OFFICE OF THE AUDITOR GENERAL

THE REPUBLIC OF UGANDA

ANNUAL REPORT OF THE AUDITOR GENERAL

FOR THE YEAR ENDED 30TH JUNE, 2007

VOLUME 4

STATUTORY CORPORATIONS

TABLE OF CONTENTS

1.0 <u>INTRODUCTION/MANDATE</u>

The 1995 Constitution of the Republic of Uganda under Article 163 (3) and Section 36 of the Public Finance and Accountability Act 2003 and the Local Government Act 1997 and other various Acts of Parliament establishing Commissions and State Corporations require the Auditor General to examine and audit the various accounts on behalf of Parliament and submit annually a report to Parliament on the financial as well as value for money audits.

The Constitutional provisions are as follows: -

<u>Article 163 (3)</u> The Auditor General shall –

(a) Audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of like nature, and any public corporation or other bodies or organizations established by an Act of Parliament; and

(b) Conduct Financial and value for money audits in respect of any project involving public funds.

<u>Article 163 (4)</u> The Auditor General shall submit to Parliament annually a report of the accounts audited by him or her or under clause (3) of this article for the financial year immediately preceding.

2.0 <u>SCOPE OF AUDITOR GENERAL'S WORK</u>

<u>Audit</u>

The scope of the auditor generals work when conducting financial audits is to audit and report to parliament by expressing an independent opinion as to whether or not the financial statements, in all material respects, fairly present the results of operations of the entity here in referred to as the ***statutory***

corporations, authorities and commissions in accordance with International Financial Reporting Standards and in the manner required by the various Acts and Statutes establishing these entities as well as the compliance with relevant laws and regulations applicable to financial matters.

An opinion will also be expressed as to whether or not anything came to the Auditors' attention that causes him/her to believe that material errors and non-compliance with laws and regulations, applicable to financial matters, had occurred.

Directors' Responsibility For The Financial Statements

The Directors' of the entities audited are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs and operating results of their entities in accordance with International Financial Reporting Standards and the various Acts and Statutes establishing them.

Their responsibility also includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements ***that are free from material misstatement, whether due to fraud or error,*** selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in their circumstances.

Auditor's Responsibility When Conducting An Audit

The responsibility of the Auditor is to express an independent opinion on the financial statements based on the audit. The auditor conducts the audits in accordance with International Standards on Auditing. These standards require that ethical requirements are complied with and the audit is planned and performed to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

The audit also includes obtaining sufficient and appropriate evidence supporting the amounts and disclosures in the financial statements to provide a basis for making an opinion. The audit procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

Representations By Management

As part of normal audit procedures, the auditor will where necessary request management of audited entities to provide written confirmation of oral representations that have been received from management during the course of our audit.

After conducting audits based on the scope of the auditor's responsibility stated above, the auditor shall ***report to management in writing***, any significant weaknesses based on observations on, the internal control structure and other areas that come to their notice which they consider should be brought to management's attention by way of a ***Management letter***

3.0 STATUS OF COMPLETION OF AUDITS

Introduction

This report presents the status of audited state enterprises, statutory authorities and commissions as at 30th June 2007, i.e. the number of audited entities, the last audited report issued, audits under progress and those entities where audit is in arrears because they did not submit financial statements for audit.

Up-To-Date Entities

In this report an organization is considered to have its accounts up to date when its report for the year ended 30th June 2006, 31st December 2006, 31st October

2006 or 30th September 2006 has been issued. During the period under review, the number of entities with their accounts up to date increased from 12 in the previous year to 32.

Backlogs

These are un audited accounts between the last audited report which have not been audited or submitted to the Auditor General for auditing for accounting periods not later than that ended 30th June 2006, 31st December 2006, 31st October 2006 or 30th September 2006. There were 48 entities with their accounts in arrears, 4 of which have not submitted accounts for audit for more than one year.

Audits Under Progress

These are audits which are on going in respect to periods not later than 30th June 2006, 31st December 2006, 31st October 2006 or 30th September 2006. They relate to late submissions or accounts which required adjustments before certification.

Status Of Completion Of Audits For 1st July 2006 To 30th June 2007

Financial Audits

During the period out of a total of 72 entities audited by the Directorate of Statutory Corporations a total of 32 entities had their audits completed while 48 audits were under progress, these audits included accounts submitted for more than one year. In addition there was a backlog of 48 financial statements which were yet to be submitted to the Auditor General.

Because of the arrears a total of 55 audit reports were issued during the period, these audit reports were also issued separately to Parliament as required by the various Acts of Parliament establishing them.

Table1. Status of completed audits during the period 1st July 2006 to 30th June 2007

Year	Total no of Accounts	Accounts audited	Audits Under progress	Backlogs
2006/07	**72**	**32**	**48**	**48**

Of the 32 accounts audited, 17 were sub-contracted out by the Office as authorized by the Constitution. These reports are adopted and forwarded to parliament.

A detailed table showing particulars of entities with accounts up to date, audits under progress and backlogs is shown below.

Table2.Status of Completed of audits showing last audited report issued, audits under progress and Backlogs as at 30th June 2007

	NAME OF ORGANIZATION • Up to date entities	Last Audited Report	Audits under progress	Backlog
1	Kilembe Mines Ltd	30th June 2006		
2	Amnesty Commission	30th June 2006		
3	Bank of Uganda	30th June 2006		
4	Capital Markets Authority	30th June 2006		
5	Civil Aviation Authority	30th June 2006		
6	Kinyara Sugar Works	30th June 2006		
7	Cotton Development Organization	31st October 2006		
8	Lake Victoria Fisheries Organization	30th June 2006		
9	National Water & Sewerage Corporation	30th June 2006		
10	New Vision	30th June 2006		
11	Nile Hotel International	31st December 2006		
12	NPART	30th June 2006		
13	East African Community	30th June 2006		

14	Uganda Medical and Dental Practitioners Council	30th June 2006		
15	Uganda National Bureau of Standards	30th June 2006		
16	Uganda Electricity Board	30th December 2006		
17	Uganda Electricity Distribution Co.	31st December 2006		
18	Public Procurement & Disposal of Public Assets	30th June 2006		
19.	Rural Electrification Fund	30th June 2006		
20.	Uganda Bureau of Statistics	30th June 2006		
21	Uganda Development Bank	31st December 2006		
22	Post Bank Uganda Limited	31st December 2006		
23	National Forestry Authority	30th June 2006		
24	Posta Uganda	30th June 2006		
25	Divestiture & Redundancy Accounts	30th June 2006		
26	Uganda Electricity Regulatory Authority	30th June 2006		
27	Uganda Electricity Transmission Co.	30th June 2006		
28	Uganda Printing & Publishing Corp.	30th June 2006		
29	Uganda Property Holding Limited	30th June 2006		
30	Uganda Tourist Board	30th June 2006		
31	Uganda Wildlife Authority	30th June 2006		
32	Uganda National Council of Science & Technology	30th June 2006		
	NAME OF ORGANIZATION ***** Entities with audits under progress***	**Last Audited Report**	**Audits under progress**	**Backlog**
33	National Drug Authority	30th June 2005	**1**	
34	National Housing & Construction Co. Ltd	31st December 2005	**1**	
35	Uganda Coffee Development Authority	30th September 2005	**1**	
36	Uganda Communications Commission	30th June 2005	**1**	
37	Uganda Electricity Generation Co.	30th June 2005	**1**	
38	Uganda Insurance Commission	30th June 2005	**1**	
39	Uganda Investment Authority	30th June 2005	**1**	
40	NSSF	30th June 2005	**1**	
41	Uganda Railways Corp.	31st December 2005	**1**	
42	COCTU	30th June 2005	**1**	
43	National Medical Stores	30th June 2005	**1**	
44	National Planning Authority	30th June 2005	**1**	
45	Uganda National Council for Higher Education	30th June 2004	**2**	
46	Uganda Development Corp.	31st December 2004	**2**	
47	Uganda Broadcasting Council	30th June 2004	**2**	

48	Uganda Export Promotion Board	31st December 2002	**4**	
49	Dairy Development Authority	31st December 2002	**4**	
	NAME OF ORGANIZATION ****** Entities with audits under progress and Backlogs***	**Last Audited Report**	**Audits under progress**	**Backlog**
50	Crested Crane Hotel & Tourism Training Institute	30th June 2004	**1**	**1**
51	National Enterprises Corporation & Subsidiaries	30th June 2004	**1**	**1**
52	Allied Health Professionals	30th June 2003	**2**	**1**
53	National Youth Council (NYC)	30th June 2003	**2**	**1**
54	National Curriculum Development Centre	31st December 2001	**5**	**1**
55	Nakivubo War Memorial Stadium	31st December 2004		**2**
56	National Theatre	30th June 2001		**5**
57	Public Libraries Board	30th June 1998		**8**
58	Uganda Women Council (UWC)	30th June 2001		**5**
59	Law Development Centre	30th June 2002	**3**	**1**
60	Management Training & Advisory Centre	31st December 2001	**2**	**3**
61	Uganda National Council of Sports	30th June 2003		**3**
62	Uganda National Examinations Board	30th June 2003	**1**	**4**
63	Uganda Nurses & Midwives Council	30th June 2003	**2**	**1**
64	***Uganda Air Cargo Corporation ** No accounts submitted since 1995***	***No Report Issued since 1995***		***11***
65	***Nagric***	***No Report ever Issued***		
66	***Nambole Stadium***	***No Report ever Issued***		
67	***National Council for Children (NCC)***	***No Report ever Issued***		
68	***National Insurance Corporation***	***31st December 2004***		***Divested***
69	***Dairy Corp. Ltd***	***31st December 2005***		***Divested***
70	***Departed Asian Property Custodian Board ** Under special audit no accounts submitted since 1999.***	***No Report Issued***		
71	***Uganda Seed Co***	***30th June 2003***	***3***	***Divested***
72	***Uganda Tea Growers ** Under liquidation by Government***	***31st December 2005***		***liquidated***
	TOTAL		**48**	**48**

4.0 AUDIT OPINIONS - (CERTIFICATION OF ACCOUNTS)

4.1 Introduction

This part of the report presents the number and types of audit opinions issued for the entities audited during the period 1st July 2006 to 30th June 2007. The audit opinions issued are unqualified, qualified , disclaimer of opinions and adverse opinions.

4.2 Financial Audit Opinions And Types Of Certification Of Accounts Issued During The Period 1st July 2006 To 30th June 2007

During the period a total of **Fifty Five** financial audit opinions were issued of which **Twenty six** were unqualified, **Nine** unqualified audit reports with emphasis of matter for 9 entities, **Sixteen** qualified audit reports for 12 entities **Two** disclaimer type audit opinions for 2 entities and **One** adverse audit opinion for 1 entity.

Table 3: Summary Of Financial Audit Opinions Issued

Type of Audit certification issued	Unqualified Audit opinion	Unqualified Audit opinion With emphasis of matter	Qualified Audit opinion	Discalimer Audit opinions issued	Adverse Audit Opinions Issued	Total
	26	10	16	2	1	**55**

4.3 Unqualified Audit Opinion

This is an audit opinion issued when the auditor general is able to express an opinion and concludes that the financial statements audited give a true and fair view or are presented fairly, in all material respects, in accordance with the International Financial Reporting Standards and the various Acts and Statutes establishing the state enterprises, statutory authorities and commissions. The Unqualified audit reports with Emphasis of matter have been modified by the auditor general to highlight material matters and significant uncertainty which however may not affect the financial statements.

The following table shows entities whose accounts were not qualified during the period.

