



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
AGRICULTURE VALUE CHAIN DEVELOPMENT PROJECT (AVCDP) PROJECT ID: P-
UG-AAZ-003 AND LOAN 2100150038645
FOR THE YEAR ENDED 30TH JUNE 2023**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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List of Acronyms

Acronym	Meaning
ADB	African Development Bank
ADF	African Development Bank
AVCDP	Agriculture Value Chain Development Project
BoU	Bank of Uganda
DA	Designated Account
DC	Development Committee
FA	Financing Agreement
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants
IFMS	Integrated Financial Management System
IPSAS	International Public Sector Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MOFPED	Ministry of Finance, Planning and Economic Development
NDP	National Development Plan
PS/ST	Permanent Secretary/ Secretary to the Treasury
UGX	Uganda Shillings
USD	United States Dollars

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P-UG-AAZ-003 AND LOAN 2100150038645
FOR THE YEAR ENDED 30TH JUNE 2023**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Agriculture Value Chain Development Project (AVCDP) Loan Number 2100150038645, which comprise the Statement of Financial Position as at 30th June 2023, Statement of Cash Receipts and Payments, Statement of Financial Position and Statement of Cash Flows, together with other accompanying statements for the year then ended, and notes to the financial statements, which have been prepared on the basis of the accounting policies set out under Note 1 to the financial statements.

In my opinion, the accompanying Financial Statements of the Agriculture Value Chain Development Project, for the year ended 30th June, 2023 are prepared in all material respects, in accordance with the basis of Accounting described under Note 1 of the financial statements, and in conformity with the terms of the Financing Agreement.

Basis for Opinion

I conducted my audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Project Management in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act (NAA) 2008, the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants, together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were the most significant in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matters described below to be key audit matters communicated in my report.

1.0 Project background

The Agriculture Value Chain Development Program is implemented by the MAAIF in 38 districts of Amolatar, Buhweju, Buikwe, Bukedea, Bulambuli, Buyende, Gomba, Gulu, Ibanda, Iganga, Isingiro, Jinja, Kabale, Kamuli, Kamwenge, Kapchorwa, Kasese, Kiboga, Kiruhura, Kiryandongo, Kyegegwa, Luwero, Lyantonde, Masindi, Mayuge, Mbale, Mbarara, Mitooma, Mityana, Mukono, Nakaseke, Nakasongola, Ntungamo, Oyam, Pader, Sironko, Sembabule and Wakiso.

The Project became effective on 18th December 2018 and was expected to end on 30th June 2023 however, I noted that there was an extension of the Project closing date to 30th June, 2025. The Project total cost is USD.76,950,000 and is funded by African Development Bank (ADB).

The overall objective of the Project is to contribute to poverty reduction and economic growth in Uganda through enhanced productivity and commercialization of agriculture. The specific project objective is to improve household incomes, food security, and climate resilience through commercial agricultural practices, sustainable natural resources management and agricultural enterprise development.

The Project targets to reach 1,816,756 beneficiaries of which 52% are women and comprising 386,544 households.

I undertook procedures to confirm if the project underwent proper project initiation and approval. I further reviewed if the project was being implemented as expected. Based on the procedures undertaken I observed the following;

1.1 Project Initiation

1.1.1 Project Concept Note

Paragraph 3.2 of the Project Development Committee Guidelines 2016 requires that all projects irrespective of the source of the Project idea shall have a concept note prepared as an entry point into the Public Investment Management System. Paragraph 3.3 states that the main objective of the concept note is to ensure that the project idea is consistent with the national development priorities as specified in the NDP and to control duplication of interventions. The guidelines also require that the concept note is submitted to the PS/ST for approval.

I noted that the project had a concept note prepared against the development committee guidelines.

Recommendation

I advised the Accounting Officer to maintain this good practice for all future projects.

1.1.2 Project profile for the project

Paragraph 3.7 of the Project Development Committee Guidelines 2016 requires that the vote shall be required to prepare a project profile for each concept note approved by the PS/ST. The objective of the profile shall be to structure the proposed project so as to set a firm foundation for monitoring and evaluation of project activities. The project structure shall also indicate the theory of change that indicates that the current problem/constraint at hand shall not re-occur. The project profile shall be undertaken by the vote and submitted to the Development Committee for approval.

I noted that a project profile was prepared by the Accounting Officer for this project before it was operationalized by the Ministry.

Recommendation

I advised the Accounting Officer to maintain this good practice for all future projects.

1.1.3 Preparation of feasibility studies

Paragraph 3.9 of the Project Development Committee Guidelines 2016 requires that in order to ensure that public resources are allocated to the most productive investments that have maximum positive impact on national welfare, all new projects shall be subjected to pre-feasibility and feasibility studies. Additionally, Paragraph 3.10 of the same guidelines states that the sponsoring agency shall undertake a pre-feasibility study for all concept notes approved to identify and appraise all alternative available interventions that can be undertaken to achieve the project objectives. Paragraph 3.13 requires that a detailed feasibility study be undertaken by the sponsoring agency for all projects whose pre-feasibility study has been approved by the DC.

