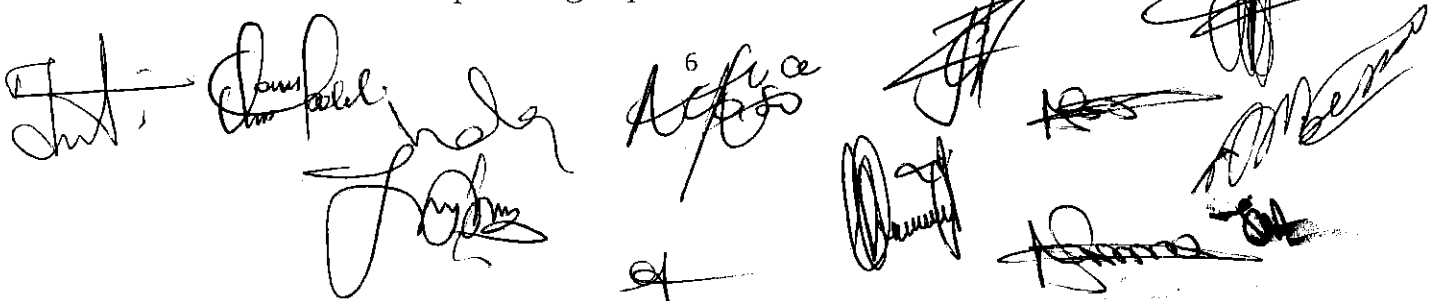
- i) Held meetings and in-depth deliberations with the Accounting Officers and representatives of the respective entities under its purview,
- ii) Reviewed documents namely; the report of the Auditor General for the year ended 30th June 2013, the financial statements of the entities for the year under review, relevant laws and regulations, submissions of witnesses, reports of the Public Accounts Committee for the previous years,

4.0 UGANDA NATIONAL ROADS AUTHORITY

4.1 Valuation of Fixed Assets – UGX 7,656,068,462,696

Query: It was noted that the fixed assets disclosures as reflected in the financial statements was based on the Uganda Road Agency study of 2012 which did not reflect the fair position of the assets contrary to the requirements of IAS 16 that requires property, plant and equipment to be re-valued with sufficient regularity. Accordingly the assets were not fairly stated.

Response: The Accounting Officer conceded the audit observation and informed the Committee that UNRA took over Fixed Assets from the Ministry of Works and has included these Assets in the Fixed Assets Register based on values that were provided in the Handover Report. The Accounting Officer admitted that these are not fair values of the assets. However, the standards provide that in the absence of revaluation, historical values are used. UNRA has initiated the procurement of an Independent Consultant to verify and revalue these Assets. Adjustments to the Fixed Assets Register will be undertaken when the Consultancy Report in this regard is complete. Ushs. 100m had been earmarked for this purpose and that this money was embedded in the operating expenses of UNRA.

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The AO acknowledged that the accounting standards require a fair value of the assets as at the time of compiling the financial statements and that in the past they were using a cash basis of accounting and since then they have adopted the accrual method on the advice of the Auditor General and that they will begin reporting on the Value of Fixed Assets in their financial statements.

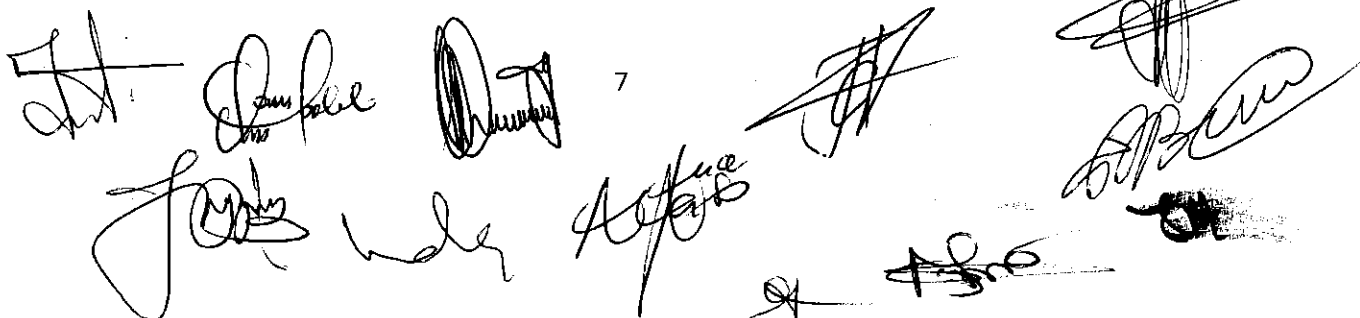
Observation and Recommendation:

The Committee notes that the misrepresentation of the value of fixed assets in the balance sheet spanned the previous years as well. Whereas the engagement of the Consultant was reportedly taken in a bid to ensure proper valuation of assets, the Committee notes that there was no evidence of a budgetary provision for this consultant. The argument that the activities of the consultant were being financed from operating expenses was found suspect by the Committee.

The Committee further notes that in the valuation of road assets, the values used are the costs of the roads as at the time of implementation without considering the revalued costs of these roads. The Committee notes that this is inherently erroneous.

The Committee observes that in the process of securing the consultant, the services in terms of advice and otherwise of the Chief Government Valuer had not been sought on valuation of road furniture but rather on other assets and disposal of assets such as vehicles. This in the view of the Committee is procedurally wrong.

The Committee therefore recommends that UNRA, in engaging the said consultant in a bid to streamline valuation of assets, should seek the advice of the Chief Government Valuer as well. In addition, UNRA should ensure that the consultant is well planned for.



4.2 Mischarge of Expenditure – UGX 2,480,827,360

Query: Expenditures totaling to UGX 2,480,827,360 were wrongly charged on budget lines to fund activities that were not meant to be paid from the affected budget lines. This practice renders the budgeting process redundant and is not in line with the intentions of the appropriating authority. The expenditure balances in the financial statements could be misrepresented.

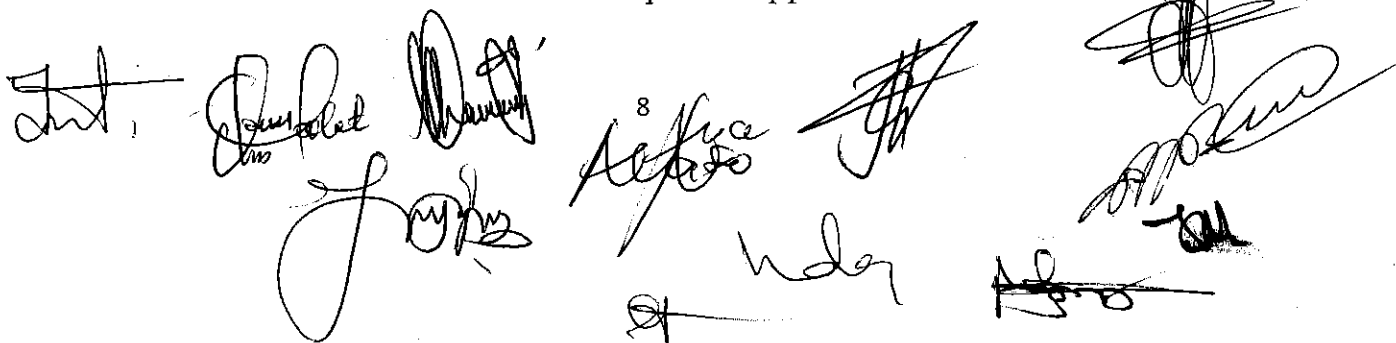
Response: The Accounting Officer in attempting to explain the mischarge tabled a document containing Inter-Project Borrowing that was queried by the Committee as it related to a different query. The Principal Accountant explained that the insufficiency of funds on planned activities prompting mischarge since on-going activities have to proceed.

Observation and Recommendation:

The Committee noted that mischarge related to charging expenses on different budget codes away from what they had initially been intended for.

On the schedule of mischarges that was tabled to the Committee, it was discerned that medical insurance was mischarged on gratuity. The Committee notes this as a case of inept planning, as gratuity ought to have been planned for and diverting the money to medical insurance means that some employees' entitlement to gratuity was infringed upon.

The Committee further noted that even if the Accounting Officer argued that at the end of the year the figures on expenses balance with the total receipts, it does not in any way absolve the Accounting Officer of virement without the requisite approvals.

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The Committee recommends that the Accounting Officer be held liable for usurping the powers of Parliament in so far as causing the mischarge.

The Committee further recommends that the Accounting Officer be prosecuted for violating the Public Finance and Accountability Act, 2003 and the Regulations there-under.