Table 4. Entities with unqualified audit opinions

No	Particulars of Entity	Year of Financial statements of audit reports issued
1.	Electricity Regulatory Authority	30th June 2005 30th June 2006
2.	Uganda Insurance Commission	30th June 2005
3.	Uganda National Examinations Board	30th June 2002
4.	Lake Victoria Fisheries Organization	30th June 2006
5.	National Forestry Authority	30th June 2006
6.	National Youth Council	30th June 2003
7.	Management Training and Advisory Center	31st December 2001
8.	Amnesty Commission	30th June 2006
9.	Amnesty Commission Special Project	30th June 2006
10.	Uganda Bureau of Statistics	30th June 2006
11.	Uganda Investment Authority	30th June 2005
12.	Uganda Bureau of Statistics	30th June 2006
13.	Coordinating Office for the Control of Trypanosomiasis in Uganda	30th June 2005
14.	Uganda Nurses and Midwives Council	30th June 2003
15.	National Medical Stores	30th June 2005
16.	Kinyara Sugar Works	30th June 2006
17.	Public Procurement and Development Authority	30th June 2006
18.	New Vision	30th June 2006
19.	Uganda National Examinations Board	30th June 2002
20.	Dairy Corporation	31st December 2005
21.	National Housing and Construction Corporation	31st December 2005
22	Capital Markets Authority	30th June 2006

23.	Post Bank (U) Ltd	31st December 2006
24.	Bank of Uganda	30th June 2006
25.	East African Community	30th June2006

4.4 Unqualified Reports With Emphasis Of Matter

The following table shows details of the unqualified audit opinions with emphasis of matters issued during the period.

Table: 5.Unqualified audit opinions with emphasis of matter

No	Particulars of Entity	Year of Financial statements of audit reports issued
1.	Kilembe Mines Limited	30th June 2006
2.	National Youth Council	30th June 2003
3.	Uganda Export Promotion Board	31st December 2002
4.	Uganda Investment Authority	30th June 2005
5.	Non Performing Assets Recovery Trust	30th June 2006
6.	National Water and Sewerage Corporation	30th June 2006
7.	Uganda Electricity Distribution Company Ltd	31st December 2006
8.	Uganda Electricity Board	31st March 2006
9.	Divestiture and Redundancy Accounts	30th June 2006
10	Uganda Coffee Development Authority	30th September 2005

The detailed paragraphs of the unqualified audit opinions with an emphasis of matter issued during the period are listed below.

Attention is drawn to the following Emphasis of Matters in the respective entities listed below;

4.4.1. Uganda Coffee Development Authority (Year Ended 30th September 2005)

Emphasis of Matter

- **Joint Venture Losses**

The Authority entered into Joint Ventures to promote Ugandan coffee overseas in Denmark, China and Egypt, these ventures have resulted into losses because of market penetration in these markets. The Authority is confident that in spite of the under capitalization, it will eventually establish Uganda's coffee in these overseas markets and there after invite sector participants to continue with the promotions.

4.4.2. National Youth Council Accounts – (Year Ended 30th June 2003)

Emphasis of the Matter

- **Weak internal controls**

The internal controls in the Council are still weak. There is no segregation of duties in the accounts section. There is only one accountant in the section who initiates payments, prepares vouchers and cheques, draws and pays out the money. She also writes the books of account in the Council.

4.4.3 Uganda Export Promotion Board (UEPB) (Year Ended 31st December 2002)

Emphasis of Matter

- **Absence of Board of Directors**

During the financial year the Board operated without board of directors. As a result, policy decisions were initiated, approved and implemented by management.

4.4.4. Uganda Investment Authority (Year Ended 30th June 2005)

Emphasis of Matter

a. Wasteful Expenditure Shs.146,056,256

It was noted that a contract awarded for the design and supervision of the construction of south "B" estate Road of Kampala Industrial Business park (KIBP) was terminated after a sum of Shs.146,056,250 (shillings one hundred forty six million fifty six thousand two hundred fifty only) had been paid to the contractors. Management explained that the cancellation of the project was due to Macro International developments beyond the control of all the parties involved.

b. Double Payment Shs.11,453,000=

It was noted that two claimants were each paid a sum of Shs.11,453,000 (shillings eleven million four hundred fifty three thousand each as compensation for the same piece of at Masese resulting in a double payment. Management explained that the IGG's office had been requested to investigate the matter with a view to instituting recovery measures.

c. Cash Shortage Shs.8,353,000

A cash shortage of Shs.8,353,000 (shillings eight million three hundred fifty three thousand only) was noted. Management explained that disciplinary measures had been instituted, including recovery of the amount involved from the officer concerned.

4.4.5. Non-Performing Assets Recovery Trust (Year Ended 30th June 2006)

Emphasis of matter

- **End of lifespan of NPART**

The Trust is scheduled to windup on 9th October 2007. There is, therefore, uncertainty surrounding the resolution and collection of the outstanding Non-Performing Assets portfolio of Shs.77 billion as at 30th June 2006.

4.4.6. National Water And Sewarage Corporation (Year Ended 30th June 2006)

Emphasis of Matter

- **Disclosure on Long term loans**

Disclosures concerning the going concern of the company.i.e current liabilities (long term loans) were shs.83.8 billion (Shs.50.9billion: 2005). Due to the significance of this matter, it is considered important to bring it to your attention but my opinion is not qualified in this respect.

4.4.7. Uganda Electricity Distribution (Year Ended 31st December 2006)

Emphasis of Matter

a. Excess current liabilities over current assets

The Company's current liabilities exceeded its current assets by Ushs7,727 million and its total liabilities exceeded its total assets by Ushs31,495 million. These conditions indicate the existence of uncertainty which may cast doubt about the Company's ability to continue as a going concern.

b. Loans vested from UEB

The Company is a holding entity with its services fully paid for from the tariff or by other agencies it provides services to. The loans in the balance sheet were vested to the Company from UEB by the Government while it still managed and operated the distribution and supply of electricity. The principal and interest repayments for loans are fully paid from the tariff as part of the lease payments by the concessionaire. The operations of the off grid stations are subsidized from the tariff. Construction of rural electrification schemes is fully funded by

Government of Uganda through the Ministry of Energy and Mineral Development. The Company has also got substantial liquid investments which will continue to generate income in the foreseeable future. These financial statements have therefore been prepared on a going concern basis; and

c. Absence of provision on pending case in the Tax Appeals Tribunal

A pending case in the Tax Appeals Tribunal for which no provision has been made in the financial statements exists because management is confident about winning the case.

4.4.8. The Kilembe Mines Limited (Year Ended 30th June 2006)

Emphasis Of Matter

Long-term Loans

- **Government of Uganda :Ministry of Finance Planning and Economic Development (MOFPED) Loan**

The Government of Uganda through the Ministry of Finance and economic development (MOFPED) advanced Kilembe Mines Ltd (KML) Shs 5.4 billion in settlement of a claim made by BM Steel Limited. This Loan has been advanced at a simple interest rate of 9% per annum and will constitute a first charge on all monies due to KML. This loan resulted into an extra ordinary loss in KML's financial performance for the year.

- **European Investment Bank (EIB) Loan**

As stated in Note 10 to the financial statements, the Government of Uganda acquired loans from the European Investment Bank in order to finance the purchase of Equity in Kasese Cobalt Company Limited (KCCL) through Kilembe Mines Ltd.

The loan was to be repaid from dividends and cash distributions from KCCL in respect of this equity Investment, however no dividends have been forthcoming from KCCL to pay these loans, and by the time of the report the loans have not been repaid and the principle and interest on these loans have accumulated to Shs 20.55 billion and Shs1.54 billion respectively. Management is confident of the going concern of the company as this is a public enterprise that the Government is in the process of restructuring and divesting.

4.4.9. Divestiture And Redundancy (Year Ended 30th June 2006)

Emphasis of matter

a. Receivables Shs.22,049 million recoverable advances Shs.9,118 million

Receivables and Recoverable advances totaling Shs.22,049 million and 9,118 million respectively are disclosed in the financial statements the bulk of which are due from the Government of Uganda. The realization of the amounts due from the Government is subject to the conclusion of a debt swap agreement between the Project and the government.

b. Liabilities Shs.11,057 million

Liabilities totaling to Shs.11,057 million in the financial statements were assumed from divested enterprises and the terms and conditions of payment. The determination of these liabilities is subject to the outcome of ongoing negotiations for the settlement between the Government of Uganda and the respective parties as part of the divestiture process.

4.5. Qualified Audit Opinion

A qualified opinion is expressed where the Auditor General concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation of scope is not so material or pervasive as to require an adverse opinion or a disclaimer of opinion.

Qualified audit reports

The following table shows details of the qualified audit opinions issued during the period.

Table 6.

No	Particulars of Entity	Year of Financial statements of audit reports issued
1.	Dairy Development Authority	31st December 2002
2.	Uganda Wildlife Authority	30th June 2006
3.	Uganda Electricity Transmission Company Ltd	30th December 2006
4.	Cotton Development Organization	31st October 2006
5.	Uganda Tea Growers Corporation	31st December 2005 31st December 2004
6.	Uganda Development Corporation	31st December 2004 31st December 2003 31st December 2002 31st December 2001
7.	Uganda Development Bank	31st December 2006
8.	Uganda Electricity Board	31st March 2006
9.	National Social Security Fund	30th June 2005
10.	Uganda Property Holdings Ltd	30th June 2006
11	Civil Aviation Authority	30th June 2006
12.	Law development Centre.	30th December 2001

The detailed paragraphs of the qualifications issued during the period are listed below.

4.5.1. Dairy Development Authority (The Year Ended 31st December 2002)

Limitation of Scope

a. Valuation of property, plant and equipment

The Authority's assets were last valued in 1996 and besides most of the properties do not have land titles

- IAS 16 requires that items of property, plant and equipment which are carried at revalued amount be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

  The Authority has not carried out any subsequent revaluation of the revalued assets. This constitutes non compliance with the revaluation requirements of IAS 16.

- IAS 16 also requires the subsequent increase in the revaluation to be carried under equity as revaluation surplus. This was not done in the financial statements.

Due to the above limitations I am therefore unable to confirm the accuracy, completeness and valuation of the property, plant and equipment shown in the balance sheet.

b. <u>Government grants</u>

- IAS 20 requires that the nature and extent of government grants received be appropriately disclosed in the financial statements. The authority received grants totaling to Shs.1,343,854,000 relating to assets, IAS 20 requires that asset related grants including non-monetary grants at fair value should be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

The Authority has not treated government grants in accordance with IAS20, due to this inappropriate treatment I can not confirm the accuracy of fixed asset related grants in the financial statements.

4.5.2. The Uganda Wildlife Authority (Year Ended 30th June 2006)

Qualified opinion

a. Concessions Revenue Shs.345,968,608

Included in UWA's income of Shs15,908,999,181 is concession income of shs345,020,048 in respect of ground rent and franchise fees. UWA did not maintain complete and accurate concession revenue registers that could be relied on to verify details of concessionaires to record amounts due and the amounts received during the year. There was no any other practical alternative audit procedure, which could be used to ascertain the accuracy and completeness of this concession income. Furthermore, there was no evidence that UWA obtained copies of the audited financial statements or had access to the books of account of the concessionaires in order to establish the correct amount of franchise fees receivable from each concession.

b. Comprehensive fixed assets register

The Authority does not have a fixed assets register indicating the break down of property, plant and equipment as reported in the financial statements.

The Authority is therefore not able to effectively;

- Allocate depreciable amount of these property, plant and equipment over their useful life as required under IAS 16.
- Facilitate the fair presentation of fixed assets in the Authority's financial statements.