I noted that a detailed feasibility study was undertaken prior to the execution of the project.

Recommendation

I advised the Accounting Officer to maintain this good practice for all future projects.

1.2 Project Implementation

1.2.1 Disbursement performance

I compared the total cumulative disbursements of Project funds as at 30th June, 2023 against the project financing agreement and the Technical Annex to the Project Appraisal Document and noted that the total cumulative disbursements to date were substantially less than expected as per the project financing agreement as shown in the table below;

Table 1: Donor funds

Details	Expected disbursement as per financing agreement (UGX)	Actual disbursement as at 30 th June 2023 (UGX)	Undisbursed funds (UGX)
Project year -4 (2022/2023)	279,313,106,574	100,785,585,972	178,527,520,602

*USD = UGX.3,662

Table 2: Counterpart funding

Details	Expected disbursement as per financing agreement (UGX)	Actual disbursement as at 30 th June 2023 (UGX)	Undisbursed funds (UGX)
Project year -4 (2022/2023)	25,066,521,353	18,947,378,985	6,119,142,368

I noted that under Article III (repayment of principal, service charge, commitment charge and interest) section 3.03 of the Loan Agreement signed on 25th October 2018, the borrower shall pay a commitment charge at a rate of one-half of one per

cent (0.50%) per annum on the undisbursed portion of the loan, which shall begin to accrue one hundred and twenty days after the date of the agreement.

I observed that by the close of the financial year 2022/2023, the project should have spent USD.76.3 Million. However, management had withdrawn a total of USD27.5 Million, resulting in unwithdrawn financing balances to the tune of USD48.8 Million.

Accordingly, the annual interest charge payable on the unwithdrawn Project funds had accumulated to USD.243,757 (UGX.892,669,822) as at 30th June, 2023.

The Accounting Officer explained that the project implementation was delayed by 18 months due to delayed approvals. In addition, the two COVID 19 lockdowns greatly affected the project operations. Disruption of international manufacturing after COVID was another factor that significantly affected project performance as suppliers could not deliver the highly sophisticated items on time. The Project had committed 64% of the loan, and was currently undertaking other procurements which would increase commitment to 90% by 30th June, 2024.

Recommendation

I advised the Accounting Officer to ensure that all the undisbursed funds are drawn by the project before project closure.

1.2.2 Cumulative achievement of project activities

I compared the cumulative performance for a sample of project activities against the cumulative targets for the current year (Year 4) to assess the extent to which project targets had been achieved over time.

I sampled forty-eight (48) activities worth UGX.208,705,576,960 and noted that targets for twelve (12) activities worth UGX.25,629,033,233 had been fully achieved, while targets for the remaining thirty-six (36) activities worth UGX.183,076,543,727 were yet to be completed. Refer to the table below;

SN	Status of Implementation	Number of Activities	Budget Amount	Actual Amount
1.	Not achieved	36	183,076,543,727	62,424,196,203
2.	Fully achieved	12	25,629,033,233	17,425,942,629
	Total	48	208,705,576,960	79,850,138,832

Appendix I gives details.

Failure to achieve project targets cumulatively affects service delivery and leads to failure to achieve overall project objectives and the Ministry Mandate.

The Accounting Officer explained that the project implementation was delayed by 18 months due to delayed approvals. In addition, the two COVID 19 lockdowns greatly affected the project operations. Disruption of international manufacturing after COVID was another factor that significantly affected project performance as suppliers could not deliver the highly sophisticated items on time. Most of the activities were ongoing and would be complete by the project end date.

Recommendation

I advised the Accounting Officer to enhance contract supervision and ensure that all outstanding project activities are completed without further delay.

1.3 Performance of the budget for the year

1.3.1 Performance of Project Receipts

The Project had an approved budget of UGX.84.02Bn for the financial year 2022/2023, out of which UGX.80.67Bn was available for spending, resulting in a shortfall of UGX.3.35Bn representing 96% performance as shown in the table below;

Source	Approved budget (UGX) Bn	Receipts (UGX) Bn	Variance (UGX) Bn	%age performance
GOU	10.27	6.92	3.35	67%
Donor Funds	73.75	73.75	0	100%
Total	84.02	80.67	3.35	96%

Due to the shortfalls in project receipts, the following activities were not implemented during the year.

SN	Activities	Amount (UGX 'BN)	The purpose for the activity
1	Procure Exotic Bulls	1.18	To enhance the availability of improved dairy and beef cattle germplasm
2	Bulk Nitrogen storage tank	0.76	For storage of liquid nitrogen used in carrying semen
3	Seed Storage Equipment	0.72	For conserving different varieties of seed/produce
4	Certified hybrid Maize Seed	0.60	Planted Seed guarantees large volume output
	Total	3.26	

Failure to implement the planned activities may lead to failure to achieve the project targeted objectives in the set timelines.

The Accounting Officer explained that the Ministry had liaised with MoFPED for release of these funds. The activities were rolled over to the 2023/24 Financial Year.

Recommendation

I advised the Accounting Officer to fast track the implementation of the rolled over activities once funds have been availed.