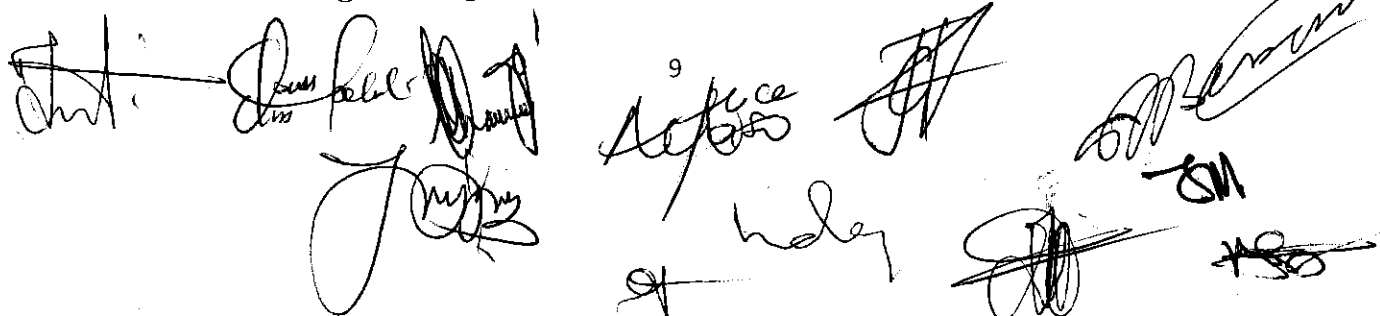
4.3 Outstanding Payables – UGX 431,953,293,985

a) Outstanding Commitments for year under review – UGX 184,415,152,158

Query: As at 30th June 2013, a total of UGX 431,953,293,985 was reported by the Authority, as outstanding in payables, representing an increment of 74% (UGX 184,415,152,158) from the payables figure of UGX 247,538,141,827 reported as at 30th June 2012.

Response: The Accounting Officer conceded the audit observation and attributed the increase in the debt situation every Financial Year is mainly because:

- a) During the Budgeting process funds are allocated to UNRA in the Medium Term Expenditure Framework (MTEF) irrespective of UNRA activities on the ground. Often the funds required to pursue UNRA's Road Development and Maintenance Programme exceed the funds allocated in the Budget. These activities are ongoing and contractors continue working and generate certificates every month yet the funds to pay off these Interim Certificates are inadequate.
- b) The procurement process for both Road Development and Maintenance contracts is unnecessarily too long (about a year). During the implementation period prices for material inputs are

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often above those that were included in the contractor's bid leading to escalation of construction costs through Variation of Price.

The Accounting Officer concurred on need to work towards offsetting the outstanding debts. He further stated that in spite of the increase in outstanding commitments as compared to the previous year; most of UNRA's contractors are performing better than hitherto envisaged.

Asked as to whether the payables are on work-in-progress or work certified, the Accounting Officer acknowledged that the bulk of the outstanding payables is on work certified and *that indeed an interest rate of about 25% applies to such outstanding payables.*

Observation and Recommendation:

The Committee notes the gradual rise in outstanding commitments. In the FY 2011/12, the increment in commitments was 67% while in the year under consideration it stood at 74%. As the Auditor rightly states, the outstanding commitments alone contribute to 29% of the total income received during the year.

The Committee further notes that considering that the bulk of outstanding payables are on work-in-progress, a ploy to get government to pay huge interests on delayed payments cannot be discounted and yet many of these projects are financed by loans on which the tax payer finances interest.

The Committee notes the seeming absence of prioritization of payment of creditors and recommends that the Accounting Officer streamlines planning, rationalization and prioritization so as to mitigate the rise in outstanding commitments.

The Committee recommends that the Accounting Officer be held liable for causing financial loss to Government of UGX

184,415,152,158 in interest that accrued from unnecessary delays in payments of certified certificates.

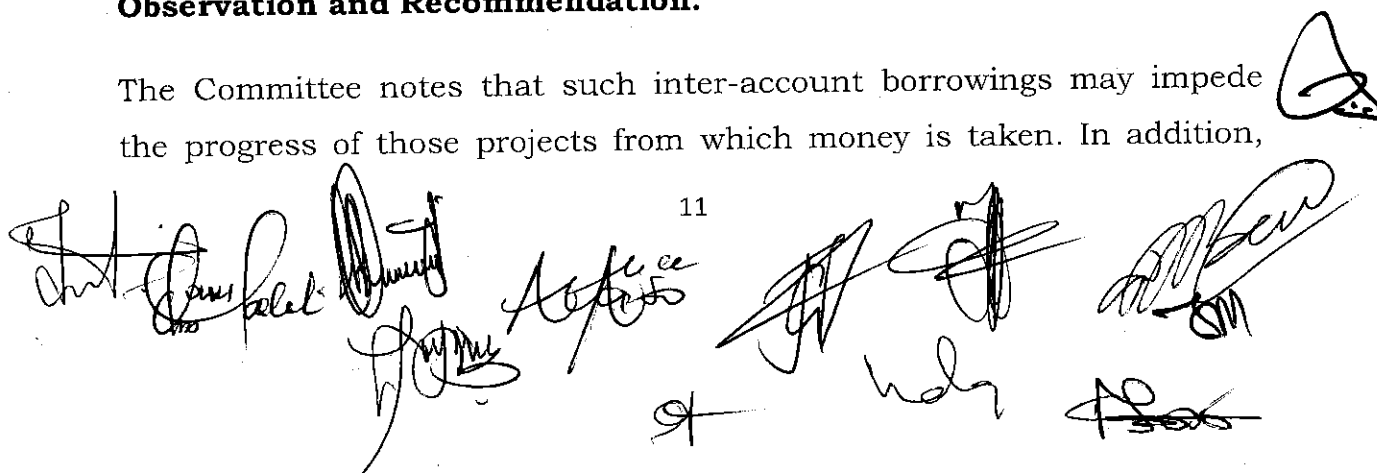
4.4 Inter-Account Borrowings – UGX 189,122,590,242

During the year under review, UGX 189,122,590,242 was borrowed from various projects. It was noted that there were several inter-project/account borrowings and these borrowings involved donor funded projects while others are for GOU funded projects. This practice creates a complex mix-up of funds, which could result into failure to properly account for the funds or even affect/delay implementation of the projects, whose funds were borrowed. It was further noted that there was no approval for these borrowings, which could lead to misuse.

Responses: The Accounting Officer informed the Committee that the Inter-Project Borrowings, which are authorized by him, are temporary arrangements meant to alleviate the problems of cash flow (cash-flow management). This takes place where funds on slow moving projects are temporarily used to pay certificates on fast moving projects, which would otherwise, result into interest charges or slow down implementation. Because project funds are earmarked at the time of budgeting, quite often, funds are transferred to projects with higher outturn than the others, in order to avoid having huge balances of funds on slow moving projects while having a huge debt on faster ones. The inter project borrowings are short-term in nature and usually settled within a Financial Year. In circumstances where recovery may be difficult or not necessary, reallocations are sought from PS/ST. In terms of accountability, proper control ledgers are kept and updated as refunds are made.

Observation and Recommendation:

The Committee notes that such inter-account borrowings may impede the progress of those projects from which money is taken. In addition,

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such inter-account borrowing may violate aspects of MOUs with some donor agencies. Borrowing from donor accounts subjects the funds borrowed to the vagaries of exchange fluctuations. The latter may render the argument that this inter account borrowing is aimed at saving money on penalties futile since the loss is on either fronts.

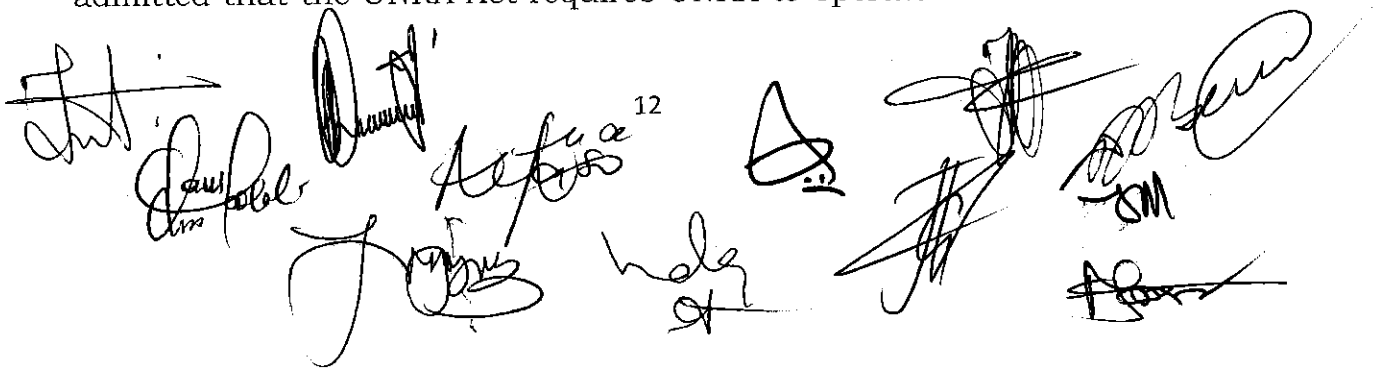
The Committee further notes the glaring contradictions in the response of the Accounting Officer, given that the same entity had earlier on incurred interest on payment of delayed certificates to a tune of UGX 184,415,152,158 thence the justification for inter-account borrowing does not arise.

The Committee recommends that the Accounting Officer be held liable for carrying out inter-account borrowing without authorization thence flouting the Public Finance and Accountability Act.