Consequently, it is not possible to confirm the accuracy, existence, completeness and validity of property plant and equipment as shown in the balance sheet at shs10,732,450,000.

c. Land and Buildings

The value of the Authority's Land and Buildings is indicated as Shs9,715,099,000 in the financial statements contrary to the IAS 16 where land and buildings are dealt with separately for accounting purposes even when they are acquired together. It was noted that management has not been able to identify separately the cost of land and that of buildings. As a result, the financial statements do not comply with the provisions of AIS 16.

4.5.3. Uganda Electricity Transmission Company Limited (Year Ended 31st December 2006)

Qualified opinion

a. Property, Plant and Equipment

The Company had its property, plant and equipment vested in it by the former Uganda Electricity Board (UEB) on 31st March, 2001. Since the assets were taken over, no evaluation has been carried out. However, IAS 36 requires an impairment loss to be recognized whenever the carrying amount of an asset exceeds its recoverable amount. The Company maintains a fixed assets register. However, included in the register are assets without supporting documentation and titles. Consequently, all information and explanations which was considered necessary to ascertain the completeness, existence, ownership and valuation of property, plant and equipment was not obtained. Property, plant and equipment balances therefore may not be fairly stated.

b. Reconciliation Of Assets And Liabilities Received From Uganda Electricity Board

A reconciliation of the assets and liabilities received from Uganda Electricity Board (UEB), on incorporation of the Company was not provided for the purpose of the audit. Management explained that it was in the process of undertaking this exercise and that substantial progress had been made. It was not possible to confirm the completeness and accuracy of the assets and liabilities transferred to UETCL by UEB. Assets and liabilities balances may therefore not be fairly stated.

c. Trade And Other Receivables And Trade And Other Payables

Included in trade and other receivables is an amount of Shs.36.81 billion due from UEDCL relating to power sales and in trade and other payables is an amount owing to UEGCL of Shs.30.99 billion for power purchase all arising in the year 2001. Management is of the opinion that UEDCL has not settled its debt with UETCL because a decision was made by the Government in 2001 to give customers electricity rebates. Consequently, UETCL has failed to pay UEGCL on contention that power sales to the distribution company have not been paid for. It is uncertain whether the amounts due to UETCL from UEDCL of Shs.36.81 billion will be paid enabling the Company to pay UEGCL the money it owes of Shs.30.99 billion. The balances may therefore not be fairly stated.

Included in trade and other receivables is an amount of Shs.562 million shown as staff accountable advances. These are unaccounted expenses. These have been outstanding for long and no provision has been made.

d. Contingent Liabilities

As noted in note 20- Contingent liabilities, the company is facing a number of third party legal claims. A number of claimants have sued or threatened to sue the company for trespass due to the fact that transmission lines, poles and pylons traverse their properties. In all instances there were no compensation documentation from UEB, which would indicate whether the claimants were compensated when the transmission lines were constructed. The total contingent liabilities that would arise from such claims cannot be readily quantified.

e. Year End Confirmations For Borrowings

Included in the balance sheet are borrowings from the Government of Uganda amounting to Shs.59.06 billion (2005:Shs.57.35 billion). An independent confirmation from the Government regarding the completeness and accuracy of the liability has not been received.

4.5.4. Cotton Development Organization (Year Ended 31st October 2006)

Qualified opinion

a. Title Deeds To Properties

The Organisation has seed dressing properties (seed stores, seed dressing halls and delinters at Kasese, Ngetta, Nakivumbi and Kachumbala worth Ushs2.5 billion; However the organization does not own the land on which these properties are situated. The security of these investments is therefore not guaranteed.

b. Outstanding Loans

The Organization raised a loan from the Uganda Ginners & Exporters Association (UGCEA) in 2003 to finance cotton seed activities which government was implementing under the Strategic Intervention Program (SIP). This loan has since remained outstanding. In the event that UGCEA recalls the amounts, the Organization may not have sufficient resources to meet the payment.

4.5.5. Uganda Tea Growers Corporation (Year Ended 31st December 2005)

Qualification

a. Valuation of Fixed Assets

The assets indicated in note 9 of the financial statements were last valued in 1991, an act that contravenes paragraph 16 of the International Accounting Standards (IAS 16). A current revaluation of these assets would either increase or decrease the net book value indicated in note 9 of these financial statements.

b. Uncompleted Capital Work in progress

Construction work classified as capital work in progress (note 9) at a cost of Shs1.5 billion and a net book value of Shs1.0 billion has remained uncompleted since 1970. The net book value shown may not be realized in case of an eventual sale.

c. Fixed Assets without Titles

Land and buildings at a cost of Shs552.0 million and net book value of 281.4 million in note 9 to these financial statements did not have title deeds. The ownership of these assets could not be confirmed.

4.5.6. Uganda Tea Growers Corporation (Year Ended 31st December 2004)

Qualifications

a. Assets

Assets indicated in note 10 of the Consolidated financial statements were last valued in 1991, an act that contravenes International Accounting Standards 16. A current revaluation of these assets would either increase or decrease the net book value indicated in note 10 of these consolidated financial statements.

b. Property Plant and Equipment

Work in progress at a cost of approximately Ushs1.5 billion and net book value of Ushs1.1 billion situated at Kyenjojo and Mityana has remained un-completed since 1970. The net book value shown may not be realized in case of eventual sale.

4.5.7. Uganda Electricity Board (Year Ended 31st March 2006)

Limitation of Scope

a. Government Contribution

According to correspondence from the Ministry of Finance, Planning and Economic Development dated 24th May 2004, Uganda Electricity Distribution

Company Limited (UEDCL) took up government loans amounting to Shs.28,985 million being principal of Shs15,783 million and interest of Shs.13,202 million during the period 1 April 2001 to 31 December 2001. These amounts were confirmed by UEDCL and adjustments effected in the financial statements for the year ended 31st December 2002. However, it was not possible to determine whether the other two successor companies-Uganda Electricity Transmission Company Limited (UETCL) and Uganda Electricity Generation Company Limited (UEGCL) took up any government loans during the same period. Because of lack of confirmation and therefore inability to determine the required adjustments for government loans taken up by these successor companies during the period 1st April 2001 to 31st December 2001, a material uncertainty exists over the accuracy and completeness of Government contribution. Independent sources place the amount of Government loans under question above in the region of Shs22,000 million. This position remained un-clarified in 2006.

b. <u>Government Energy Receivables</u>

The unchanged trade receivable balance at 31st December 2006 brought forward from the year ended 31st December 2001 relating to Government energy debts is Shs6,870 million. There is uncertainty over the recoverability of these trade receivables given the time they have been outstanding.

c. <u>Trade Receivable-Energy Loss</u>

UEB typically has significant energy losses resulting from unbilled revenue and this has been the case in the period from 1 January to 31st March 2001(after which the revenue earning parts of the business were transferred to successor Companies) All units generated, transmitted and distributed by UEB, during this three month period (in which recorded revenues amounted to Shs25 billion) have not been accounted for, and hence the completeness and accuracy of the revenue billed to customers cannot be determined.

d. Trade Receivable-Billing Adjustments

Significant billing adjustments were made to customer accounts during the three months period ended 31 March 2001 (after which the revenue earning parts of the business were transferred to successor companies) These adjustments mainly arose from estimated, zero and negative bills sent to customers. Because of system limitations, management has not been able to accurately quantify adjustments passed after 31st March2001, which relate to the three months period ended March 2001. In view of this, it was not possible to determine the adjustments required to be made to correct any misstatements in reported gross trade receivables of Shs6,870 million at 31st December 2001. The unchanged trade receivables balance at 31 December2006 brought forward from the year ended 31st December2001 is Shs6,870 million. Therefore, a further material uncertainty over these trade receivables continues to exist.

e. Cash and Bank

Included in the UEB cash and bank balances at 31st December 2006, are reconciling differences which management has not been able to resolve a reconciliation difference on the SCB operations account of Shs1,287 million carried forward from 2002. and an Unexplained reconciling credit items in the margin account totaling Shs1,700 million. Because of the above, there is material uncertainty over the existence, accuracy and completeness of the board's cash and bank balances.

f. Reconciliation Of Bank Balances

The bank balances listed below were included in the financial statements; however these balances were not reconciled with the respective bank statements as of 31st March 2006.

Bank	Account No.	Amount (Shs.000)
Stanbic	014/00/075055/01	1,247,609
Stanbic	014/00/630993/01	729,398
Standard Chartered	01056/106404/00	(858,995)
		1,118,012

g. Property Plant and Equipment

During the financial year ended 31st December 2005, there was a significant movement in property, plant and equipment which related to two major disposals as explained below.

- Owen falls extension (power III) building and Lugogo perimeter wall buildings worth Shs14,788 million were transferred to vesting amounts due from successor companies in favour of UEGCL and UETCL respectively. Though these items appear on the vesting instruments, no independent confirmation of the amounts was obtained from these companies.
- Motor vehicles worth Shs667 million disposed in 2002 were only written off in the year ended 31st December 2005. It was not possible to obtain board approvals for these disposals and there were no adequate detailed supporting documentation for the disposals. More so, the disposal proceeds were not properly accounted for.

No information was availed to me regarding the issues raised above during the audit of 3 months period ended 31st March 2006. Consequently it was not possible to confirm the accuracy, completeness recording and accounting for this property, plant and equipment.

Disagreement:

h. Other Liabilities

As at 31st March 2006 provisions for legal claims amounted to Shs3,958 million and a rebate guarantee scheme provision remained at Shs2,786 million, since the year ended 31st December 2001. Although legal claims continue to be made against the board and rebate demands are still being lodged by various customers, no additional provisions have been made during this year in accordance with IAS 37, (provisions, contingent liabilities and contingent assets). Therefore there is an understatement of the provisions.

i. Value Added Tax (VAT)

There was a dispute between the Board and URA over an assessed VAT liability of Shs.2,857 million. A case was filed by the Board to challenge the assessment and the Court ruled in favour of the Board and the deposit of Shs.857 million which had been paid to URA on account of the assessment was refunded after the ruling. However, URA was not satisfied with the ruling and indicated intention to appeal. No provision has been made for the potential liability that may arise from appeal.

4.5.8. Uganda Development Corporation Financial (Year Ended 31st December 2001,2002,2003,2004)

Qualification

- **Fundamental Uncertainty Of Going Concern**

Although the financial statements of UDC Ltd have been prepared on a going concern basis as set out in note 1 (g) to the accounts, the Corporation has been dormant for a long time. All its subsidiaries and associate companies have been de-linked. It is not carrying on any activity and the revenue from investments held in DFCU Ltd is paid to Ministry of Finance, Planning and Economic Development.

4.5.9. The Uganda Development Bank (Year Ended 31st December 2006)

Qualification

a. Trust Funds

Trust funds are funds received by Uganda Development Bank Limited from the Government of Uganda. The resulting loans are not assets of the bank and are therefore not reflected in the bank's balance sheet. However, funds received from the Government to be loaned out to Trust Fund loan clients are included as liabilities of the bank until they are disbursed to the clients. Similarly, repayments by Trust Fund loan clients to the Government are included as liabilities of the bank until they are passed on to the Government. An agreement on administration of these funds was signed between the bank and Government on 26th March 2006 requiring the bank to charge an agency fee based on the interest earned from the borrowers as well as recharge all expenses incurred in the execution of their role as the agents retrospectively from 9th May 2001. However, no accrual provision for the agency fee income has been included in these financial statements since no recovery has been made on the funds lent out since 2003. It was noted however, that some of the money put on trust funds was actually released from the Uganda Consolidated Fund (UCF) as recapitalization at the bank.

b. Interest in Associates

Uganda Development Bank Limited holds a 23% stake in Uganda Marine Products and 28% in Kajansi Roses. IAS 28 on Investments in associates requires that such investments are recorded suing the equity method. The bank has not adjusted the carrying amount to recognize its share of the increase in the associates' net assets as at 31st December 2006. The audited financial statements of the associates as at 31st December 2006 were also unavailable. It was not possible, therefore, to determine whether the investments as reported are fairly stated.