1.3.2 Absorption of funds

Out of the total available funds of UGX.80.67Bn, only UGX.52.91Bn was spent resulting in unspent balance of UGX.27.76Bn representing an absorption level of 66%. The unspent Project operational funds were still held on the Project accounts.

Other unspent funds were retained by the ADB while the GOU funds worth UGX.0.18Bn were swept back to the consolidated fund. Refer to the table below;

SN	Project Accounts	Account NO.	2022/23
1	AVCP USD Project Account	100088400037	3,810,073,570
2	AVCP UGX Project Account	100088000132	22,757,691
3	DDA Project Account	1100183917	137,000,554
4	NARO Project Account	105613904902	2,960,120
5	NAGRC&DB Project Account	9030005968266	48,657,671
	Total Project Account balances		4,021,449,606
6	Unspent Balances retained at ADB		23,552,929,615
7	Returned to Consolidated Fund		180,194,704
	Total Project Unspent Balances for the Year		27,754,573,925

As a result of failure to absorb all the available funds, the following Project activities were not fully implemented;

SN	Project Component	Activities	Amount (UGX) BN	Reason/Attribution
1	Production and Productivity Enhancement Component	Exotic Embryos	1.78	Contractor failed to perform as per the contract
2		HPLC machine and Accessories	0.41	Delays in delivery by supplier
3		Procure Pasture seed for farmers to increase production and productivity in the project area	0.36	Delays in the procurement process
4		Seed certification manuals and protocols for maize and rice	0.27	Delays in the procurement process
5		Construction of Phyto-sanitary Labs	3.12	Delays in the procurement process
6		Construction of Semen Lab Entebbe	0.83	Delays in the procurement process
7	Infrastructure Development Component	Assorted heavy equipment for Acomai Irrigation Scheme	3.40	Delays in the procurement process; contracts yet to be signed with suppliers
8	Market Development and Trade Facilitation Component	Equipment for the National metrology lab at UNBS	4.80	Delays in the procurement process; contracts signed
9		Milk collection Centre Nakasongola	1.50	Delays in the procurement process; contracts signed
	Total		16.47	

As a result of failure to absorb funds:

- Breeder farmers under NAGRC & DB missed out on 894 exotic embryos (298 Jersey, 298 Brown Swiss and 298 Ayrshire)
- Delays in delivery of heavy equipment for Acomai Irrigation Scheme and National meteorology laboratory at UNBS were noted resulting in delayed service delivery.
- There was delayed completion of Phyto-sanitary Laboratories at Namalere, Semen laboratory in Entebbe and milk collection centre in Nakasongola leading to delays in achieving service delivery.

The Accounting Officer explained that the ministry had rolled over activities to the 2023/24 financial year. In addition, the ministry had fast tracked procurement in order to increase commitment to 90% by 30th June 2024.

Recommendation

I advised the Accounting Officer to enhance contract supervision and monitoring of all ongoing projects to avoid further delays and in future ensure that procurement processes for planned activities are undertaken in a timely manner.

1.4 Delivery of services from implemented activities

I undertook procedures to establish if project activities were undertaken in a timely manner and were of expected quality and quantity. I also verified the reasonableness of the costs of these activities and functionality in regard to completed works. Below is a summary of my observations, details of which have been provided as **Appendix II**.

Table showing extent of service delivery from implemented activities

No	Activity inspected	Expenditure UGX '000	Summary of findings	Conclusion regarding service delivery-	Management Response
1.	Construction of Acomai Irrigation Scheme and Associated Facilities in Bukedea and Bulambuli Districts	15,006,158	<ul style="list-style-type: none"> As of October 2023 Progress stood at 52% completion. Contractor attributed the slow progress to adverse weather conditions especially hindering earthworks. The audit noted a number of incomplete works including main canals (4.1Kms), secondary canals (28Kms), tertiary canals, secondary drains, tertiary drains, flood protection works, irrigation infrastructure, and scheme buildings such as warehouses and facilities among others. Management has not undertaken the Environmental and social Impact Assessment (ESIA) for the auxiliary facilities (camp and batching plant). 	<ul style="list-style-type: none"> Delayed completion of the scheme leads to delays in achieving Project Objectives. Failure to undertake ESIA limits management's ability to assess responsiveness and mitigate liabilities due to non-compliance with legal requirements. 	The delays were caused by Government imposed restrictions aimed at controlling COVID 19. Project Coordination Unit was greatly affected. URA requires clearance before a contractor can be exempted when acquiring goods and services for implementation of aid funded projects, which caused delays.