4.5 Foreign Exchange Losses UGX 36,791,744,898

Query: The Authority incurred foreign exchange losses equivalent to UGX 36,791,744,898 due to foreign exchange translations and currency adjustments as at the end of the financial year contrary to Section 2 of the UNRA Act 2006, which requires management to conduct UNRA Affairs in a businesslike nature and cost effective manner and in accordance with modern management practices. It was also noted that UNRA does not seem to have tried to hedge against the risks of foreign exchange transactions.

Response: The Accounting Officer conceded the audit observation. The legal counsel of UNRA responded by saying that the contract terms are a product of the bidding terms arrived at by PDU. The bidding forms are standard and the provisions are a product of protracted negotiations. He admitted that the UNRA Act requires UNRA to operate in a business-like

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manner. This requires it to set up a Treasury function that can hedge against exchange movements.

Observation and Recommendation:

The Committee queried the essence of entering into contracts in USD moreover without hedging against exchange rate fluctuations. The Committee further notes that at every budgeting period government sets a standard foreign exchange rate (which was USD2600 at the previous budget) therefore such a loss can only arise when the exchange rate applied is higher than that envisaged by government.

The Committee demanded for a disaggregation of how the foreign exchange loss arose specifying the specific amounts, exchange rates and the contractors and projects involved, but it was not availed.

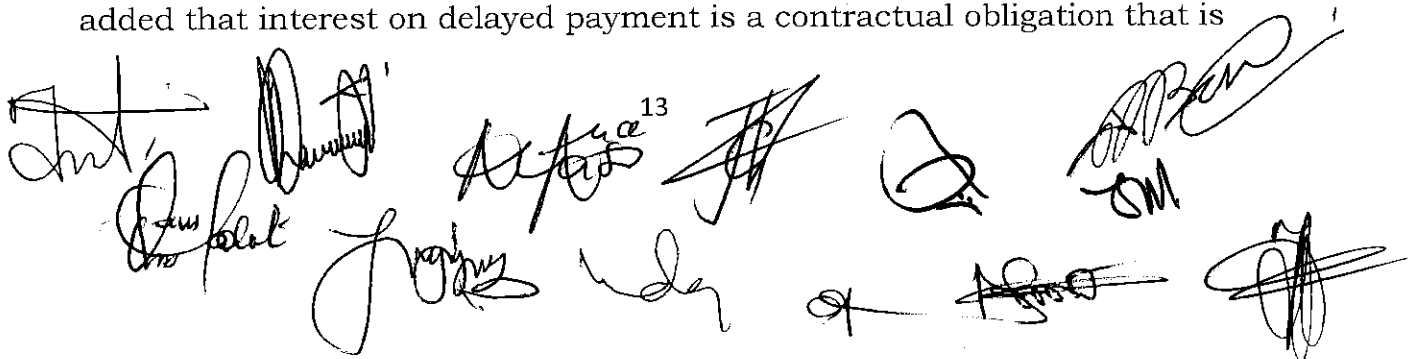
The Committee recommends that;

- i) the Accounting Officer be held liable for failure to carry out hedging against the risks of foreign exchange transactions.**
- ii) all government contracts should be hedged in order to avoid the risks arising from foreign exchange transactions.**

4.6 Avoidable Interest Payments to Contractors - UGX 525,488,501

Query: Section 5 (43) (1) of the General Conditions of Contract between UNRA and Contractors provides for payment of interest if UNRA delays to pay a particular approved contract certificate. It was established that management delayed to pay some approved certificates resulting into uncalled for payments in form of interest worth UGX 525,488,501 to the contracted companies.

Response: The Accounting Officer agreed to the audit observation and added that interest on delayed payment is a contractual obligation that is

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binding on the Employer. Once there is delay of payment, the interest due must be paid in accordance to contractual provisions. This is therefore not a Nugatory Expenditure.

While UNRA plans for work within the available budget resources, some contractors deliver more work than planned within a financial year. Constraining them to work within the limits of our resources, could be counterproductive and would attract other compensation events. (Payment for idle time, prolongation costs, etc)

Most delays are due to inadequate releases of funds by the Ministry of Finance.

Observation and Recommendation:

The Committee notes this as a case of nugatory expenditure as it could have been avoided with proper planning and appropriate contractual provisions. The argument by the Accounting Officer that some Contractors are far too efficient poses questions over project management and agreed work schedule within set timeframes. In this case therefore the contracts should be appropriately tailored to sanitize the public purse from loss.

In essence, loss of Government funds was occasioned and yet such funds would have been used to implement other road maintenance activities or undertake new projects.

The Committee recommends that the Accounting Officer be held liable for causing financial loss of UGX 525,488,501 arising out of failure to observe the contractual terms.



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4.7 Non-Performing Contract for the Supply of Ground-Engaging Tools

Query: A Letter of Credit (LC) was opened in favor of a local company towards the delivery of ground engaging tools at a contract price of USD177,713.00, out of which a contract sum of USD124,399.10 was paid leaving an outstanding balance of USD53,313.90. Irrespective of the payment, supplies worth USD102,644.00 were delivered. Audit observed that one of the three containers was reported lost at Mombasa port hence delaying the delivery of the remaining quantities worth USD75,070.00

Response: The supplier had at first promised that they would be able to deliver the remaining items soon and requested for patience from UNRA. However, UNRA realized that the case in Kenya would take longer. At that time, the contract had expired and UNRA took the following steps:

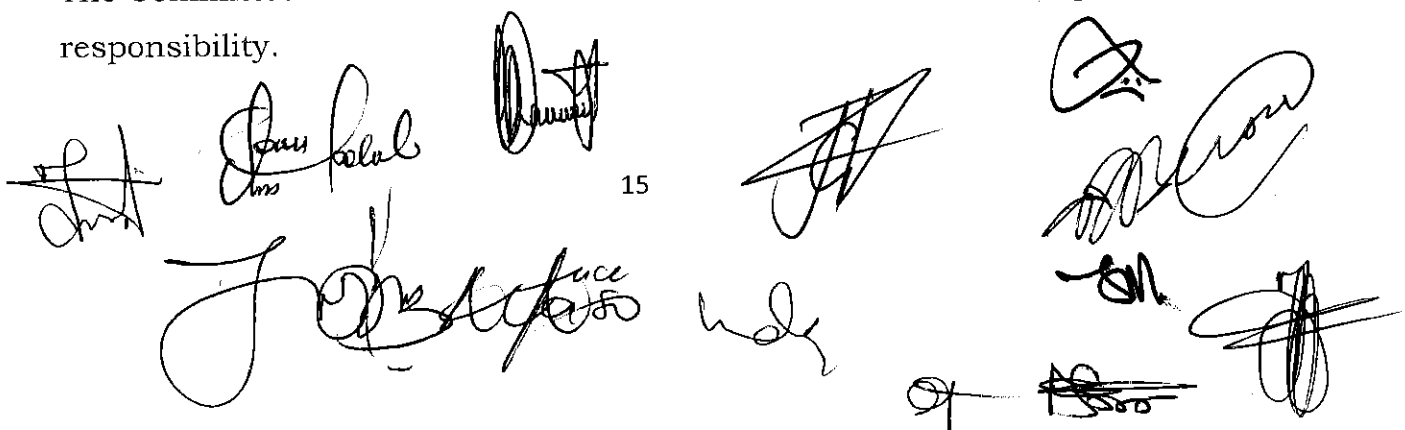
1. Since the contract had expired, 30% of the contract sum (USD53,313.9) under the LC was recalled from the bank. (See attachment No. 7.3 (1))
2. UNRA is in the process of recovering the balance of the advance payment amounting to USD21,716 by legal means.

Observation and Recommendation:

The Committee notes that this Contract is expired; the contract was awarded in June 2011 and it expired at the end of 2013. The legal counsel was given instructions four days prior to appearance before PAC.

The Committee expressed grave concern about the time lag between the loss of the container and the time of reporting the matter to the insurer.

The Committee realizes the need to review the contract so as to apportion responsibility.



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The Committee observed that whereas the Contract Manager, Eng. Kyakulagga had internally communicated to the Executive Director about the risk of non-performance of the contract, there was no effort in recovering USD21,716 from the contractor.

The Committee therefore recommends that the above-mentioned sum of USD21,716 be recovered from the contractor within three (3) months from the date of adoption of this report.

4.8 Outstanding Taxes/NSSF Unremitted - UGX 964,495,554

Query: UGX 964,495,554 remained outstanding as at 30th June 2013 in unremitted statutory obligations (NSSF and PAYE) contrary to the provisions of the Income Tax Act and the NSSF Act.

Response: On the PAYE of UGX 471,539,839, the Accounting Officer stated that PAYE was deducted by Ministry of Public Service (MoPS) but not remitted to URA. UNRA's payroll at the time was managed by the Ministry of Public Service (MoPS). Through the Straight through Process System (STP) and despite reminders to the MoPS, this obligation has not been cleared.

On the non-deduction of NSSF worth UGX 238,135,254 from the salaries by public service, the Accounting Officer explained that the amounts in question referred to overpayments to UNRA staff as a result of non-deduction of 5% NSSF. UNRA's payroll during the year was managed by MoPS through the IPPS. Since the payroll has since reverted to UNRA, it undertakes to make the necessary recoveries from the affected staff and remit it to NSSF.