4.5.10 National Social Security Fund Financial (Year Ended 30th June 2005)

Qualification

- **Limitation of Scope**

The Fund installed an Integrated Management Information system (IMIS). JD Edwards is the IMIS component that generates the financial information. However, a review of the members' fund account revealed that, the system cannot generate subsidiary ledger accounts for the members' fund like benefit payments and contributions. The support was manually compiled. It was also noted that the members' fund account cannot be supported with listing of individual members.

4.5.11. Law Development Centre Financial (Year Ended 31st December 2001)

Qualification

a. Comprehensive Fixed Assets Register

The Centre maintains a fixed assets register which has not been updated for a long time. The net book value of property, plant and equipment as indicated in the fixed assets register does not agree to that as reported in the balance sheet. The centre is therefore not able to effectively:

Allocate depreciable amount of these property, plant and equipment over their useful life as required under AIS 16. Facilitate the fair presentation of fixed assets in the Centre's financial statements. Due to the above limitations; it is not possible to confirm the accuracy, existence, completeness and validity of property plant and equipment.

b. Valuation Of Property, Plant And Equipment

i. Land and Buildings

The value of the Centre's Land Buildings is indicated as Shs.23,500,463 in the financial statements. Under IAS 16, land and buildings are separable assets and are dealt with separately for accounting purposes even when they are acquired together. It was noted that management has not been able to identify separately the cost of land and buildings. It was therefore not possible for audit to confirm the actual value of he Centre's land and buildings separately.

ii. Valuation of Land, Buildings and Fixed Assets

The Centre's assets were last valued in 1969. Besides most of the properties do not have land titles.

IAS 16 requires that items of property, plant and equipment which are carried at revalued amount be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The Centre has not carried out any subsequent revaluation of the revalued assets. This constitutes non-compliance with the requirements of IAS 16. IAS 16 also requires the subsequent increase in revaluation to be carried under equity as Revaluation surplus, this was not done in the financial statements. Due to the above limitations I am unable to confirm the accuracy, completeness and valuation of the property, plant and equipment shown in the balance sheet.

iii. Title to Properties

The Centre does not have legal title to plots 34, 245, 465, 507, 510 and 511 located at Kyadondo included under its properties. Consequently, I am unable to confirm the Centre's ownership of these properties. Due to lack of a comprehensive fixed assets register, I am further unable to quantify the value of these properties without titles.

iv. Motor Vehicles

Motor vehicles are shown at Shs.74,456,417 in the financial statements. I was not able to obtain the documents confirming their existence, and ownership. There was no adequate detailed supporting documentation surrounding their purchase. Consequently, I have not been able to confirm the ownership, completeness, and existence of these motor vehicles.

Emphasis of matter

- **Land Encroachers**

The Centre has properties, plot 339, and 169 on block 9 and plot 69 block 1 and property at block H1882 in Bukoto. However, these properties have been encroached upon with permanent structures built on them. It was noted that management has not been able to evict these encroachers.

4.5.12. Uganda Property Holdings Ltd (Year Ended 30TH June 2006)

Qualification

Limitation of Scope

a. Incomplete fixed Assets Register

The fixed assets register maintained includes only properties at Mombasa and it is therefore incomplete and not properly maintained. As a result, it is not possible to effectively;

- Allocate depreciable amounts to these property, plant and equipment over their useful life as required under IAS 16.
- Facilitate fair presentation of fixed assets in the financial statements.

In the circumstances therefore I am unable to confirm the accuracy, existence, completeness and validity of property, plant and equipment, and that the value of assets is fairly stated.

b. Recoverability of Receivables from an Apparel Company

Included in the financial statements is an amount of shs1,580,580,000 relating to unpaid rent from a private textile company at Bugolobi Coffee plant It was noted that Uganda Property Holdings has not signed a tenancy agreement with this company since January 2003. There is therefore uncertainty surrounding the recoverability of this debt.

c. Sub-Leases With A Private Textile Company

Uganda Property Holdings sub-leased plots 1-7 Kalitunsi road Bugolobi to a private apparel textile company for annual ground rent of shs20 million effective 31st December 2004. Payment of Ground rent had, however, not been effected by 30th June 2006. There is therefore uncertainty surrounding the recoverability of ground rent from the Lessee. Uganda Property Holdings paid shs246,580,492 to various contractors for work carried out on the AGOA project. Management has not been able to provide supporting documentation binding Uganda Property Holdings to this project. Consequently it was not possible to confirm whether this payment is authorized.

4.5.13. Civil Aviation Authority Accounts (Year Ended30th June 2006)

Qualification

Limitation of Scope

a. Recoverability Of Receivables From Government

At the end of the financial year, the carrying value of Civil Aviation Authority's net accounts receivables stood at Ushs53,435,345,000 of which Ushs39,333,559,068 related to amounts receivable from Government and its departments. However, the majority of these debts have been outstanding for over four years and the probability of their recovery is not certain.

b. Fixed Assets

The fixed assets register was not recorded up to date and therefore not complete. In the circumstances therefore, the inclusion of the value of all assets as well as their existence could not be confirmed.

c. Inventories

The balance of inventories where reported in the financial statement at 1,232,462,000 and this value was based on book value rather than end of financial year stock count and valuations. The fairness of the values attributable to inventories in the financial statements could again not be confirmed.

d. Soroti Branch Transaction

The balance of cash amounting to Ushs.10,651,675 on the Soroti branch collection bank account NO. 14/00/50295/01 was omitted from the financial statements and this means that the Soroti branch financial transaction incorporated in the financial statements may not be complete.

Emphasis of the matter

Without qualifying my opinion further, attention was drawn to the following:-

The Civil Aviation Authority did not have land titles deeds for its properties at Pakuba, Kidepo and Kisoro and some residential properties in Entebbe and Soroti; lack of land title deeds puts the authority at risk of financial loss in case of disputes involving the land and properties concerned.

4.6 Disclaimer Of Opinion

A disclaimer of opinion is expressed where the Auditor General concludes that the effect of a limitation of scope is so material and pervasive that the Auditor General has not been able to obtain sufficient appropriate evidence and accordingly is unable to express an opinion on the financial statements.

Qualified Audit Opinions With A Disclaimer

The following table shows details of the disclaimer audit opinions issued during the period.

Table 7.

No	Particulars of Entity	Year of Financial statements of audit reports issued
1.	Uganda Railways Corporation	31st December 2005
2.	National Development Curriculum Development Centre	31st December 1999 31st December 2000

4.6.1. National Curriculum Development Centre (Year Ended 31st December 1999)

Disclaimer

Fixed Assets

As stated in note I to the financial statements, fixed assets with a net book value of shs387,187,953 have not been valued for a long time as required by International Accounting Standards (IAS 16). Therefore, I am unable to confirm that the assets of the centre are fairly stated.

a. Completeness of Revenue

The Centre does not have a consistent policy of recognizing revenue. In some instances revenue is realized when cash is received and in others it is realized when invoices are dispatched to the customers, in contravention of IAS 18. Due to the cut off errors, realization of revenue and the recognition of the corresponding debtors, it was not possible to confirm the completeness of revenue recorded in the income statement.

b. <u>Royalty</u>

NCDC earns royalties from its titles published by Macmillan and Longman Publishers. Many of these titles were first published in the 1980's and earlier years and a few of them in the 1990's. These titles have been continually revised. It was noted that no register of these titles was maintained. The register would have information such as date of publication, the respective author, revisions on titles and charges agreed upon, whether a title is still on market or not. Such information would help management on tracking which titles to revise or to withdraw from the market. It was noted further that management was not maintaining ledger accounts for each individual author of the different titles. Only one general account for authors was maintained in the creditors' ledger. Therefore, the creditors amount of Shs.133,238,582 on the authors accounts could not be confirmed.

c. <u>Manufacturing Account</u>

It was noted that a manufacturing account was not maintained for the production and selling of curriculum books. No record of accumulated costs attributable to the production, selling and distribution of books were kept. Therefore, the expenses incurred in production of those books were not offset against sales proceeds to determine the net income from curriculum books. Overhead costs incurred in the production of the books were not determined for allocation to the cost of the books. Therefore, income from sale of curriculum books could not be established.

4.6.2. National Curriculum Development Centre (Year Ended 31st December 2000)

Disclaimer

a. Fixed Assets

As stated in note I to the financial statements, fixed assets with a net book value of shs450,100,624 have not been valued for a long time as required by International Accounting Standards (IAS 16). Therefore, I am unable to confirm that the assets of the centre are fairly stated.

b. Completeness of Revenue

The Centre does not have a consistent policy of recognizing revenue. In some instances revenue is realized when cash is received and in others it is realized when invoices are dispatched to the customers, in contravention of IAS 18. Due to the cut off errors, realization of revenue and the recognition of the corresponding debtors, it was not possible to confirm the completeness of revenue totaling Shs 266,642,208 recorded in the income statement.

c. Royalty

NCDC earns royalties from its titles published by Macmillan and Longman Publishers. Many of these titles were first published in the 1980's and earlier years and a few of them in the 1990's. These titles have been continually revised. It was noted that no register of these titles was maintained. The register would have information such as date of publication, the respective author, revisions on titles and charges agreed upon, whether a title is still on market or not. Such information would help management on tracking which titles to revise or to withdraw from the market.

It was noted further that management was not maintaining ledger accounts for each individual author of the different titles. Only one general account for authors was maintained in the creditors' ledger. Therefore, the creditors amount of Shs.174,480,076 on the authors accounts could not be confirmed.

d. Manufacturing Account

It was noted that a manufacturing account was not maintained for the production and selling of curriculum books. No record of accumulated costs attributable to the production, selling and distribution of books were kept. Therefore, the expenses incurred in production of those books were not offset against sales proceeds to determine the net income from curriculum books. Overhead costs incurred in the production of the books were not determined for allocation to the cost of the books. Therefore, income from sale of curriculum books could not be established.

4.6.3. Uganda Railways Corporation (Year Ended 31st December 2005)

Disclaimer

Limitations of Scope

a. Comprehensive Fixed Assets Register

The Corporation maintains a fixed asset register whose asset values were prepared in-house, by management. The net book value of property, plant and equipment as indicated in this fixed assets register does not agree to that as reported in the balance sheet. It is also not possible to confirm whether a periodic physical verification of property, plant and equipment is performed. The Corporation is therefore not able to effectively;

- Establish and maintain control over property, plant and equipment.
- Allocate the depreciable amount of this property, plant and equipment.
- Confirm the existence of property, plant and equipment.

- Account for the gain or loss on disposal of property, plant and equipment as required under IAS 16;
- Facilitate the fair presentation of fixed assets in the Corporation's financial statement.

Due to the above limitations, it was not possible to achieve satisfaction as to the existence and validity of property, plant and equipment balances shown on the balance sheet.

b. <u>Revaluation Reserve</u>

The Directors undertook an in-house valuation of certain property, plant and equipment in 1988 to take account of the currency reform of 1987. The results were incorporated in the 1989 financial statements as a surplus in the capital revaluation reserve amounting to Ushs174,254 million. This balance has been carried forward to date. It is understood that the valuation did not cover all property, plant and equipment and only included some of the land and buildings, locomotives, wagons, passenger coaches and wagon ferries. This contravenes the provisions of IAS 16 which require that when an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

IAS 16 also requires that, the item of property, plant and equipment which are carried at the revalued amount, be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The Corporation has not carried out any subsequent revaluation of the revalued assets. This constitutes non-compliance with the revaluation requirements of IAS 16.