No	Activity inspected	Expenditure UGX '000	Summary of findings	Conclusion regarding service delivery-	Management Response
2.	Construction of national Metrology Lab at UNBS	3,694,169	<ul style="list-style-type: none"> Physical works completed were estimated at 95% (monthly progress reports) by June 2023, awaiting the delivery of the chiller to handover site. Although the laboratory is substantially complete, it is not operational due to lack of laboratory equipment. I noted that whereas the procurement for this equipment was initiated on 22/3/2022 the contract was signed 505 days later on 9/8/2023 with expected delivery within 6 months. 	<ul style="list-style-type: none"> The non-functionality of the laboratory due to lack of equipment implies that the anticipated service is yet to be achieved. 	The procurement involved upgrading highly sophisticated equipment as well as procuring new equipment. The selection of equipment for upgrading the lab has been slow due to the required multi-national stakeholder engagements to ensure international accreditation of the lab once completed.
3.	Construction and Renovation works for Milk Collection Centre in Nakasongola	0	<ul style="list-style-type: none"> Contract worth UGX.1,533,156,228 signed on 26/09/2023, Site handed over to contractor on 18/10/2023 and commencement of works on 01/11/2023 I noted that works had just commenced with the contractor on site. I noted significant delays in procurement process for the contractor which led to delays in implementation of the construction works. 	<ul style="list-style-type: none"> The delayed procurement and commencement of construction works implies that anticipated service is also delayed. 	There was delay in confirmation land ownership by the Nakasongola district. The site was handed over on 18/10/2023, and works are ongoing and expected by July 2024.
4.	Construction of Phytosanitary laboratories in Namalere (Summit Projekt Ltd)	0	<ul style="list-style-type: none"> Contract worth UGX.3,108,146,500 signed on 26/09/2023, Site handed over to contractor on 20/10/2023 however contractor is yet to commence works on site. (I noted that works were yet to commence on site). I also noted significant delays in 	<ul style="list-style-type: none"> The delayed procurement and commencement of construction works implies that anticipated service is yet to be achieved and therefore delayed 	<ul style="list-style-type: none"> Confirmation of Namalere land ownership and boundary opening issues took long to complete. In addition, the phyto-sanitary laboratories are sophisticated.

No	Activity inspected	Expenditure UGX '000	Summary of findings	Conclusion regarding service delivery-	Management Response
			procurement process for the contractor which led to delays in implementation of the construction works.		Selection of the contractor required a careful process to get the right contractor to ensure international accreditation after construction.
5.	Supply of HPLC and Accessories.	407,063	<ul style="list-style-type: none"> Equipment delivered in March 2023 and installation undertaken six months later on 19/09/2023. I noted that the equipment is meant to be used for analysing active ingredients in most common pesticides such as Cypermethrin, Profenofos among others. However, the starter pack used for training the beneficiary users contained caffeine which is not an active ingredient in pesticides. Interview with users revealed that the training in usage was insufficient given the lack of hands on training and the need to consider training with active ingredients in pesticides implying a need to undertake further training and obtain sufficient consumables so as to effectively use the equipment. 	<ul style="list-style-type: none"> Failure to undertake a comprehensive training using the required active ingredients implies that the equipment is yet to serve its intended purpose and the anticipated service is yet to be achieved. 	The initial installation was done in April 2023 but for its completion, the supplier needed extra software from the manufacturer of the equipment who at one point was unwilling to provide it because the dealership for the same equipment had been given to another dealer during the contract period.
6.	Construction of Semen Lab – Entebbe	0	<ul style="list-style-type: none"> Contract worth UGX.829,124,700 signed on 26/09/2023, Site handed over to 	<ul style="list-style-type: none"> The delayed procurement and commencement of construction 	The semen laboratories are sophisticated. Selection of the contractor

No	Activity inspected	Expenditure UGX '000	Summary of findings	Conclusion regarding service delivery-	Management Response
			<p>contractor on 21/10/2023 and commencement of works on 29/10/2023</p> <ul style="list-style-type: none"> I noted that works had just commenced with the contractor on site. I noted significant delays in procurement process for the contractor which led to delays in implementation of the construction works. 	works implies that anticipated service is yet to be achieved and therefore delayed	required a careful process to get the right contractor to ensure international accreditation after construction.
7.	Supply and Delivery of Exotic Bulls	1,178,000	<ul style="list-style-type: none"> Contract for supply of 25 exotic Bulls worth UGX.1,179,999,983 was signed on 06/12/2022; Delivery made on 29/06/2023 – late by 3 months Brazil bulls (Boran) were not delivered because of a ban on export in Brazil and restrictions on exportation/importation of live animals in transit countries. I noted that 22 exotic bulls were delivered. Interview with management revealed that the bulls arrived in good health and showed no signs of unhealthy features. I noted that most of the bulls are still under training phase with only one bull (Ayrshire) with which semen has been collected. 	<ul style="list-style-type: none"> The delays in delivery by the supplier led to delays in achieving the anticipated service from the exotic bulls 	The 3 months' delay was due to pre-delivery inspection by the MAAIF & NAGRC team that took place in April 2023, which covered physical and clinical checks, breed purity, pedigree performance, and herd health including vaccination history. Additionally, the bulls were subjected to pre and post-quarantine of one month. Tests for mandatory diseases are taken and run for particular tests.

Delayed implementation of planned activities affects service delivery.

Recommendation

I advised the Accounting Officer to enhance the supervision and monitoring of the implementation of the ongoing activities to avoid further delays.

Other Information

Management is responsible for the other information. The other information comprises the Project Information, the Project Management report, the statement of management responsibilities and other supplementary information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Management Responsibility for the Financial Statements

The Project Management is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, and the International Public Sector Accounting Standards (IPSAS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the project's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Agriculture Value Chain Development Project and using the Project Funding Guidelines, unless management has a realistic alternative to the contrary.