On the non-deduction of NSSF by Public Service and not remitted to NSSF worth UGX 254,820,461, the Accounting Officer stated that the mentioned amounts relate to February, March and April 2013. Deductions were not made on some staff by the MoPS and UNRA on

numerous occasions notified MoPS of the continued anomaly but there has not been any response. With the new arrangement of the UNRA managing its payroll, the necessary recoveries would be made from the concerned staff.

PAYEE Funds were deducted from staff but not remitted to URA by the Ministry of Public Service. This was as a result of the longer cycle for the Ministry to prepare and submit returns. The deducted funds were eventually returned to the consolidated fund at the close of the financial year. UNRA has however requested for the funds so that a payment is effected to URA.

Observation and Recommendation:

The Committee notes that there is a possibility that the authority could attract penalties for failure to remit taxes and NSSF deductions on time. The Accounting Officer should ensure that statutory deductions are remitted in time and within the provisions of the law to avoid penalties.

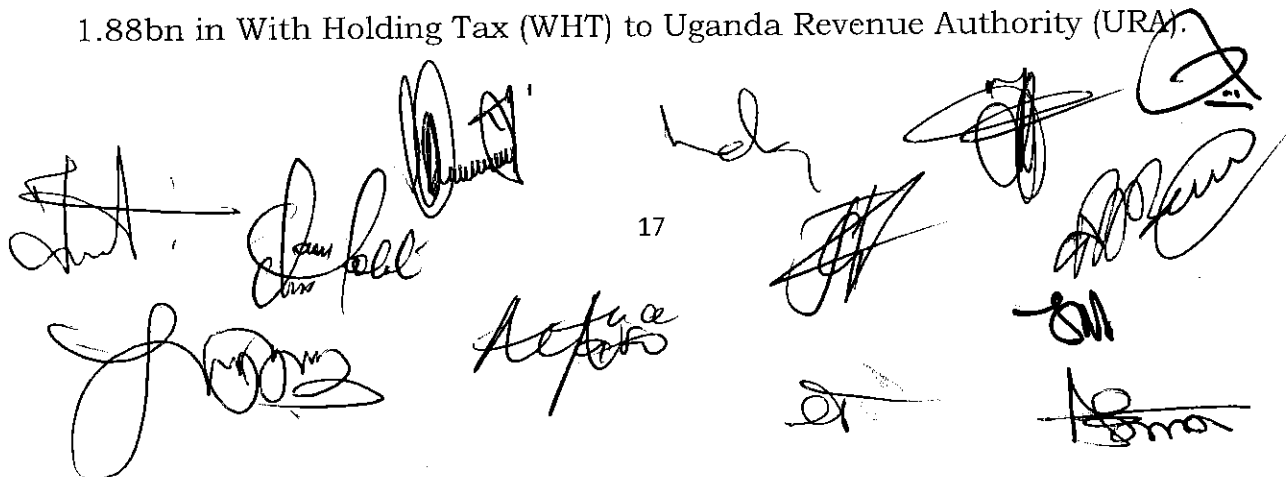
The Committee recommends that;

- i) the statutory deductions should be recovered with interest and remitted to the relevant bodies.*
- ii) UNRA and Ministry of Public Service should henceforth stop abusing the rights of workers, given that salaries are a right.*

4.9 Unremitted WHT UGX 1.88bn:

Query: In the process of scrutinizing the accounts of UNRA for the year under review, the Committee unearthed the non-remission of UGX 1.88bn in With Holding Tax (WHT) to Uganda Revenue Authority (URA).

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Response: The Principal Accountant admitted that they withheld the money. The Committee tasked them to provide evidence that they remitted the WHT to URA. The Auditor admitted that there was proof that it was deducted but not remitted to URA.

Observation and Recommendation:

The Committee notes that UNRA had no satisfactory explanation on the failure to remit WHT to URA, and the said monies had been expended on unplanned activities.

The Committee recommends that;

- i) the Accounting Officer be held liable for failure to remit WHT to a tune of UGX 1.88bn.***
- ii) the Accounting Officer accounts for the said amount.***

4.10 Under funding of Maintenance Program - UGX 43,104,110,247

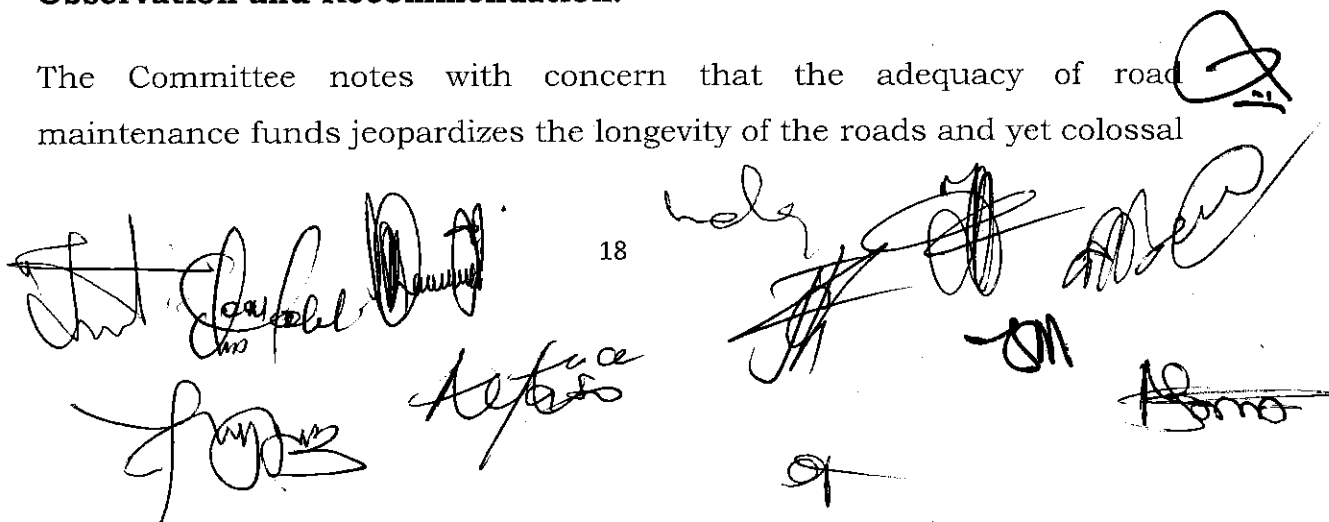
Query: Uganda Road Fund finances maintenance of roads through disbursement of funds to UNRA on a quarterly basis so that implementation is done. During the financial year under review, UNRA planned to spend UGX 181,875,000,000 under the maintenance program however, only UGX 138,770,889,753 was released to the Authority leaving a balance of UGX 43,104,110,247 (24%) unreleased.

Response: The Accounting Officer informed the Committee that his Management team has continued to engage URF and MoFPED and as a result all budgeted funds for the Financial Year 2013/14 were released.

Observation and Recommendation:

The Committee notes with concern that the adequacy of road maintenance funds jeopardizes the longevity of the roads and yet colossal

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sums of money most of which is borrowed money has been injected in the construction of such roads.

Considering UNRA's admission that they received inadequate funds for the capital investment for Road maintenance from the Uganda Road Fund, the Committee recommends that UNRA continues engaging the Ministry of Finance and the URF to provide sufficient funding for UNRA Road Maintenance activities.

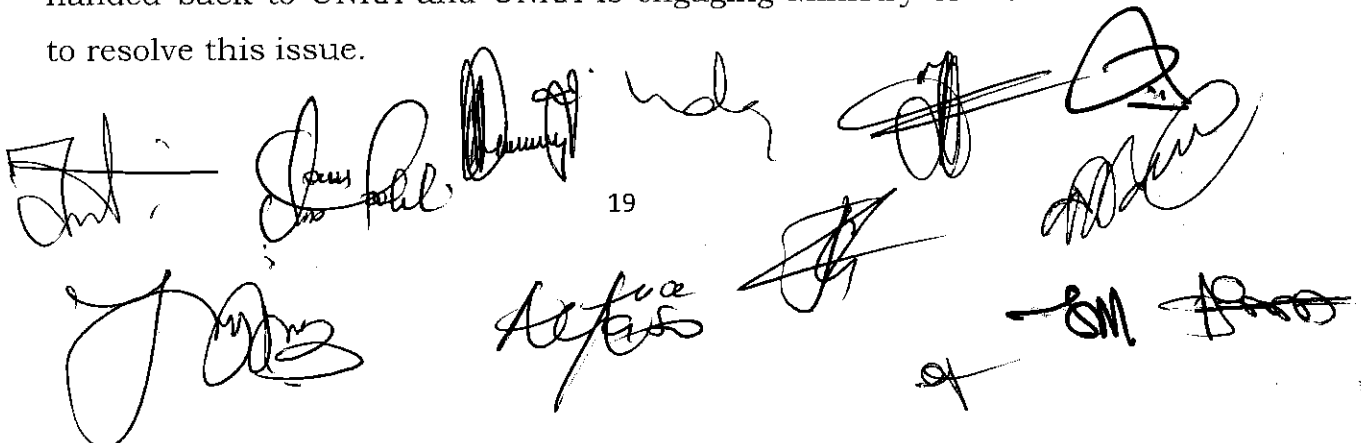
4.11 Receivables Outstanding UGX 4,324,360,299

Query: Receivables worth UGX 4,324,360,299 had not been received by the Authority and were therefore still outstanding.