Due to the limitations stated in paragraph **a**, the Corporation is not able to effectively transfer amortization of revaluation surplus from capital reserves to the revenue reserves on disposal of property, plant and equipment as required under IAS 16. As a result, the capital reserves balances as reported include both realized and unrealized portions. It was therefore not possible to confirm whether the balance disclosed as revaluation reserve is fairly stated.

c. Disposal Of Property, Plant And Equipment

Several items of property, plant and equipment were withdrawn from service and others disposed either in part or as a whole in the year 2003 and 2004. These included passenger coaches, locomotives, wagons and vehicles. However, due to lack of the cost/valuation information, the values of these items could not be eliminated from the carrying values of property, plant and equipment and are therefore included in the values reported as at 31December 2005. There is therefore wrongful inclusion of non-operational and disposed assets in the carrying amount of fixed assets which is contrary to the requirements of IAS 16, property, plant and equipment. In addition, the gain or loss on disposal of items of property, plant and equipment could not be determined and confirmed. The gross sale proceeds on disposals have been included in other income as at 31 December 2003 and 2004. It was therefore not possible to confirm that the carrying value of property, plant and equipment as reported is fairly stated.

d. Impairment Of Assets

The following factors suggest that the Corporation's assets may be impaired;
Included in plant and equipment are certain locomotives, passenger coaches and wagons surveyed and withdrawn from service which have not been removed from the books of account due to lack of corresponding information on cost/valuation and accumulated depreciation. Similarly, due to continued losses from passenger services, the Corporation suspended the passenger train services on the Kasese and Tororo lines with effect from September 1996 and April 1997 respectively and all the passenger coaches were subsequently transferred to Jinja and grounded.

Included in plant and equipment are two passenger boats, namely, MV Barbus and MV Mvule with a value of Ushs1,600 million. Due to continued losses from marine passenger services, the Corporation suspended these services on Lake Victoria several years ago and both boats are anchored at the Port Bell Pier. Since there are no economic benefits flowing to the Corporation from these passenger boats, Board authorized management to dispose of these assets and subsequently MV Barbus was disposed of in 2004. Property, plant and equipment as at 31 December 2005 includes permanent ways. These form the railway line network, along the Western route from Kampala to Kasese and Northern routes from Mbale to Packwach. These railway lines were not being used as at 31 December 2005 and thus not generating any economic benefits to the Corporation. Due to the unavailability of cost or valuation information relating to the assets stated in (i) to (iii) above, it was not possible to determine the impairment loss of the Corporation's assets as required under IAS 36.

e. <u>Titles Of Properties</u>

The Corporation does not have legal title documents to some of its properties. It is therefore, not possible to confirm ownership to such properties. Due to the lack of a comprehensive fixed assets register, it is not possible to quantify the value of properties without titles.

f. <u>Disclosure Of Operating Lease Prepayments</u>

The Corporation has both freehold and leasehold land. IAS 17, Leases requires that leasehold land be classified as operating lease prepayments, unless there is a provision in the lease agreement to transfer title to the lessee at the end of the lease period. Due to the limitations stated in **a**, the Corporation's leasehold land has been included in the property, plant and equipment balances and it is carried at the revalued amount with no amortization. This constitutes non compliance with the requirements of IAS 17 which requires leasehold land to be carried at cost less any accumulated amortization. Due to the unavailability of the cost information, the split between freehold and leasehold land for the purposes of separate disclosure of operating lease prepayments has not been carried out.

g. Investment in Joint Venture

The Corporation entered into a joint venture with Adtranz GmbH of Germany on 30th January 1998 to form a company Adtranz Nalukolongo Limited to jointly operate the Nalukolongo locomotive workshop. The workshop does the repair and maintenance of the Uganda Railways Corporation and Kenya Railways Locomotives. With effect from 1st October 2001 Adtranz Nalukolongo Limited changed its name to Bombardier Transportation Uganda Limited. This was a result of the sale of Adtranz GMbH of Germany to Bombardier Transportation Inc of Canada. URC controlled 40% of the invested capital of Bombardier Transportation Uganda Limited. This was a non-cash contribution equivalent to US$600,000 and comprised spare parts and other components. Bombardier Transportation Inc controlled the rest.

On 30th June 2004 the joint venture between URC and Bombardier ceased and Bombardier Transportation of Canada sold its 60% holding. URC acquired 58% of the shares to increase its shareholding to 98%, making it a subsidiary company. 1% shareholding was sold to the Ministry of Finance and Economic Development and the other 1% to the Ministry of Works Transport and Communication. Thereafter, the company changed its name from Bombardier Railways Workshop Limited to Nalukolongo Railways workshop Limited. IAS 31 interest in Joint ventures requires that such investments are recorded using the equity method or proportionate consolidation. The Corporation has neither consolidated the results of this joint venture in the financial statements nor adjusted the carrying amount to its share of the increase in the ventures net assets as at 30th June 2004. It was therefore not possible to determine whether the investment in joint venture as reported is fairly stated.

h. Non compliance with IAS 27

As stated in paragraph **g** above, the Corporation holds 98% of the shares in Nalukolongo Railways Workshop Limited as at 31 December 2005. The Corporation has not consolidated the results of the subsidiary in its financial statements as per the requirements of IAS 27 Consolidated and Separate Financial Statements. This standard requires that a parent company shall present consolidated financial statements in which it consolidates its investments in subsidiaries.

i. Attendance At The Stock- Take

The counting of the physical inventories as of December 2005 was not observed. The Corporation does not maintain continuous stock movement records that can be used to confirm how the stock balances were arrived at. Due to the limitations above, it is not possible to confirm the existence and validity of the Corporation's inventory as at the balance sheet date by other audit procedures.

j. Slow-Moving And Obsolete Inventory

Included in the consumable stocks were spares for passenger trains whose operations were suspended in 1997 and locomotive spares imported from France in 1987 which were not compatible with the German made locomotives currently in use. These inventory were recognized at cost and are still in the Corporation's inventory balance with no provision having been made for inventory obsolescence.

In the absence of a detailed inventory aging analysis, it was not possible to quantify the level of provision of inventory obsolescence required.

k. Long Term Loans

The Corporation has in its books long-term loans totaling to Shs25,672,559,000. These comprise funds borrowed or mobilized by the Government of Uganda from various multi-lateral and bilateral funding agencies for onward lending to the

Corporation. Copies of the loan agreements and schedules to support the principal balances, the accrued interest and the translation of foreign denominated loans to Uganda Shillings were not provided. Further, confirmations from the Government of Uganda on the balances outstanding for the principal and accrued interest as at 31 December 2005 were not obtained.

It was therefore not possible to verify;

- Whether the terms and conditions of the loans had been complied with.
- The principal loan balance and the accrued interest are fairly stated.
- Whether the long and short term portions of the loans are appropriately disclosed in the financial statements.

It is therefore not possible to confirm whether the loan balances shown in the financial statements are fairly stated.

I. <u>Uganda Government Contribution</u>

As at 31 December 2005, Uganda Government contribution to the Corporation amounted to Ushs 30,685 million comprising of the following capital grants;

- Assets of the former East African Railways and Harbours within the Ugandan network salvaged by the Government following the collapse of the East African Community in 1977;
- Wagons, locomotives and coaches subsequently imported by the Government on behalf of the Corporation;
- Support relating to the construction of the permanent way; and
- Support relating to repayment of certain loans by the Government on behalf of the Corporation.

Documents to support the above were not provided; therefore it is not possible to;

1) Verify the accuracy of this information;
2) Determine whether any portion of the Uganda Government of Uganda contribution relates to long term loans; and

3) Verify whether the accounting treatment is in accordance with IAS 20, Government Grants.

m. <u>Completeness of Payables</u>

The Corporation recognizes its expenses on settlement and not when the invoices are received in contravention of IAS 1 which requires that the effects of transactions be recognized when they occur and transactions be recorded in the accounting records and reported in the financial statements of the periods to which they relate. Consequently, invoices that have not been paid may not be recognized as expenses for the year. Due to the cut-off errors over the recording of expenses and the recognition of corresponding liability, it is not possible to confirm the completeness of payables.

Included in the Corporation's trade and other payables are long outstanding payables of over Ushs 1 billion. According to management, these balances relate to goods and services received by the Corporation during prior periods.

Further the Corporation did not reconcile the individual creditors' ledger accounts to the suppliers statements.

The Corporation is therefore not able to effectively;

- Establish control over creditors and accounts payable,
- Establish if there are any invoices or payments not yet posted to the ledger
- Confirm if there are any adjustments not yet posted to the ledger or creditor's statement
- Determine if there are any data entry errors, and
- Facilitate the fair presentation of accounts payable in the Corporation's financial statements.

It was not possible to carry out practical alternative procedures to be satisfied as to the completeness and validity of these amounts.

n. <u>Deferred Tax</u>

Deferred tax has not been recognized in accordance with IAS 12, Taxes. This is due to limitations mentioned in **a** above. As a result, the assets disposed of in prior years have not been eliminated from the books of account. It is therefore not possible to comment on and quantify the effect deferred tax would have on these financial statements.

o. <u>Post Employment Benefits</u>

The Corporation has an unfunded defined benefit pension plan for its employees. IAS 19, employee benefits, requires that the Corporation should make estimates for the amount of benefits employees have earned in return for their service in the current and prior periods using actuarial techniques. It further requires that the Corporation discounts these benefits using the projected unit credit method in order to determine the present value of the defined benefit obligation at the balance sheet date less any adjustments for unrecognized actuarial gain or losses and past service costs. The Corporation has not computed the present value of the defined benefit obligation as at 31 December 2005 as required by IAS 19. I am unable to determine the present value of the pension obligations as at that date by any other means.

It is therefore not possible to comment on and quantify the effect the computation would have on the financial statements.

4.7 <u>Adverse Opinion</u>

An adverse opinion has been expressed in this report where the effect of a disagreement is so material and pervasive to the financial statements that the Auditor General concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

Qualified Audit Reports With Adverse Opinions

Only one entity Posta Uganda Ltd was issued a report with an adverse opinion during the period under review.

Table 8.

No	Particulars of Entity	Year of Financial statements of audit reports issued
1.	Posta Uganda Ltd	30th June 2006

Details of the paragraphs of the adverse audit opinions are shown below.