Management is responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the project's ability to deliver its mandate. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Project to fail to deliver its mandate.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act (NAA), 2008, I report to you, based on my work described on the audit of Financial Statements, that; except for the matters raised in compliance with the legislation section below, and whose effect has been considered in forming my opinion on financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

Report on the Audit of Compliance with Legislation

In accordance with Section 19 of the NAA 2008, I have a responsibility to report material findings on the compliance of the Project Management with specific matters in key legislations. I performed procedures primarily to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

2.0 Significant delays in the procurement process

Standard bidding documents for procurement of supplies/Works provide for timelines within which a PDE would undertake a procurement, stating the publishing (advertising) date, bid closing date and expected contract signature date. Bid documents issued by management during the years set timelines from bid publishing to contract signing for the various procurements.

I observed that the Project has an average planned duration of 120 days (4 months) for undertaking procurements. However, four procurements worth 14.4Bn were undertaken for an average of 505 days (17 months) each.

In another instance, I noted failure to conclude a procurement 600 days (20 months) since initiation of the procurement, which significantly affected service delivery. **Appendix III** refers.

The delays were attributed to the large volume of activities implemented by the contracts committee at the Ministry and the expiry of the efficient delegated contracts committee, which lead to bureaucracy in implementing the procurement activities for the project.

Delayed procurements affect service delivery and lead to extension of project timelines, which comes with unnecessary additional costs.

The Accounting Officer explained that the exercise of confirmation of land ownership and boundary opening took long to get completed. In addition, since laboratories are highly sophisticated, selection of the contractor required a careful selection process for the rightful contractor to ensure international accreditation after its construction.

Recommendation

I advised the Accounting Officer to expedite the execution of these contracts so that the anticipated deliverables are achieved before the project closure.



John F.S. Muwanga
AUDITOR GENERAL
20th December, 2023

**REPORT OF THE AUDITOR GENERAL ON THE DESIGNATED ACCOUNTS
OPERATIONS OF THE AGRICULTURE VALUE CHAIN DEVELOPMENT PROJECT
(AVCDP) PROJECT ID: P-UG-AAZ-003 AND LOAN 2100150038645
FOR THE YEAR ENDED 30TH JUNE 2023**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the Designated Account Statements of the Agriculture Value Chain Development Project (AVCDP) Project ID: P-UG-AAZ-003 and Loan 2100150038645 for the year ended 30th June 2023 which is set out on page 28 of the financial statements.

In my opinion, Project Management complied in all material respects, with the African Development Bank (ADB) rules and procedures and the Designated Account Statements for the Agriculture Value Chain Development Project, Project ID: P-UG-AAZ-003 and Loan 2100150038645 present fairly in all material respects, the accounts transactions and the closing balances as at 30th June 2023.

Management Responsibility for the Designated Account Statements

Project management is responsible for the preparation of the designated account statements and their fair presentation in accordance with the requirements for the Government of Uganda regulations, and ADB loan guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the designated account statements that are free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the designated account statements based on my audit. I conducted my audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) and ADB guidelines on auditing. Those standards and the financing guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the designated account statements are free from material misstatement.

I believe that the audit evidence I have obtained provides a reasonable basis for my opinion.



John F. S. Muwanga
AUDITOR GENERAL
Kampala

20th December, 2023

Appendices

Appendix I: Cumulative achievement of project activities **Activities yet to be achieved**

SN	Activity	Performance indicator	Cumulative Target by 30th June 2023 (Y1, Y2, Y3, Y4)	Cumulative Actual performance by 30th June 2023	Variance	%age Performance	Audit Comment	Cause of under performance	Effect on service delivery	Budget Amount UGX (000)
1	Laboratory consumables for on year	Assorted Items	1		1	0%	Not achieved	No bids were received when advert was submitted. The adverts have been re-submitted for bidding.	Delays in service delivery	187,500
2	Rehabilitation of NSCS HQ at Namalere	Buildings	4	-	4	0%	Not achieved	Delays in procurement process; Contract has been signed and works are ongoing.	Delays in service delivery	3,386,295
3	Rehabilitation of semen laboratory	Laboratory	1	-	1	0%	Not achieved	Delays in procurement process; Contract has been signed and works are ongoing.	Delays in service delivery	840,329
4	Semen (doses) for improved breeds	Number of sexed semen doses procured	5,000	4,686	314	94%	Not achieved		Delays in service delivery	757,992
5	Sexed Embryos procured	Number of Sexed Embryos procured	864	-	864	0%	Not achieved	Supplier failed to meet contractual obligations	Delays in service delivery	1,843,875
6	Assorted equipment and associated consumables for AI and synchronisation of hormones	Number of units of equipment	1,000		1,000	0%	Not achieved	delays in procurement process	Delays in service delivery	4,875,000