Response: The Accounting Officer informed the Committee that it is standard practice at UNRA that when staff is advanced funds and fails to provide accountability these funds are then deducted from the Individual staff salary. UNRA experienced challenges during this period because the payroll was being managed by the Ministry of Public Service. As a result it was not possible to deduct funds from staff salaries in a timely manner. UNRA management has continued to deduct these funds from staff salaries and the current situation is reflected in the table below.

UNRA has sent a reminder to the Bank of Uganda to help in the recovery of UGX 173,701,010 from ABC Capital Bank. The police completed its investigations and the file is now with the Director of Public Prosecution to initiate court proceedings on the culprits.

Staff advances deducted by Public Service of UGX 13,037,501 refers to funds deducted from UNRA staff members but not remitted to the UNRA operations account. Management of the UNRA payroll has now been handed back to UNRA and UNRA is engaging Ministry of Public Service to resolve this issue.



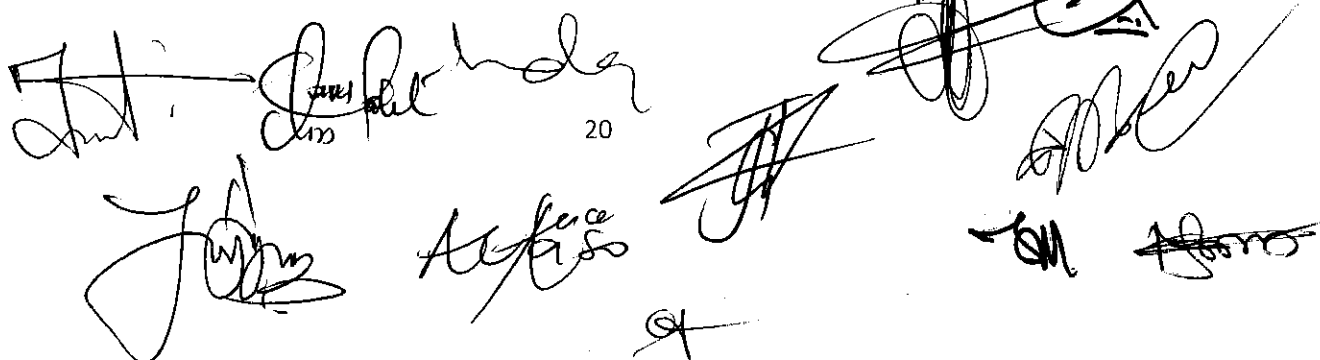
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Please see below a table illustrating the status of Letters of Credit and cash for Land and property compensation that is still with the consultant.

Description of the nature of the Receivable	Amount UGX (Receivables)	Recoveries so far	Outstanding
Outstanding letters of Credit that have performed	3,686,481,596	3,468,081,154	218,400,442
Cash compensation funds still with the Consultant o	102,736,943		102,736,943
staff advances deducted from staff salaries by Public Service	13,037,501	-	13,037,501
Still held in ABC Capital Bank	173,701,010	-	173,701,010
Staff advances outstanding	348,403,249	21,517,487	226,885,762
Total	4,324,360,299	3,589,598,641	734,761,658

Observation and Recommendation:

Letters of Credit (UGX 3,686,481,596): The Committee demanded for the tabulation of the LCs detailing opening credit at the start of the period under review, how the LCs performed through the period and the outstanding credit at the close of the period under review plus the terms and conditions of the LCs plus evidence



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The Committee further notes that during an earlier interface with the Accounting Officer in consideration of the prior year audit, the Committee advised UNRA to claim this money from the bank as liability for the loss lay with the bank. But to-date nothing had been done. The legal counsel pledged to provide information on what had been done.

Staff Advances: The Committee demanded a schedule of those who owe money to UNRA and the amounts in question. The ED UNRA tabled a document to that figure and it was referred to the Auditors for verification.

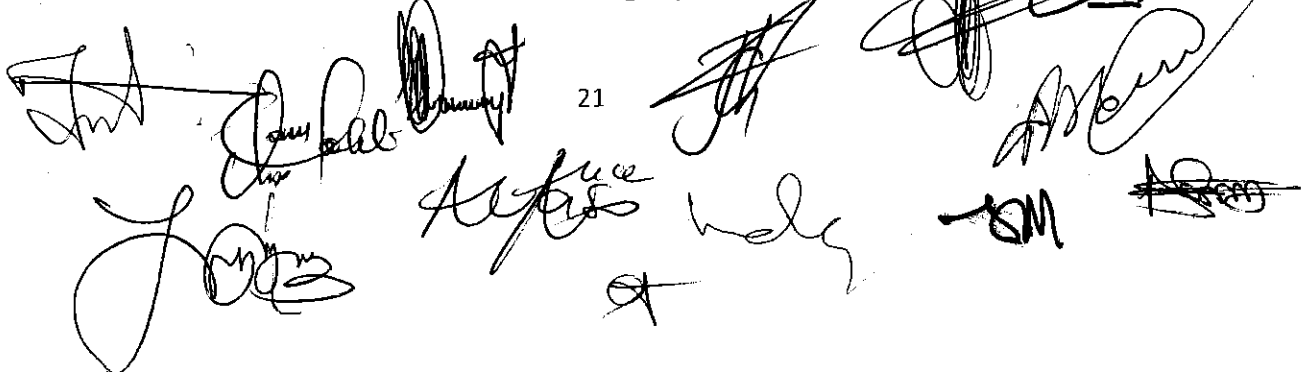
The Committee recommends that;

- i) the Accounting Officer be held liable for failure to recover receivables amounting to UGX 4,324,360,299 from the various parties.*
- ii) the Accounting Officer fast-tracks the recovery process.*

4.12 Supplementary Expenditure Review -
UGX.155,000,000,000

Query: Towards the end of the financial year, the Accounting officer requested for a supplementary of UGX 309bn out of which UGX 155bn was released. This was on top of the original GOU Development budget of UGX 669bn for the Financial Year under review. UNRA's annual development budget was to be exhausted in the third quarter and management made a cash flow projection of UGX 309bn for quota 4 hence requesting for a supplementary budget of UGX 200bn. This request was for settlement of bills for a list of projects mainly from the transport corridor project (Code 1056). In June 2013, the Authority received a supplementary appropriation for the development budget of UGX 175bn to cater for the mentioned projects.

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Audit noted that out of the above warrants, cash limits issued were only UGX 155 billion as indicated below:

Date of Receipt of Release	Amount (UGX)
13/06/2013	154,000,000,000
25/06/2013	1,000,000,000
Total	155,000,000,000

The cash limits were for various roads and bridges including; upgrading Moyo-Afoji (Phase-1 Bridges), Improvement of Ferry Services (KIS Project), upgrading Kampala-Gayaza-Ziobwe, upgrading of Fort Portal-Bundibugyo-Lamia and various others.

Observation and recommendation:

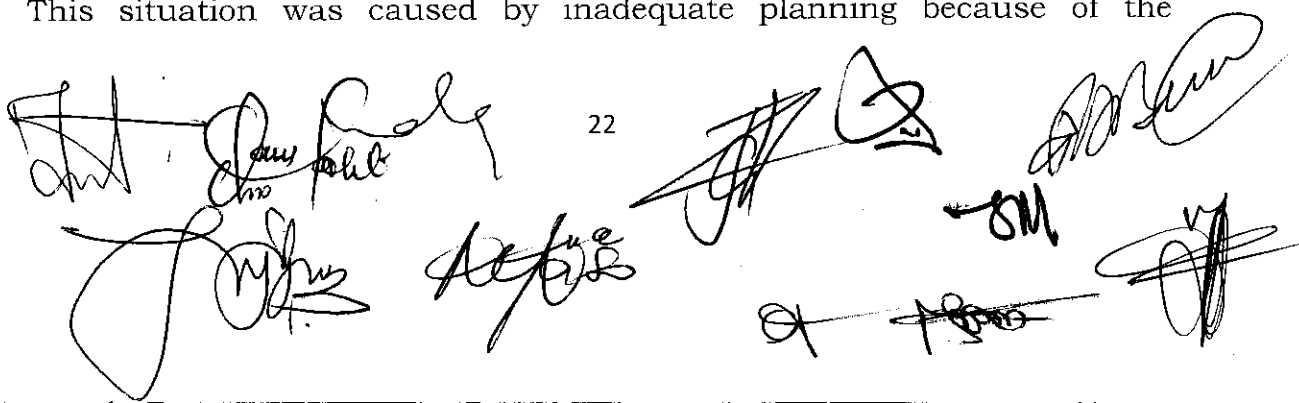
The Committee notes with disappointment the blatant abuse of the appropriation process, given that failure/delay to release funds undermines project implementation and leads to accrual of massive interest.

The Committee recommends that the Ministry of Finance strictly adheres to the Appropriation Act and releases funds to the entity in time.