4.7.1. Posta Uganda Limited (Year Ended 30th June 2006)

Adverse opinion

Limitation of scope and disagreements on amounts included in the accounts

a. Fixed Assets

Posta Uganda did not maintain a fixed assets register during the year of audit. It was therefore not possible to confirm the composition and existence of the assets included in the fixed assets balance of Ushs28,780,135,000. In addition, the fixed assets movement schedule has inexplicable downward movements in relation to the corresponding year amounting to Ushs4,994,904,000 and Ushs 6,968,544,000 against the historical cost and accumulated depreciation values respectively. The basis of the movements could not be ascertained as there was no fixed assets register.

b. Depreciation

The depreciation provision by Posta Uganda for the period of Shs73,050,000 is not adequate. Based on the audit procedures performed, the required additional depreciation is estimated to amount to approximately Ushs762,000,000. Detailed computations of Company's depreciation provision charge were not provided.

c. Accounts Receivable

Included in the debtor's balance of Ushs6,691,969,000 is a figure of Ushs1,689,740,000 described in note 5 to the financial statements as "inland accounts receivable". Also included under note 5 to the financial statements is a figure of Ushs3,419,211,000 described as "balances with overseas administrations". Ledger accounts for individual accounts within these balances were not obtained. Consequently, the continued existence of these receivables could neither be confirmed nor the movement for the year be verified. A report prepared by an independent audit firm contracted by Posta Uganda to verify the debtors of the company was reviewed. The auditors recommended write offs and bad debts provisions amounting to Ushs4,079,409,190. No adjustments in the accounts have been made by Posta Uganda Limited in this respect. As a result the debtors balance reflected in the accounts could not be confirmed as recoverable.

d. Debtors Provision

A debtors' provision account amounting to Ushs568,447,000 was created during the year ended June 2005. The account could not be located during the year of audit because no particular account code was allocated to it. Requests made to management to locate the account were futile. The presentation of debtors is therefore affected to this extent. In addition, the movement that was carried out on this account could not be ascertained.

e. Staff Debtors

Included in the debtors' balance of Ushs6,691,969,000 is a figure of Ushs548,397,000 described in note 5(b) to the financial statements as "staff debtors". The items described in the financial records as, staff loans, regional imprest and staff bank loans totaling Ushs192,823,000 are not supported by detailed schedules. The remaining items described in the financial records as staff advances and staff imprest totaling Ushs355,572,000 have detailed schedules although the schedules have unidentified brought forward balances of Ushs17,073,361 (debit) and Ushs249,909,272 (credit) respectively. Some of the staff reflected on the staff imprest schedule are no longer in the employment of the Company although the amounts reflected as owing from them individually range from Ushs1,000,000 to Ushs69,903,376. The accuracy of the two schedules presented and the recoverability of staff debtor balances could not be ascertained.

f. <u>Remittances And Cash In Transit</u>

Included in the cash and bank balances figure of Ushs352,382,000 is a balance of Ushs257,344,000 (2005: Ushs231,177,000) described as Remittances and Cash in Transit in note 6 to the financial statements. The funds were reported to have been remitted by up country offices as at 30th June 2006. The funds had not been confirmed as received by the respective post offices by the time of issuing this report.

g. <u>Liquid Assets</u>

The liquid assets figure (not cash and bank) in the financial statements is inaccurate. Differences arising from the comparison of the physical count and book values are estimated to result into an overstatement of Ushs139,257,637 of the liquid assets balance in the financial statements.

h. <u>Unrecognized Bank Accounts</u>

From the bank circularization, it was confirmed that Stanbic Bank Ltd holds the following bank accounts with funds belonging to Posta Uganda.; Kasese Shs2,846,250, Rukungiri Shs114,587, Luweero Shs400,000 and Soroti Shs2,137,500. The balances do not appear on Posta Uganda's trial balance and are therefore not included in the bank balance figure in the accounts. Transactions posted through the above accounts could not be verified.

i. Balances Due To International Creditors

Included in the creditors and accruals figure of Ushs6,176,652,000 is a balance of Ushs.711,713,000 described as international payables in note 8 to the financial statements. Posta Uganda did not maintain separate ledger accounts for international creditors. The schedules of the creditors were not obtained and the existence of these creditors could neither be confirmed nor the movement for the movement for the year be verified.

j. Creditor Debit Balances

Included under creditors are three balances namely; interstate money order, money orders and money fax carrying debit balances of Ushs223,540,000; Ushs176,973,484 and Ushs56,133,000 respectively. The balances are supposed to represent cash received from customers due to be paid out. There were no schedules available to support the balances; consequently the existence of these balances could not be verified.

k. Loans

From the bank circularization, EADB confirmed a principal balance outstanding of USD 285,445. Translation of this balance at the closing rate of Ushs1,850 results in outstanding balance of Ushs 528,073,250. The difference between the financial statement balance of Ushs439,886,000 and the confirmed balance of Ushs528,073,250 is Ushs88,187,250. The difference represents principal payments in arrears, which are not reflected in the Company's books. A loan confirmation from Stanbic Bank reflecting a balance of Ushs350,003,429 was obtained. The financial statements however reflect a balance of Ushs384,953,571. A reconciliation was not carried out to explain the difference of Ushs 34,950,142.

l. Opening Balances

The corresponding comparative figures for creditors included under note 8 of the financial statements described as "trade creditors" and accruals" are understated and overstated by Ushs99,323,000 and Ushs134,864,000 respectively as analyzed below;

Item	2005 Ushs (000's) as per 2005 audited accounts	2005 Ushs (000's) Actual total established	2005 Ushs (000's) Difference between amount disclosed and actual total
Trade creditors total	2,258,358	2,357,681	(99,323)
Accruals total	2,983,387	2,848,523	134,864
Total Creditors	5,241,745	5,206,204	35,541

The total creditors corresponding comparative figure is inconsistent with note 8 to the accounts by a net amount of Ushs35,541,000. The comparative figures in the notes have not been restated. In addition the corresponding comparative closing cash balance in the cash flow is stated as Shs.602,209,000. The actual corresponding balance is however Ushs616,141,000. This results into a cash flow misstatement of Ushs13,932,000. The comparative closing cash balance in the cashflow has not been restated with the difference.

m. Revaluation Reserve

Note 14 to the financial statement discloses the movements in the revaluation account. IAS 16 permits a decrease in the revaluation reserve as a result of a reduction in the carrying value of an asset caused by subsequent revaluation of that particular asset. It also permits reductions against the account as a result of derecognition of that particular asset. The movements in the company's revaluation account are not consistent with the requirements of IAS 16.

n. Regulator's Commission

Under the provisions of the Uganda Communications Commission Act, Posta Uganda is required to remit a commission of 1% of its mail revenue to the Uganda Communications Commission. The amount has neither been accrued nor paid for the years 2004/2005 and 2005/2006. The estimated amount due is Ushs200 million.

5.0 STATUS OF AUDIT REPORTS CONSIDERED BY THE OVERSIGHT COMMITTEES OF PARLIAMENT.

The oversight committee, Committee on statutory authorities and state enterprises COSASE is responsible for reviewing and taking action on audited reports submitted to parliament after auditing the statutory corporation entities.
During the period the COSASE committee considered audit reports for five entities namely:

- National Drug Authority,
- National Medical Stores,
- Uganda Communications Commissions,
- Uganda National Bureau of Standards and
- National Forestry Authority.

6.0 SPECIAL AUDITS AND INVESTIGATIONS

Special audits and investigations are those audits other than financial audits in which the auditor general may conduct an audit in order to examine compliance with rules, regulations, laws or fraud. It may also involve a review of performance of an entity. A request may be received with specific terms of reference to also examine non compliance with rules, regulations, laws or any instance of actual and suspected fraud.

During the year under review requests for special audits and investigations were received from National Medical Stores, National Drug Authority and Uganda

Coffee Development. Some of these investigations were still going on by the time of issue of this report.

7.0 DIVESTITURE ACCOUNTS

Status of Divested Companies

The cumulative total number of enterprises divested by Government by the end of the financial year under review was 127. Of these the divestiture of 82 companies was an out right sell, 05 were repossessed by the former owners, 15 were struck off the register of companies, 15 Companies were liquidated while 06 others are still under liquidation, 02 companies were dissolved by decree and 01 dissolved by Act. 06 of the companies privatized have hard their shares on the stock exchange.

Table 9:

	NAME OF ENTERPRISE:	BUYER	Amount Paid
1.	African Ceramics Company Ltd.	Muhindo Enterprises.	270,000,000
2.	African Textile Mills Ltd.	R.S Patel.	NIL
3.	Agip `U' Ltd.	Agip Petrol International.	1,664,141,892
4.	Agricultural Enterprises	Common Wealth Development/James Finlays of UK.	2,199,841,534
5.	Apollo Hotel Corporation Ltd	Midroc Ethiopia Plc	32,040,000,000
6.	Associated Match Co.ltd	Muljibhai Madhvani and Company Ltd	NIL
7.	Barclays Bank	Barclays Bank PLC.	5,000,000,000
8.	Baroda Bank	Bank of Baroda, India ('Baroda India')	2,500,000,000
9.	BAT (20 %)	British American Tobacco (Investments) Ltd	10,290,000,000
10.	Blenders Ltd.	Uniliver Overseas Holders BVC.	38,109,750
11.	British American Tobacco (BAT) (IPO)	Various	4,608,794,753
12.	Comrade Cycles `U' Ltd.	Uganda Motors Ltd.	NIL
13.	E.African Distillers Ltd.	International Distillers and Vintners.	731,063,195
14.	Foods & Beverages Ltd.	James Mbabazi.	670,000,000

15.	Fresh Foods Ltd.	Eddie and Sophie Enterprises.	900,000
16.	Gomba Motors Ltd.(Kampala Auto-Centre.)	Management.	8,200,000
17.	Government Central Purchasing Corporation	Management and Employees.	1,091,276,000
18.	Ground Handling Services at Entebbe (Part of Uganda Airlines.(ENHAS)	Efforte Corporation, Global Airlinks Ltd & Sabena S.A.N.V.	1,226,193,448
19.	Hima Cement Factory.	Rawals Group of Industries.	17,948,945,000
20.	Hill Top Hotel	Three Links Ltd.	25,000,000
21.	International T.V Sales.	Roco Construction Ltd.	320,000,000
22	Kakira Sugar Works (1985) ltd.	East African Holdings.	3,500,000,000
23.	Kibimba Rice Company Ltd.	Tilda Holdings.	1,523,515,000
24.	Lake Victoria Bottling Company Ltd.	Crown Bottlers `U' Ltd.	3,621,000,000
25.	Lake Victoria Hotel.	Windsor Ltd.	5,924,775,855
26.	Lango Development Company.	Sunset International Ltd.	100,000,000
27.	**Lira Hotel.**	**Showa Trade Co.**	**Nil**
28.	Margheritta Hotel.	Reco Industries.	365,184,210
29.	Masindi Hotel	Ottoman Engineering Company.	198,500,000
30.	Moroto Hotel	Kodet International.	40,000,000
31.	Motor Craft & Sales Ltd.	Andami Works Ltd.	200,000,000
32.	Mt. Elgon Hotel.	Bugisu Cooperative Union.	650,000,000
33.	Mweya Safari Lodge.	Madvani Group.	1,821,112,067
34.	Nytil	Picfare Ltd.	2,132,000,000
35.	PAPCO Industries	Praful C. Patel	100,000,000
36.	**Print Pak `U' Ltd.**	**New Print Pak `U' Ltd.**	**Nil**
37.	Republic Motors Ltd.	Rafiki Trading Company.	148,000,000
38.	Rock Hotel.	Swisa Industries Ltd.	300,000,000
39.	SAIMMCO	Steel Rolling Mills Ltd.	199,333,633
40.	Second National Operator's License (Part of liberalization of UTL)	MTN	6,664,000,000
41.	Shell `U' Ltd.	Shell Petroleum Co. Ltd.	12,790,000,000 used to pay Liabilities no income to the divesture account
42.	Soroti Hotel.	Speed Bird Aviation Services Ltd.	150,000,000