SN	Activity	Performance indicator	Cumulative Target by 30th June 2023 (Y1, Y2, Y3, Y4)	Cumulative Actual performance by 30th June 2023	Variance	%age Performance	Audit Comment	Cause of under performance	Effect on service delivery	Budget Amount UGX (000)
7	Support to NAGRC activities	Under take synchronisation and artificial insemination of selected herds	6,000	4,894	1,106	82%	Not achieved	delays in procurement process	Delays in service delivery	750,000
8	Stock farms with exotic bulls	Number of exotic bulls procured	25	22	3	88%	Not achieved	Brazilian Boran bulls were not delivered because of a ban on export in Brazil and restrictions on exportation of live animals in transit countries.	Delays in service delivery	1,215,659
9	Construction of 2 zonal animal disease control centres	Number of Zonal animal disease control centres constructed	2	1	1	50%	Not achieved	delays in procurement process	Delays in service delivery	10,875,000
10	Tsetse fly traps	Number of tse tse fly traps procured	4,500	4,000	500	89%	Not achieved	delays in procurement process	Delays in service delivery	227,549
11	Insecticide for Tsetse suppression- Livestock	Quantity of Deltamethrin 1% pour-on insecticide procured in litres	11,000	9,820	1,180	89%	Not achieved	delays in procurement process	Delays in service delivery	2,351,596
12	Fertiliser for Pasture	Quantity of pasture fertilizer procured in metric tonnes	582	306	276	53%	Not achieved	delays in procurement process	Delays in service delivery	1,076,411
13	Improved Pasture Seed	Quantity of Pasture seed procured (MT)	78	38	40	49%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	2,036,655
14	Fertiliser for Maize	Quantity Fertiliser for Maize in metric	8,893	3,566	5,327	40%	Not achieved	Delays in Procurement process; Contract was	Delays in service	14,979,566

SN	Activity	Performance indicator	Cumulative Target by 30th June 2023 (Y1, Y2, Y3, Y4)	Cumulative Actual performance by 30th June 2023	Variance	%age Performance	Audit Comment	Cause of under performance	Effect on service delivery	Budget Amount UGX (000)
		tonnes						awarded and delivery is on going to 15 districts.	delivery	
15	Fertiliser for Rice	Quantity of Fertiliser for Rice procured	2,545	270	2,275	11%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	6,479,418
16	Pesticide	Quantity of Pesticide procured in Litres	45,000	6,500	38,500	14%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	970,865
17	Assorted Seed Storage equipment	Quantity of Assorted Seed Storage equipment procured	1	-	1	0%	Not achieved	delays in procurement process	Delays in service delivery	769,350
18	Production of foundation and breeder seed	Quantity of Production of breeder seed produced in metric tonnes	60	4	56	7%	Not achieved		Delays in service delivery	1,318,145
19	Certified Rice Seed	Quantity of Certified Rice Seed in metric tonnes	1,051	870	181	83%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	3,878,033
20	Construction of access road	Kilometres of access roads constructed	20	11	9	53%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	3,958,723
21	Construction of Achomai Irrigation Scheme	Acres of scheme constructed	1,608	852	756	53%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	56,565,073
22	Construction of administrative	No. of administrative	1	1	0	53%	Not achieved	Delays in Procurement process; Contract was	Delays in service	4,067,813



SN	Activity	Performance indicator	Cumulative Target by 30th June 2023 (Y1, Y2, Y3, Y4)	Cumulative Actual performance by 30th June 2023	Variance	%age Performance	Audit Comment	Cause of under performance	Effect on service delivery	Budget Amount UGX (000)
	building (office, and training/ workshop facilities)	blocks constructed						awarded and delivery is on going to 15 districts.	delivery	
23	Construction of bridge	No. of bridges constructed	1	1	0	53%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	6,511,263
24	Construction of storage facility (Dry yard, storage and grain store)	No. of storage facilities constructed	1	1	0	53%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	714,158
25	Livestock watering	No. of livestock watering points constructed	10	5	5	53%	Not achieved	Delays in Procurement process; Contract was awarded and delivery is on going to 15 districts.	Delays in service delivery	51,069
26	Small scale demo irrigation technologies/infrastructure	Number of mini irrigation schemes constructed	6	5	1	83%	Not achieved	delays in procurement process	Delays in service delivery	4,762,767
27	Consulting supervision services for civil works	no of consultancy firms recruited	4	3	1	75%	Not achieved	delays in procurement process	Delays in service delivery	6,961,500
28	Backhoe	No. of Backhoe's procured	1	-	1	0%	Not achieved	Delays in procurement process; Evaluation report for sent to the Bank for no objection	Delays in service delivery	600,000
29	Tractor	No. of Tractor's procured	4	-	4	0%	Not achieved	Delays in procurement process; Evaluation report for sent to the Bank for no objection	Delays in service delivery	750,000
30	Truck	No. of Truck's procured	4	-	4	0%	Not achieved	Delays in procurement process; Evaluation report for sent to the	Delays in service delivery	1,200,000