4.13 Payment of Prolongation Costs – UGX 1,617,803,400

Query: Analysis of expenditure and claims raised by Contractors showed that UNRA paid UGX 1,617,803,400 to Energo Project being compensation for time extension on Kampala-Gayaza-Ziobwe Road. This expenditure was regarded as nugatory as it could have been avoided. This situation was caused by inadequate planning because of the

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incomplete designs at the time of signing the contract which led to the extension of the contract duration resulting into a claim for prolongation costs. Prolongation costs are a waste of Government resources which accelerates the costs of road construction.

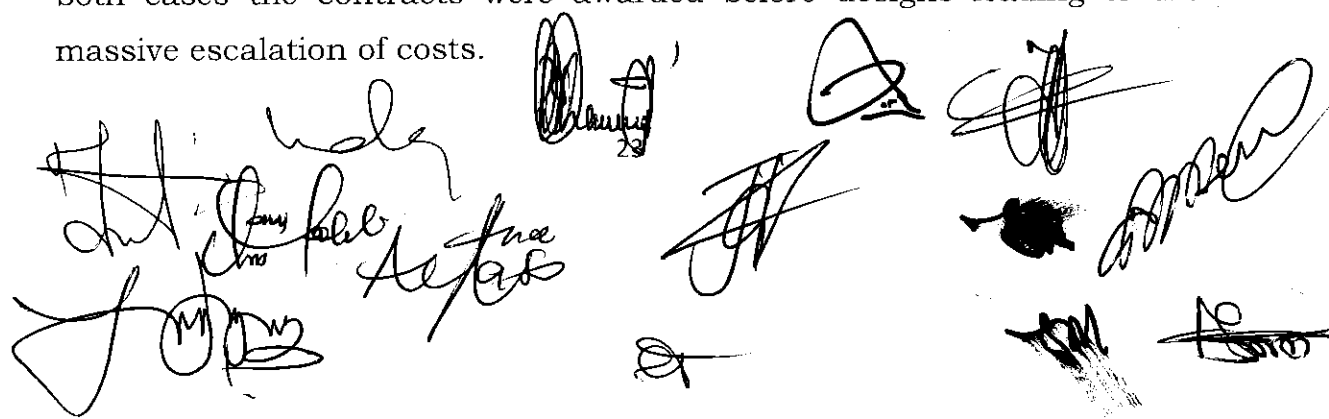
Response: The Accounting Officer explained that prolongation costs arose due to extension of time granted on the contract mainly to allow the Contractor handle the necessary additional scope on the project to accommodate unforeseen road frontage and other developments that had occurred since completion of the Kampala-Gayaza-Zirobwe design in 2002 and project commencement in 2008. The scope included changing the Kalerwe section connecting the Kampala Northern Bypass (KNBP) to Kampala City from the designed single carriageway standard to dual carriageway standard so as to accommodate traffic to/from KNBP and others.

He further added that Contracts are signed with agreed upon designs. However, changes sometimes become necessary due to delay in procurement of contracts. In some cases, the scope of works is increased to accommodate additional road sections to enhance the benefits from a particular road project.

Observation and Recommendation:

The Committee rejected the explanation of the Accounting Officer noting that the prolongation arose from signing of a contract and having the contractor mobilize without designs and subsequently staying on site without commencing works.

The Committee notes that this has become a common trend given that the same happened for Tororo-Mbale-Soroti and Jinja-Kamuli roads. In both cases the contracts were awarded before designs leading to the massive escalation of costs.



The Committee noted with suspicion that in both cases Dott Services willingly signed contracts and mobilized when the designs were non-existent.

The Committee strongly recommends that this practice of signing contracts without designs must stop.

The Accounting Officer and the Consultant should be investigated by the IGG for the massive loss of funds and that the contractor's conduct be inquired into, with a view of recovering the money.

4.14 Expenditure incurred beyond what was applied for

Query: The entity paid UGX 23,210,098,824 more than what was requested on two of its projects as indicated in the table below:

Project	Actual Expenditure	Requested Amount	Difference
Kampala-Gayaza-Ziobwe	3,185,751,990	2,000,000,000	1,231,033,460
Hoima-Kaiso-Tonya Upgrade	41,879,065,364	20,000,000,000	21,979,065,364
		Total	23,210,098,824

Response: The Accounting Officer agreed with the audit observation and acknowledged that indeed UNRA required UGX 308.98 billion to meet its commitments as at 30th June 2013. The Ministry of Finance was only able to avail 50% of the Funds required. It was difficult for UNRA management to match the payments to the accounting warrants because

there was a significant glaring gap in financing. UNRA management made the above mentioned payments because the projects were at critical stages of implementation and urgently required funds. Management notes that all payments made are as per contract and are eligible expenditure.

Observation and Recommendation:

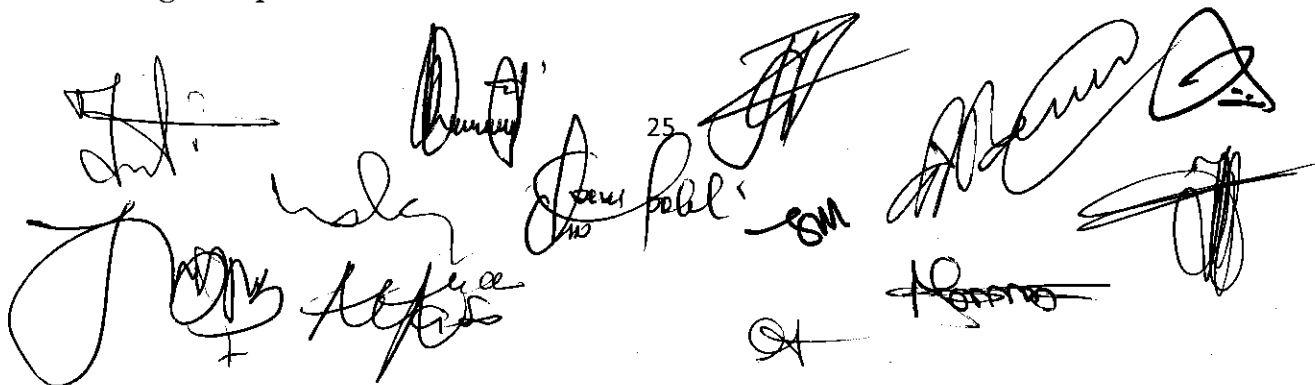
The Committee observes that this amounts to pre-financing as it was over and above the certificates. Pre-financing is usually allowed at only mobilization phase as specified in the contract. The Committee finds this payment extremely irregular moreover in the same financial year, Shs. 184bn was incurred as interest on delayed payments.

The Committee recommends that the Accounting Officer and the Project consultants be held responsible for pre-financing the said contracts.

4.15 Un-applied for Expenditure – UGX 11,578,596,573

Query: Payment to one of the Construction companies worth UGX 11,578,596,573 for Transport Corridor Nsangi-Kamengo had not been applied for in the approved supplementary. The expenditure was therefore not authorized.

Response: The Accounting Officer conceded the audit observation and stated that it is true that UNRA paid the above mentioned funds to Reynolds Construction Company (RCC). This Contractor is implementing works on the Northern Corridor, which is a key and sensitive component of the National Road Network. UNRA owed RCC and SBI UGX 140billion and both companies had threatened to stop working if they do not receive additional payment from Government. UNRA Management thought it prudent to make this additional payment to the Contractor to

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avoid the contractor stopping work on a key section of the National Road Network.

Observation and recommendation:

The Committee notes this as a case of flouting of procedure. In spite of the stated importance of the road, the Committee notes that the payment to Reynolds Construction Company (RCC) worth UGX 11,578,596,573 had not been applied for in the approved supplementary rendering the expenditure an unauthorized one and therefore irregular.

The Committee further notes that budget indiscipline as evidenced above renders the development planning function futile.

The Committee notes that the cardinal role of an Accounting Officer is to ensure adherence to laws and regulations, and strict policy implementation. In this instance, the Committee finds the conduct of the Accounting Officer totally wanting.

The Committee recommends that the Accounting Officer be held liable for contravening the Budget Act, the Public Finance and Accountability Act and the regulations there-under.

4.16 Interest on Delayed Payments – UGX 38,735,973

Query: It was noted that a payment of UGX 38,735,973 in interest was made to a construction company due to delayed payment on one of its certificates of UGX 1,512,388,615. It was explained to management that this resulted into diversion of funds that were meant for other projects.

Response: The Accounting Officer agreed to the audit observation. He stated that UNRA Management notes that when there is a delay in effecting payment for an Interim payment certificate, the provider claims interest on delayed payments as per the provisions of the contract. The delay in payment is often due to delayed release of funds and under

funding of the Road Development and Maintenance programme. Interest payment is likely to continue as long as there are shortfalls in funding or delays in release of funds.

Observation and Recommendation:

The Committee notes that the penalties accruing to delayed payments are a major budget leakage which is avoidable. There is need to tackle the root causes of delays in payments and have them addressed immediately.

The Committee recommends that the Ministry of Finance, Planning and Economic Development should commit themselves to availing funds for envisaged projects and even if funding gaps are envisaged, there is need to insert clauses in the contracts that sanitize the public purse from hemorrhage related to interest on delayed payments.