43.	Stanbic Bank `U' Ltd.	SBIC Africa Holdings Ltd.	6,938,819,178
44.	Steel Corporation of East Africa.	Muljibhai Madhvani and Company Ltd.	362,912,000
45.	Total `U' Ltd.	Total Outre Mer.	5,645,992,433
46.	Transocean `U' ltd	Coin Limited.	314,700,000
47.	Tumpeco.	GM.Company.	693,350,000
48.	**Uganda Bags & Hessian Mills Ltd.**	**Bestlines ` U 'Ltd.**	**NIL**
49.	Uganda Cement Tororo	Corrugated Sheets Ltd.	5,864,857,750
50.	Uganda Clays	Various (IPO – Employee share sale)	1,182,415,300
51.	Uganda Commercial Bank	Westmont Asia plc	12,610,000,000
52.	Uganda Consolidated Properties (Embassy /Development House)	Government of Uganda (GOU)	11,250,000,000
53.	Uganda Fisheries Enterprises (UFEL)	Nordic-Africa Fisheries co. Ltd (Path Iceland Co. Ltd.	105,600,000/=
54.	Uganda Grain Milling Co. Ltd.	Calebs International.	4,868,163,741
55.	Uganda Hardwares Ltd.	Management	18,200,000
56.	Uganda Hire Purchase Company.	Tadeo Kiseka.	240,000
57.	**Uganda Hotels – Acholi Inn**	**M/s Laoo Ltd.**	**NIL**
58.	Uganda Industrial Machinery Ltd.	F.B.Lukoma.	7,000,000
59.	Uganda Leather & Tanning Industry.	IPS `U' Ltd.	1,594,150,000
60	Uganda Meat Packers – Soroti	Teso Agric Industrial Co.ltd.	
61.	Uganda Meat Packers Ltd (Kampala.)	Uganda Meat Industries.	588,094,172
62.	Uganda Motors Ltd.	Management.	300,000,000
63.	Uganda Phamaceuticals Ltd.	Vivi Enterprises.	1,524,620,000
64.	Uganda Telecommunications Ltd.	UCom Limited.	50,975,088,162
65.	UGIL	Phenix Logistics Uganda Ltd.	850,000,000
66.	White Horse Inn.	Kabale Development Co.	600,000,000
67.	White Rhino Hotel.	Dolma Associates Ltd.	200,000,000
68.	Windsor Hotel Pre-emptive rights	The Windsor ltd.	NIL
69.	Winits `U' Ltd.	Emco Works.	102,500,000
70	Agricultural Enterprises (Pre – emptive rights i.e sale of 6.89 % shares)	Rwenzori Tea Investments Ltd.	1,475,573,000
71	Kiryana Ranch (Sub – lease of Assets for 60 years)	Ziwa Ranchers	850,000,000
72	Uganda Electricity Generation Company (**UEGCL) (Concession).**	ESKOM Enterprises.	993,000,000
73	Nile Hotel International ltd (**30 years Concession of Assets)**	TPS (UGANDA) Limited.	2,340,000,000

74	Uganda Electricity Distribution Company (**UEDCL** (**Concession)**	Umeme Ltd.	10,765,000,000
75	New Vision (IPO) (Listing on Uganda Securities Exchange – USE	General Public	2,040,000,000
76	National Insurance Corporation (NIC) (60% Shares)	Corporate Holdings Limited	6,307,822,446
77	Development Finance company of Uganda (DFCU) (18.47%)	General Public (Initial Public Offering - IPO)	18,369,374,559
78	Uganda Seeds: **(a)** (Masindi and Kisindi) (concession)	Farm inputs Care Center.	648,495,259
	(b) (Kasese) (Concession)	Nyakatonzi Cooperative Union	273,000,000
79	Uganda Railways Corporation (Concession)	Sheltam Rail Company (pty)	3,479,200,000
80	National Housing and Construction Company Ltd (49% shares) (**Debt – Equity SWAP)**	Government of the Great Socialist People's Libyan Arab Jamahiriya (GSPLAJ)	95,000,000
81	Dairy Corporation (Lease)	Sameer Investments Group.	892,000,000
82	Kinyara Sugar	RAI Group	61,546,870,000

7.1 National Housing And Construction Corporation (Debt Equity Swap)

National Housing and Construction Corporation (NHCC) was 100% owned by Government of Uganda (GOU). However; GOU had an outstanding debt of US $ 183,695,418 as at 13th May 2005 (both Principal and Interest) to the Government of the Great Socialist People's Libyan Arab Jamahiriya (GSPLAJ).

Against this background; GOU entered into a debt settlement agreement with GSPLAJ on the 5th of June 2005 and both parties agreed that GSPLAJ cancels interest and penalty interest accrued amounting to US $ 88,695,418. Balance of US$ 95,000,000 of this debt was agreed to be settled by way of transfer of GOU shares equivalent to US $ 20.335 million at the exchange rate of UG Shs.1760 for US dollar.

The shareholders increased the nominal share capital of the Company from Ushs2, 000 to Ug.shs.73,040,000,000. Therefore the transfer of 35,789,600 shares of Ugshs.1000 per share represented 49% of shares that GOU sold to the GSPLAJ.

<u>Other methods used in Divestiture</u>

In the process of Divesture DRIC allowed Privatization Unit to use several methods of getting payments other than Cash once the sale price was determined: These include Equity Swaps of Ugshs.48,579,600,000/= or Offset against liabilities and mutual agreement was Ugshs.13,335,676,000/= as reflected in the table below, these did not bring any funds into the Divestiture account.

<u>Table 11.</u>

	Name of Enterprise	Cash Payment	Equity Swap	Others
1	Shell `U' Ltd.		12,790,000,000	Shell
2.	Uganda Consolidated properties(Embassy/Development House)			11,250,000,000 (to be swapped with MOFPED)
3.	Government Central Purchasing Corporation.			1,091,276,000 (Off set against workers terminal benefits)
4.	Uganda Fisheries Enterprises Ltd	105,600,000		994,400,000 (Settled by mutual agreement)
5.	National Housing and Construction Corp (49% shares)		35,789,600,000	Sold GSPLAJ
	Total	**105,600,000**	**48,579,600,000**	**13,335,676,000**

Note:

7.2 Uganda Seeds

Uganda Seeds limited (USL) was incorporated in 1999 as a limited liability Company and is wholly owned by Government of Uganda. It was formed to take over the functions of the Seed Development Project in preparation for the divestiture thereof. The primary activity of the Company was to produce and market improved seeds in Uganda. USL had assets in Masindi/Kisindi and Kasese. Uganda Seeds limited is listed under class 111 of the Public Enterprises Reform and Divestiture Act – a public enterprise where the State is required to fully divest from. As part of its divestiture; the Divestiture and Reform Implementation Committee (DRIC) at its 319th meeting held on the 7th April 2005, approved the Privatization of USL Assets by way of a long-term lease and Concession.

The Uganda Seeds limited was concession as follows:

- **Masindi/Kisindi concession:**

As per the agreement dated 2nd September 2005, the Lease fees amounting to US Dollars 350,000 has been fully paid. Under the same agreement; the lessee is required to pay an annual concession fee amounting to 2.5% of the Company's annual gross sales of the Masindi/Kisindi Stations for the entire term of the agreement which is 30 years.

- **Kasese concession:**

This was between Uganda seeds and Nyakatonzi Cooperative Union. The lease fees of US $ 150,000 (Ushs.273,000,000) was fully paid on the execution of the agreement dated 24th November 2005. For the entire term of the agreement (30 years) Nyakatonzi (the lessee) is required to pay an annual concession fee amounting to 1% of the annual gross sales generated from the use of the demised Assets.

7.3 Development Finance Company Of Uganda (DFCU) Limited – IPO

DFCU limited is a public limited liability company incorporated under the Companies Act (Cap.110). It has been in existence since 1964 and is the parent company of the DFCU Group. It is a financial institution which provides mortgage finance and term finance, and through subsidiaries, commercial banking services, and lease finance for the development of business in Uganda. The company also holds a number of property investments. DFCU limited was started by the Commonwealth Development Corporation of the United Kingdom and the GOU under the name of Development Finance Company of Uganda to support long term development projects. GOU shareholding in DFCU limited was 18.47% (36,742,930 ordinary shares). The other shareholders were CDC Group plc 60.03% and International Finance Corporation (IFC), an affiliate company of the World Bank.

DFCU limited is listed under class 111 of the Public Enterprises Reform and Divestiture Act – a public enterprise where the State is required to fully divest from. At its 309th meeting held on the 6th July 2004, DRIC approved the sale of 18.47% Government shareholding to the General public by way of Initial public offering (IPO). 5% of the shares were reserved for the employees to be paid for over a period of 12 months at the same rate as that offered to the public. Listing of DFCU Limited on the Uganda Securities Exchange commenced in September 2004. A total of Ugshs.18,369,374,559/= in gross proceeds was received while expenses totaling to 1,265,827,615 were paid out leaving a net balance of 17,103,546,944/= to the Divestiture Account.

7.4 New Vision – IPO

The New Vision Printing and Publishing Company Limited (NVPPCL) was incorporated in 2002 as a public limited liability company for purposes of effecting its divestiture. It is a successor company to New Vision Printing and Publishing Corporation. It is 100% owned by the Government of Uganda in the business of publishing newspapers and commercial printing. NVPPCL is listed under class 11 of the Public Enterprises Reform and Divestiture Act – a public enterprise where the State is required to retain majority shareholding. At its 290th meeting held on 1st November 2002, DRIC approved the divestiture of 20% shares of the NVPPCL by way of initial public offer (IPO). 5% of the shares were reserved for the company's employees at the same rate offered to the public. In December 2004, DRIC approved a 24 month deferred payment period in respect of this employee share ownership program (ESOP).The listing of the Company's shares started in December 2004. The gross proceeds from IPO to the divestiture Account amounted to 2,040,000,000 while Expenses to the tune of Shs.28,832,403 were paid out.

The secretaries should check the way they write their monetary values including /= after the word Shs is double

7.5 <u>Nile Hotel (Serena)</u>

Payment of US Dollars 1,200,000 was a fixed one time payment for the concession while the amount of the Concession fee payable each year for a period of 30 years by the Concessionaire to NHIL in consideration of the Grant and the lease shall be based on the Concessionaire's projected gross revenue as was indicated in the Price Offer or adjusted to reflect such Actual gross revenue should the gross revenue be higher than the projected figure. This is due quarterly in advance. This is contained in the concession and Lease agreement that was entered into on the 15th of January 2004 between NHIL and Government of the Republic of Uganda and TPS (UGANDA) limited.

7.6 Stanbic Bank IPO

In 2002, the Standard Bank group through Stanbic Uganda acquired 80% of Government's shareholding in Uganda Commercial Bank Limited through Bank of Uganda after the failed sale to Westmont Asia PLC. Subsequently Government retained 10% shareholding after the banks were merged; Standard Bank Group undertook to offer its 10% stake in the merged bank to match Governments 10% offer through an IPO. On the 21st November 2006, an initial Public offer of 1,023,773,394 shares for the 20% of the total shareholding at an offer price of Ushs.70 per share opened for a period of 4 weeks. The net proceeds for the 511,886,697 shares (10% shares for Government of Uganda) amounted to Ushs 32,635,592,574/=.This was remitted to the Divestiture Account.

7.7 Agricultural Enterprises - Escrow Account

This has been an area of concern since the divestiture of this Enterprise in October 1993. The balance as at end of the financial year on the Escrow Account with Barclays Bank was US $ 120,147.92. Interest is earned on maturity of monthly deposits. This money has been held for a long time. Privatization Unit explains that a reconciliation and verification exercise of the expenses is still on going and hence the matter has not been finalized.

Recommendation

Privatization Unit is advised to resolve this matter through the quick verification exercise with Agricultural Enterprises so as to be able to close this account.

7.8 Agricultural Enterprises - Zeu Land

Zeu land is property located in Nebbi in an Estate comprising an area of **3,175.36** acres in LRV 715 Folio 5 at Zeu, Okoro County, West Nile. This land was not included in the original sale as it was reported inadvertently left out. Negotiations to resolve this issue took its course between the buyer and

Privatization Unit with the legal advice from Solicitor General and accordingly, valuation was carried out. In his letter dated 15th March 2006, to the Solicitor general, the Chief Government valuer advised that the value of land is in the region of 160,000,000/=(One hundred Sixty Million Shillings) taking into account the current open market value. On the 18th December 2006, the Attorney General on the instructions of Privatization Unit entered into a consent judgment with James Finlay (U) limited formerly Rwenzori Highlands Tea Co.(the buyer) where in the buyer purchased Zeu land at 160,000,000/= (One hundred Sixty Million shillings only) and payment was made to the Divestiture Account.