SN	Activity	Performance indicator	Cumulative Target by 30th June 2023 (Y1, Y2, Y3, Y4)	Cumulative Actual performance by 30th June 2023	Variance	%age Performance	Audit Comment	Cause of under performance	Effect on service delivery	Budget Amount UGX (000)
								Bank for no objection		
31	Integrated Soil and Water Conservation	% change in tree cover (ha) in selected catchments	1,000	-	1,000	0%	Not achieved	delays in procurement process	Delays in service delivery	375,000
32	Mobilization and Planning	No. of plan developed	1		1	0%	Not achieved	delays in procurement process	Delays in service delivery	303,750
33	Mobile laboratory for DDA	Number of Mobile laboratories procured	2	-	2	0%	Not achieved	Delivery rejected due to not meeting specifications, new procurement has been initiated.	Delays in service delivery	912,162
34	Rehabilitate and equip 2 existing milk collection centers with coolers and generators	Milk Collection centres rehabilitated, equipped and functional	2	-	2	0%	Not achieved	Contract for one site was awarded.	Delays in service delivery	1,553,875
35	Equipment for UNBS Laboratory	No of assorted lab equipment procured	1		1	0%	Not achieved	Delays in procurement; delivery for the first batch is On-going	Delays in service delivery	10,500,000
36	Recruit and operate a value chain governance service platform (business service provider)	No. of farmers	605,000	536,000	69,000	89%	Not achieved	Delays in procurement; Service delivery is ongoing (BDS contracted)	Delays in service delivery	24,470,153
	Total									183,076,544

Activities Achieved





SN	Activity	Performance indicator	Cumulative Target by 30th June 2023 (Y1, Y2, Y3, Y4)	Cumulative Actual performance by 30th June 2023	Variance	%age Performance	Audit Comment	Budget Amount
1	HPLC Machine and accessories	No. of HPLC Machines Procured	1	1	-	100%	Fully achieved	412,563,579
2	Laboratory equipment	Assorted Equipment	1,155	1,155	-	100%	Fully achieved	1,343,020,097
3	1 pickup to support the semen cold chain	Number of pick ups procured	1	1	-	100%	Fully achieved	158,452,067
4	Hormones and Associated equipment	Number of hormones procured	5,018	5,018	-	100%	Fully achieved	1,432,828,110
5	Solar systems to support the semen cold chain - Bulk liquid nitrogen storage tanks	Number of Nitrogen tanks procured	6	6	-	100%	Fully achieved	970,426,897
6	Freezers of 3 cubic meter capacity for supporting the vaccine cold chain	No. of Freezers	29	29	-	100%	Fully achieved	134,297,775
7	Ice boxes for supporting the vaccine cold chain(5 per district)	Number of Items or supporting the vaccine cold chain procured	895	895	-	100%	Fully achieved	309,375,000
8	Certified OPV Maize seed	Quantity of Certified OPV Maize seed procured in metric tonnes	1,053	1,252	199	119%	Fully achieved	1,739,929,381
9	Design building infrastructure	no of consultancy firms recruited	4	4	-	100%	Fully achieved	1,317,542,230
10	Procurement of HPLC(150,000\$), CHAM-II immono-assay equipment (100,000) /d	No. of HPLC and charm II procured	2	2	-	100%	Fully achieved	796,864,613
11	Construction of UNBS Laboratory building	Laboratory	1	1	-	100%	Fully achieved	15,944,908,485
12	Consulting services for supervision for construction	No. of Design and supervision consultancy	1	1	-	100%	Fully achieved	1,068,825,000
				Total				25,629,033,233

Appendix II: Extent of service delivery from implemented activities/ summary of inspections

No	Activity inspected	Expenditure UGX '000	Summary of findings	Pictorial evidence from Inspections	
1.	Construction of Acomai Irrigation Scheme and Associated Facilities in Bukedea and Bulambuli Districts	15,006,158	<ul style="list-style-type: none"> • Overall delays in contract implementation. Contract signed on 20/5/2021 for 24 months. However, contract extended to 31st July 2024. As of October 2023 it stood at 52% completion. Contractor attributed the slow progress to adverse weather conditions especially hindering earth works –the Elgon region was reportedly affected by flush floods in July, August and September 2022. • Significant delays in payment processes were also highlighted which affected timely acquisition of construction materials. • Audit thus noted a number of incomplete works including main canals (4.1Kms), secondary canals (28Kms), tertiary canals, secondary drains, tertiary drains, flood protection works, irrigation infrastructure, scheme buildings such as warehouses and facilities among others. • I noted that Catchment Management activities are yet to be undertaken along the irrigation scheme to be assured of adequate and quality water to sustain the project. • Management has not undertaken the Environmental and social Impact Assessment (ESIA) for the auxiliary facilities (camp and batching plant) implying failure to enhance environmental and social responsiveness of the project and hence its sustainability as well as mitigating liabilities due to non-compliance with the policy and legal requirements. 	 <p data-bbox="1072 967 1406 991">Bridge piers under construction</p>	 <p data-bbox="1568 967 1989 991">Construction of the warehouse ongoing</p>