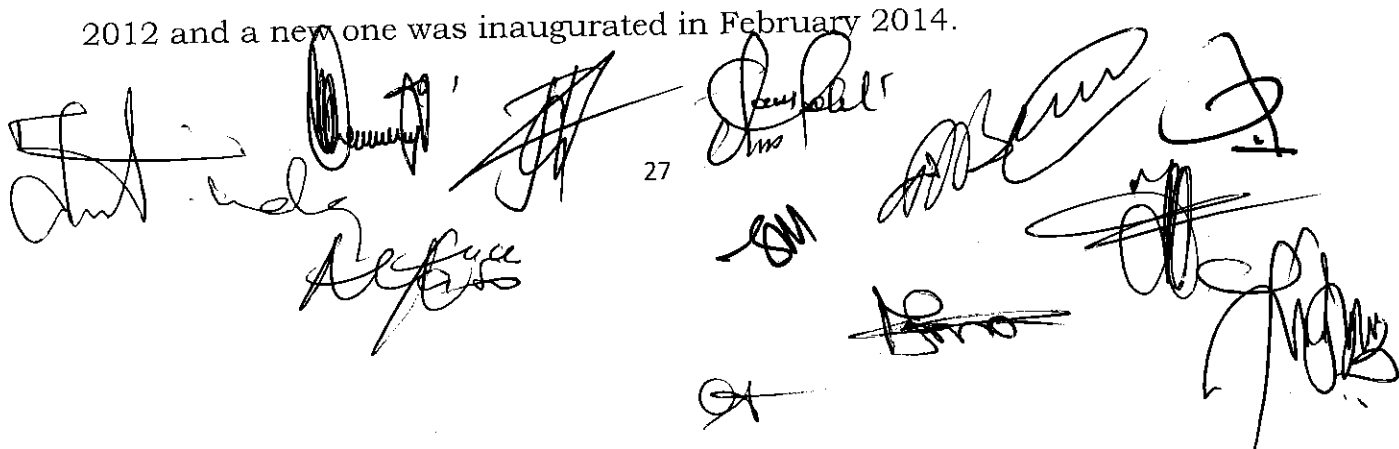
4.17 Governance Issues

i) Lack of a Board of Directors

Section 8(1) of the UNRA Act 2006 states that the Authority shall have a Board of Directors, which shall be the governing body of the Authority to oversee the operations of UNRA. However during the review, audit noted that the Authority was operating without a Board for almost 1 year which created gaps in policy formulation.

Response: The Accounting Officer conceded that at the time of audit, UNRA did not have a Board in place but that since then, the Board is fully incorporated and functioning. Board committees are also in place, which include Audit Committee, Technical, Legal and Finance and Administration. The previous Board was dissolved on the 1st November 2012 and a new one was inaugurated in February 2014.

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Observation and Recommendation:

Whereas by audit time there was no board, the Committee noted the fact that a new board had been put in place and advises that in future there should be timely renewal of keeping with good governance practices.

ii) Lack of an Approved Strategic Plan

Query: The Authority did not have a strategic plan to guide management in the operations and implementation of its activities. This means the Authority operated without medium and long term plans to facilitate the management and operations of the Authority.

Response: The Accounting Officer stated that at the time of audit, a draft Strategic Plan had been prepared and was awaiting approval by the Board. Whereas it was envisaged that this approval would be achieved by April 2014 to pave way for the formal launching of the plan, to-date this approval remains pending.

Observation and Recommendation:

The Committee notes with dismay that after six years of existence and receiving huge annual budgets, UNRA still operates without a strategic plan.

The Committee recommends therefore that UNRA immediately finalizes the adoption of a strategic plan and that subsequent approval of the UNRA budget should be pegged on the availability of an approved strategic plan.

4.18 Staffing - Vacant Posts (126 Vacancies)

Query: A review of the staffing position of the Authority revealed that out of the 1,109 approved positions, only 963 positions were filled leaving

126 positions unfilled. Audit noted that the most affected directorates include; Directorate of operations and procurement, which are key in execution of UNRA'S mandate.

Response: The Accounting Officer stated that the staffing situation has since improved from 126 to the current status of 98 vacant positions. Filling of the remaining positions cannot be undertaken due to the wage bill ceiling that has remained constant for the past five (5) years. The current restructuring exercise is expected to address the wage requirements and critical staff positions.

Observation and Recommendation:

The Committee notes that the magnitude of the works meant to be carried out at the Authority implies that any shortfall in capacity is likely to militate against the implementation of the activities and by implication impede the attainment of the Organization's objectives.

The Committee recommends that as a matter of urgency, Government should earmark funds to enlarge the wage bill and enable recruitment.

4.19 Fuel drawings in excess of fuel capacities

Query: It was noted that there were fuel drawings in huge amounts from a fuel company around Kampala. Fuel drawings were in hundreds of litres at a time and the auditor noted that vehicles owned by UNRA and run by the stations have a capacity of not more than one hundred litres. Drawing two hundred (200) litres and above creates suspicion that cash could have been drawn instead of fuel.

Response: The Accounting Officer informed the Committee that there are cases when bulk transportation of fuel is necessary. UNRA has in place

and is strengthening control measures to ensure that bulk transportation of fuel is not abused. These include:

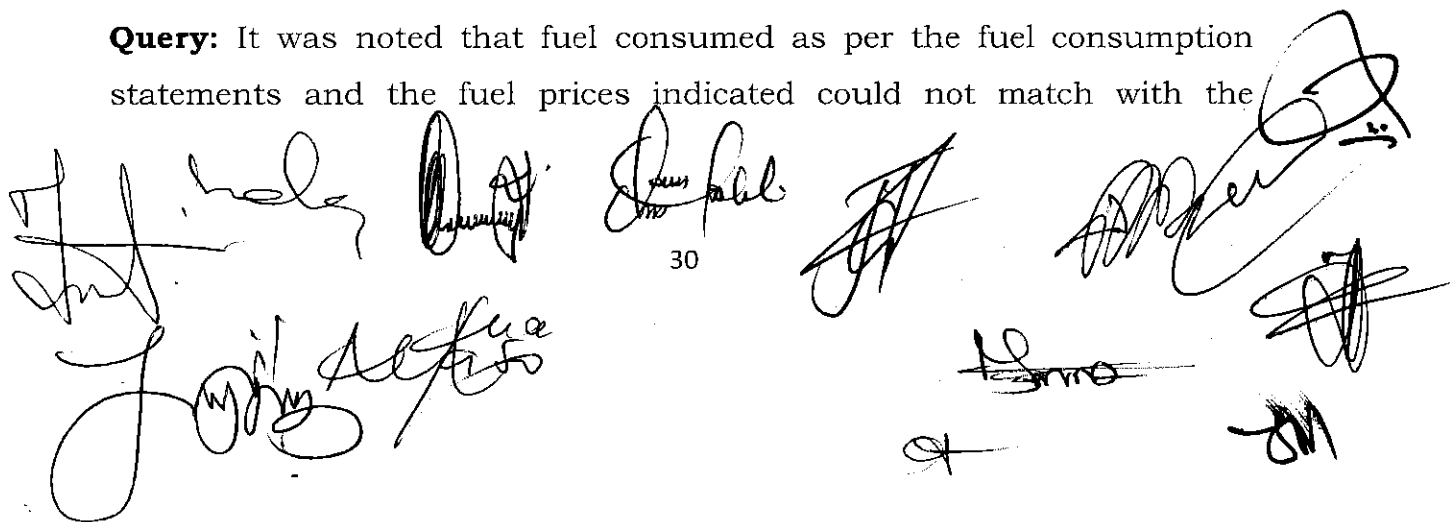
1. Procuring of metered light fuel delivery trucks for dispensing of fuel in the field to reduce on the bulk withdrawal of fuel;
2. Exploring Zoning of fuel cards to ensure they work in a specific zone;
3. UNRA has signed a contract with a provider to supply, install and operate fuel storage and dispensing facilities at its remote stations of Moyo, Kotido and Moroto, where fuel suppliers do not have adequate and reliable supply facilities;
4. In place already is a system where each vehicles has a log book in which all the fuel allocated is recorded and the journeys made signed for by the respective user. The log books are reviewed by the officer(s) responsible at stations for accountability. Besides, all fuel allocation are formally requisitioned for and approved by the station engineers; and
5. Each station submits monthly reports to headquarters of usage before any replenishment is done.

Observation and recommendation:

The Committee notes that the management of fuel if unregulated is bound to cause loss to UNRA. It is therefore recommended that UNRA strengthens internal controls on the use of fuel.

4.20 Funds over paid to a fuel company

Query: It was noted that fuel consumed as per the fuel consumption statements and the fuel prices indicated could not match with the



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amount billed and paid by UNRA. As a result, it was noted that UGX 102,500,004 was overpaid to one of the fuel companies.

Response: The Accounting Officer agreed to the query. He admitted that this was a process of overbilling by the fuel company. UNRA initiated a reconciliation process to reconcile all submitted bills to the orders issued. At the time, Shell had invoiced UNRA UGX 3.5billion which was withheld pending the reconciliation of actual amounts due.

Observation and recommendation:

The Committee notes this as an indicator of the failure of the Accounting Officer to perform reconciliation of statements with the fuel company.