Enterprises That Have Defaulted & The Extent Of Default:

A total of 6 enterprises have defaulted on payment of balance on the purchase price, and the extent of default ranges from 6 years to 11 years. The total amount in default is Ushs15,520,020,460/= as reflected below:

Table 12.

	Name of Enterprise	Amount Outstanding as at 30/6/06	Amount outstanding as at 30/6/07 (As per Currency stated in sale agreement	Equivalent Amount in Uganda Shillings as at 30/6/07	Extent of Default
2	Acholi Inn Hotel.	UGS 122,000,000	UGS 122,000,000	122,000,000	Over 6.5 years ***(Attorney General Responsible)***
5	Uganda Meat Packers – Soroti.	UGS124,244,555	UGS 64,244,555	64,244,555	Over 6.5 Years (***Attorney General responsible)***
6	Uganda Consolidated Properties	UGS16,174,350,000	USD 9,000,000	14,430,150,000	Over 8 Years (***Privatization Unit responsible)***
	African Textile Mills	USD 423,255.00	USD 423,255.00	678,625,904.25	Arrears over 10 years (***Under***

					litigation)
	Hill Top Hotel	UGS 25,000,000	UGS 25,000,000	25,000,000	Over 10 Years ***(Under litigation)***
	Lira Hotel	UGS 200,000,000	UGS 200,000,000	200,000,000	Over 11 Years (***Under litigation)***
	Total			**15,520,020,460**	

- **Lira Hotel:**

It was reported the matter is in court and caveat has been placed on the title that was obtained fraudulently. Privatization Unit explained that the matter was forwarded to the Attorney General for litigation. However; correspondences on file indicate no activity at all.

- **Hilltop Hotel**.

The matter was forwarded to the Attorney General for Litigation and Correspondences on file indicate no activity at all.

- **African Textile Mills (ATM)**

The balance of USD 423,255.00 has been outstanding for along time. The matter was sent to Solicitor General for litigation and correspondences on activity at all.

- **Uganda Meat Packers – Soroti and Acholi Inn**:

The outstanding balance on these Enterprises due from Government through Attorney General is from the funds that Government owes to the buyers as Compensation for war losses as per the Deeds of assignment signed on the 8th day of November and 6th September 2000 respectively. During this financial year, 60,000,000/= was received on account of Uganda Meat Packers – Soroti leaving a balance of 64,244,555/= unpaid while for Acholi Inn, no payment was received.

7.9 Uganda Consolidated Properties:

The outstanding amount of Ug.shs.16,174,350,000/= is as a result of article 2 (b) of the sale agreement for the sale of Embassy House and Development House through a swap. However the agreement to this effect has not yet been concluded to enable the transaction (sale) to be completed. It should be noted that the sale agreement between Uganda Consolidated Properties (Seller) and Government of Uganda (Buyer) was signed on the 15th day of March 1999, where by the SWAP agreement should have followed immediately thereafter. This has not yet been concluded to date although clearance by the Solicitor General was given in a letter dated 23rd April 2003 to the Director Privatization Unit.

Shares To Be Sold On The Stock Exchange

The following Divested Enterprises are/were under an obligation to sell some shares on the Stock Exchange:

Table 13

	Enterprise	Date of sale Agreement	% age shares for Stock Exchange	Due date and status
1.	Stanbic Bank	2002 (Sale through Bank of Uganda)	10%	Fulfilled the obligation
2.	Uganda Grain milling	20/12/1996	28.1%	After sale date (**defaulted is now under liqudation)**
3.	Baroda Bank.	8/6/1999	Not less than 20%	Within 3 years from sale date (**Fulfilled Obligation)**
4.	Kakira Sugar	4/7/2000	Not less than 10%	Within 5 years from sale date **(Defaulted).**

5.	BAT	20/9/1999	10%	After sale date (completion date) (**Fulfilled obligation)**
6.	Tororo Cement Works	23/11/1995	20%	After 1 year (**Defaulted)**
7.	Barclays Bank	8/10/1998	25%	Within 5 years from sale date (**Defaulted)**
8.	Lake Victoria Hotel	9/8/2000	Not less than 10%	Within 3 years from sale date (**Defaulted)**
9.	Uganda Clays	N/A	86.6%	11/10/1999 to 26/11/1999 **(Fulfilled obligation)**
10	Uganda Telecom	2/6/2000	49% or a portion of them	At the earliest opportunity after the date of agreement ***(*Defaulted*)***
11	Apollo Hotel	7/3/2001	Not less than 20%	Within 3 years ***(*Defaulted)**
12	NICL	02/06/2005	40%	Within 18 months from sale date.
13	DFCU	IPO start date – 30/7/04	18.47%	Done in the Stipulated period.
14	New Vision	IPO start date – September 2004	20% (15% to General Public and 5% to Employees.	Done in the stipulated period.
15	Kinyara Sugar Works ltd	20/10/06	19%	Within 2 years from sale date.

Shares Traded On The Stock Exchange

The following enterprises have fulfilled the stock exchange requirements and their shares are currently trading on the stock exchange:

- British American Tobacco (BAT)
- Uganda Clays
- Baroda Bank
- DFCU Limited.
- The New Vision Printing and Publishing Corporation Limited.
- Stanbic Bank

7.10 Enterprises That Have Not Yet Fulfilled Stock Exchange Obligations

- **Uganda Grain Milling Company**

The Company failed to meet the Stock Exchange requirements as it was heavily indebted. it has since been put under receivership by its creditors and as a result Government of Uganda may have lost the 28.1% shareholding in the Company.

- **Kakira Sugar Works**

As per the sale agreement, the stipulated time of 5 years expired in July 2005. However correspondences on file indicate some level of preparedness to the exercise if some stock exchange requirements are fulfilled by the company.

- **Tororo Cement Works**

This was not implemented in the stipulated period which should have been in 1996. There is no evidence that effort is being made to compel the Company to put some shares on the stock exchange

- **Barclays Bank**

This is over due as the period expired in October 2003 and despite reminders by Ministry of Finance and the Capital Markets authority, there are no signs that Barclays Bank is making any preparation for the floatation.

- **Lake Victoria Hotel**

This is overdue as the implementation period expired in August 2003. Despite several reminders by the Privatization Unit, correspondences on file do not indicate any commitment to the same exercise by the buyers.

- **Apollo Hotel Corporation**

This is over due as the three years scheduled period expired by March 2004. To date, no tangible progress has been recorded despite several reminders by the Privatization Unit.

- **Uganda Telecom**

As per the sale agreement, the process is over due. However, correspondences on file indicate some preparatory activities are underway as the procurement process of the lead adviser has been concluded. Data Bank Consortium an Investment Bank consortium was selected as the Lead advisor for an initial public offer and the listing of the Company on the Stock exchange.

- **National Insurance Corporation Limited (NICL)**

This is due and preparations for the Initial Public Offering are underway as per correspondences on file.

7.11 General Observation On Stock Exchange Issues

Despite several reminders to the defaulted buyers of the above Enterprises on the stock exchange requirements by the Privatization Unit, no tangible results have been registered. However in his letter Ref. PUSRP 18.27.00 dated 26th march 2007, the Director Privatization Unit requested the Solicitor General to commence the necessary action for legal redress.

Correspondences on file do not indicate the progress on action so far taken by the Solicitor General.

7.12 Re-Possessed Companies:

The following companies were repossessed by their former owners

	Name of Enterprise	Repossessed By
1.	Uganda American Insurance Company	American Life Insurance.
2.	Uganda Securico Ltd.	Securico \`U' Ltd.
3.	Uganda Tea Corporation.	Mehta Group.
4	Uganda Crane Estates Ltd.	Buganda Kingdom.
5.	East Africa Steel Corporation	Madhvani Group.

7.13 Enterprises That Were Liquidated:

1. Uganda Fish Marketing.
2. Wolfram Investments
3. Ugadev. Bank Ltd.
4. Lint Marketing Board
5. Sino (U) ltd.
6. Associated Paper Industries.
7. Ugadev Investments
8. Toro Development Corporation.
9. Chillington Tools ltd.
10. Uganda Transport Company.
11. Peoples Transport Company
12. Uganda General Merchandise
13. Produce Marketing Board.
14. Uganda Spinning Mill.
15. NYTIL U Ltd.

7.14 Enterprises That Under Liquidation:

1. Uganda Airlines Holdings Ltd.
2. Uganda Consolidated Properties
3. Uganda Bags and Hessian Mills
4. Uganda Tourist Development Corporation
5. Uganda Grain Milling Co.
6. Kulubya properties

7.15 Enterprises Dissolved By Decree:

1. Uganda Air limited.
2. Uganda Aviation Services.

7.16 Enterprises Dissolved By Act:

1. Uganda Tourist Development Corporation.

7.17 Companies Struck Off The Company's Register:

1. Paramount Manufacturers.
2. Agro - Chemicals
3. Domestic Appliances.
4. Hamilton.
5. Itama Mines
6. Lebel (E.A) Ltd.
7. Sukulu Mines
8. Ticaf
9. Uganda Farm Machinery.
10. Gobbot `U' Ltd.
11. Uganda Toni Services
12. Ugadev Holdings.
13 Intra Africa Traders
14 R.O Hamilton.
15 Uganda Wildlife Development Company.

7.18 Loan Advanced To Kilembe Mines

Following the memorandum of understanding that was entered into between Government of Uganda and Kilembe mines Ltd dated 16th January 2006, the total amount owed to the divestiture Account by Kilembe Mines including interest is 5,736,884,369/=. This arose as a result of the arbitration award dated 13th December 2004 to BM Steel Limited against Kilembe mines limited for failure to honor its contractual obligations.

7.19 Money Owed To The Divestiture Account By GOU

In the process of divesting and restructuring various Public enterprises, Privatization and Utility Sector Reform Project (PUSRP) paid for some expenses on behalf of the Ministry of Finance, Planning and Economic Development (MOFPED) on the understanding that these funds would be reimbursed to the Divestiture Account.

In the same way, PUSRP owes money to the Consolidated Fund. It was noted that GOU owes the Divestiture Account a total ofUgshs.54,922,770,371/= while PUSRP owes GOU/Treasury 10,436,556,879/=. This leaves a net figure of 44,486,213,492 in favor of the Divestiture account as at 30/JUNE/ 2003.
Although PUSRP and MOFPED have indicated their willingness to settle their indebtedness to each other by way of debt swap the matter has not come to a conclusion because a reconciliation exercise is still on going.

Below is a summary of the funds disbursed under the same arrangement:

Due to the Divestiture Account:

P/E (Transaction)	**Amount (UGS)**
UTL Arrears	4,204,000,000
Sub - total	**4,204,000,000**

Recoverable Advances:	
• Nile Hotel	1,224,804,091
• Sugar Corporation (U) ltd	2,500,000,000
• Uganda Air Cargo Corporation	7,211,058,699
• Shell (U) Ltd	12,790,000,000
• Kinyara Sugar Works ltd	4,000,000,000
• Agricultural Enterprises ltd	6,170,579,000
Sub - total	**33,896,441,790**
Asset Sale (Proceeds)	
• Uganda Consolidated Properties	**16,174,350,000**
Assumed Liabilities	
• General	**72,525,853**
• Terminal Benefits:	
SCOUL	254,843,708
UGMA	124,609,020
Sub - total	**379,452,728**
General Divestiture Costs:	
• **Foods and Beverages**	**196,000,000**
GRAND TOTAL	**54,922,770,371**

Due to GOU/Finance:

Summary

P/E (Transaction)	**Total Amount (UGS)**
Bank loans/Overdrafts to P/Es	742,141,026
Taxes	788,409,544
Others (This includes subsidy balances unpaid to treasury at the time of sale)	8,906,006,309
Grand Total	**10,436,556,879**