No	Activity inspected	Expenditure UGX '000	Summary of findings	Pictorial evidence from Inspections	
2.	Construction of national Metrology Lab at UNBS	3,694,169	<ul style="list-style-type: none"> Initial 18month contract expired on 24/5/2022 and an extension was granted for 6 months up to 24/11/2022 however, physical works completed were estimated at 95% (monthly progress reports) by June 2023 awaiting the delivery of the chiller to handover site. Pending works included completion of the Air Conditioning system and minor electrical works. Contractor attributed delays in progress to the long delivery periods of major Mechanical and Electrical installations given that these were imported and cash flow challenges caused by substantial delays in payment of works certificates by Project Management. Although the laboratory is substantially complete, it is not operational due to lack of laboratory equipment. I noted that whereas the procurement for this equipment was initiated on 22/3/2022 the contract was signed 505 days later on 9/8/2023 with expected delivery within 6months. 	 <p>Section of the AC installation –on going works</p>	 <p>UNBS Lab progress at 95%</p>
3.	Construction and Renovation works for Milk Collection Centre in Nakasongola	0	<ul style="list-style-type: none"> Contract worth UGX 1,533,156,228 signed on 26/09/2023 Site handed over to contractor on 18/10/2023 and commencement of works on 01/11/2023 I noted that works had just commenced with the contractor on site. I noted significant delays in procurement process for the contractor which led to delays in implementation of the construction works. The contractor on site highlighted challenges of delays in undertaking boundary opening which affected the timely implementation of works. 	 <p>Construction works on going – set up</p>	 <p>Construction works on going – leveling ground</p>

No	Activity inspected	Expenditure UGX '000	Summary of findings	Pictorial evidence from Inspections	
4.	Construction of Phytosanitary laboratories in Namalere	0	<ul style="list-style-type: none"> Contract worth UGX 3,108,146,500 signed on 26/09/2023 Site handed over to contractor on 20/10/2023 however contractor is yet to commence works on site. I noted that works were yet to commence on site. I also noted significant delays in procurement process for the contractor which led to delays in implementation of the construction works. 	 <p>Pending works on crop regulation laboratories – contractor not on site</p>	 <p>Pending works on crop regulation laboratories – contractor not on site</p>
5.	Supply of HPLC and Accessories	407,063	<ul style="list-style-type: none"> Contract for supply, installation and commissioning of High Performance Liquid Chromatography (HPLC) with detectors worth UGX 407,062,731 signed on 25/10/2022 Equipment delivered in March 2023 and installation undertaken six months later on 19/09/2023. I noted that the equipment is meant to be used for analyzing active ingredients in most common pesticides such as Cypermethrin, Profenofos among others. However, the starter pack used for training the beneficiary users contained caffeine which is not an active ingredient in pesticides. Interview with users revealed that the training in usage was insufficient given the lack of hands on training and the need to consider training with active ingredients in pesticides implying a need to undertake further training and obtain sufficient consumables so as to effectively use the equipment. 		

No	Activity inspected	Expenditure UGX '000	Summary of findings	Pictorial evidence from Inspections	
6.	Construction of Semen Lab – Entebbe	0	<ul style="list-style-type: none"> Contract worth UGX 829,124,700 signed on 26/09/2023 Site handed over to contractor on 21/10/2023 and commencement of works on 29/10/2023 I noted that works had just commenced with the contractor on site. I noted significant delays in procurement process for the contractor which led to delays in implementation of the construction works. 		
7.	Supply and Delivery of Exotic Bulls	1,178,000	<ul style="list-style-type: none"> Contract for supply of 25 exotic Bulls worth UGX 1,179,999,983 was signed on 06/12/2022 Delivery made on 29/06/2023 – late by 3 months Brazilian Boran bulls were not delivered because of a ban on export in Brazil and restrictions on exportation of live animals in transit countries. I noted that 22 exotic bulls were delivered. Interview with management revealed that the bulls arrived in good health and showed no signs of unhealthy features. I noted that most of the bulls are still under training phase with only one bull (Ayrshire) with which semen has been collected. 		 Ayrshire bull – semen collected

Appendix III: Significant delays in the procurement process

No	Subject of procurement	Amount ('Bn')	Date of initiation	Actual contract signature Date	Actual procurement process period (days taken)	Delayed days	Management Response
1	Construction and renovation Works for Semen Laboratory in Entebbe, Milk Collection Centre in Nakasongola	5.47	21/12/2022	26/09/2023	279	164	Confirmation of land ownership and boundary opening issues took long to complete. In addition, the laboratories are highly sophisticated. Selection of the contractor required careful process to get the right contractor, to ensure international accreditation after construction. The Sites were handled over on 20/10/2023, and the works are ongoing.
2	Consultancy for Development of Water Source Protection plan	0.37	14/02/2022	11/11/2023	635	395	
3	Supply and Installation of Equipment for UNBS Lab	4.80	22/03/2022	09/08/2023	505	385	The procurement involved upgrading highly sophisticated equipment as well as procuring new equipment. The selection of equipment for upgrading the lab has been slow due to the required multi- national stakeholder engagements to ensure international accreditation of the lab once completed.
4	Supply of Motor vehicles for Research and technology uptake and Acomai Irrigation Scheme	3.40	14/03/2022	Yet to sign contracts	600 days by 15/11/2023	Still pending	Procurement was delayed by a complaint from one of the bidders which led to administration review.
Total		14.04		Average	505days		