The Committee recommends that the money overpaid be recovered immediately and remitted to the consolidated fund

4.21 Delayed completion of maintenance of National Roads Contracts

Query: Specific conditions of the contracts signed between UNRA and contractors specify the duration of the contracts which should be observed by both parties to ensure efficient and effective management of the works contracted. However during the review, audit noted that works on gravel roads spread over three years yet management had not taken any action to invoke the contract agreement provisions for their termination in accordance with PPDA Regulations

Response: The Accounting Officer took cognizance of the concerns of the Auditor General on delays in completion of Contracts. He however stated that, these contracts provide for procedures for sanctioning a provider for the delays. It includes full recovery of liquidated damages, after which termination procedures may be initiated but this should come as a last

resort. Given the general performance of contractors in the economy, termination has been undertaken on some providers but as a last resort.

Observation and Recommendation:

The Committee notes that delays in contract implementation leads to increased project costs associated with management, monitoring and supervision which could have been avoided if a project is completed in time.

The Committee further notes that such delays in project implementation and completion jeopardizes the realization of the Government manifesto.

The Committee therefore recommends that UNRA reviews implementation of all delayed projects with a view of taking decisive action against delayed works by contractors.

4.22 Expenditure on Training – UGX 450,236,188

Expenditure totaling to UGX 450,236,188 was paid from UNRA Stanbic bank Account for staff training. Examination of the expenditure revealed the following:

i) Lack of an approved Training and Career Development Policy

Query: UNRA Human Resource Management Manual (HRMM) requires UNRA to have an approved training and career development policy. In addition Chapter 5 (a) stipulates that the goals and objectives of the training and career development will involve ensuring that employees have knowledge, skills and attitude needed to perform the current job effectively.

During the review, it was noted that UNRA lacked an approved training and career development policy that provides a framework for managing the Authority training.

During the year; the Authority spent over UGX.2.4bn without an approved training policy. It was further noted that the present system involves individual staff sourcing for training programs from the internet without the involvement of the Human Resource Department.

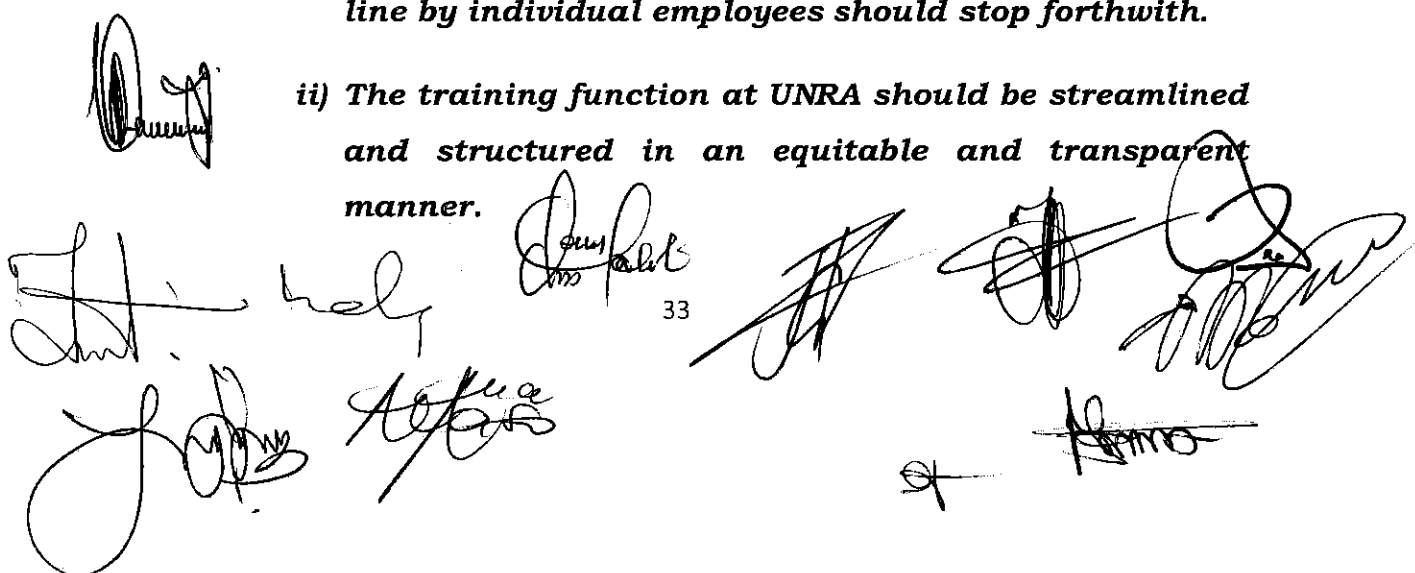
Response: The Accounting Officer informed the Committee that the training Policy was formulated by the HR Department and circulated to the different Directorates for consideration and comments. However, due to the absence of the Board of Directors for more than a year it was not finalized for approval as other activities took precedence. Despite this fact, training in UNRA has been guided by the Draft Training Policy. The recommendation will be adopted as soon as possible.

Training courses are sourced in line with training needs of individual directorates and training programmes are handled in accordance with the Training Policy.

Observation and recommendation: The Committee notes the explanation of the Accounting Officer and recommends that equity and fairness should be hallmarks of any training programme and guided by the Human Resource Development manual.

The Committee recommends that;

- i) ***the practice of sourcing for training programmes on-line by individual employees should stop forthwith.***
- ii) ***The training function at UNRA should be streamlined and structured in an equitable and transparent manner.***



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ii) Lack of an active training Committee

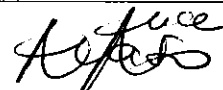
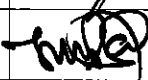
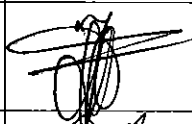
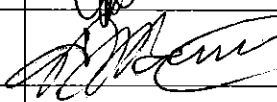
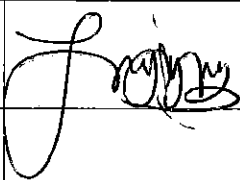
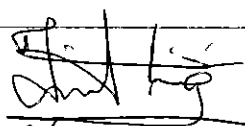

Query: Chapter 5 of the HRMM requires that a training committee be established for the purpose of administering the training policy and ensuring that guidelines are followed and enforced. The Training Committee is required to have a responsibility of maintaining equity in training and regularly reviewing the rules and regulations governing training and career development. During the year it was noted that the entity operated without an active training committee to oversee the training policy and guidelines.



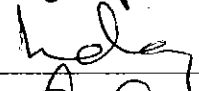

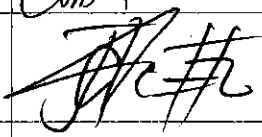
Response: The Accounting Officer explained that the training Committee was actually established and is comprised of representatives from all the Directorates. However, due to understaffing in the entire organization, the Committee members have been very busy and the Committee has not been active resulting into delays in accomplishing its activities. Management indicated that the activities of the Committee would resume with immediate effect.

Observation and Recommendation:

The Committee takes cognizance of the explanation of the Accounting Officer and recommends that the Accounting Officer follows through his undertaking of ensuring the resumption of the activities of the Committee.

**ACKNOWLEDGEMENT OF ENDORSEMENT OF THE REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE ON UNRA, 2012/13; AUGUST 2015**

NO	NAME	DESIGNATION	SIGNATURE
1.	Hon. Alaso Alice Asianut	Chairperson	
2.	Hon. Mwiru Paul	D/Chairperson	
3.	Hon. Ababiku Jesca	Member	
4.	Hon. Ajok Lucy	Member	
5.	Hon. Asupasa Isiko Wilson Mpongo	Member	
6.	Hon. Besisira Ignatius	Member	
7.	Hon. Boona Emma	Member	
8.	Hon. Byarugaba Alex Bakunda	Member	
9.	Hon. Dombo Emmanuel Lumala	Member	
10.	Hon. Egungyu Nantume Janepher	Member	
11.	Hon. Kabakumba Masiko Labwoni Princess	Member	
12.	Hon. Kabasharira Naome	Member	
13.	Hon. Kamba Saleh Moses Wilson	Member	
14.	Hon. Karuhanga Kafureeka Gerald	Member	
15.	Hon. Katwiremu Yorokamu Bategana	Member	
16.	Hon. Kibojana Margaret Namara	Member	

17.	Hon. Kwizera Eddie Wa Gahungu	Member	
18.	Hon. Lwanga Timothy Mutekanga	Member	
19.	Hon. Mugabi Muzaale Martin Kisule	Member	
20.	Hon. Musasizi Henry Ariganyira	Member	
21.	Hon. Musinguzi Yona	Member	
22.	Hon. Nakato Kyabangi Katusiime	Member	
23.	Hon. Nandala-Mafabi Nathan	Member	
24.	Hon. Ogwang Peter	Member	
25.	Hon. Okot Ogong Felix	Member	
26.	Hon. Olanya Gilbert	Member	
27.	Hon. Oleru Huda Abason	Member	
28.	Hon. Opolot Jacob Richards	Member	
29.	Hon. Ssewungu Joseph Gonzaga	Member	
30.	Hon. Theodore Ssekikubo	Member	