

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF KILEMBE MINES LIMITED FOR THE
FINANCIAL YEAR ENDED 30TH JUNE 2017**

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UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF KILEMBE MINES LIMITED FOR THE YEAR ENDED 30TH JUNE 2017**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Kilembe Mines Limited for the financial year ended 30th June 2017. These financial statements comprise the Statement of Financial Position as at 30th June 2017, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 21.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kilembe Mines Limited as at 30th June 2017 and its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current period. I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to note 7 and 8 in the financial statements:

- **Outstanding Receivables**

Disclosed in receivables under note 7 is a sum of 873,283,296 which includes an amount UGX.253,390,598 relating to rent receivables from tenants, which have been outstanding for 8 years. In addition a sum of UGX. 356,835,424 under the same note relates to advances and car loans to the former CEO and Chief Accountant, has been outstanding since the year 2005.

It was further noted that the staff car loans and advances may not be recovered since the concerned staff have since left the company.

Management is advised to institute necessary measures to recover the funds.

- **Outstanding Payables**

Included in the payables balance under note 8 of the financial statements is UGX.409,198,562 made by a private company to Kilembe Mines Limited for scrap materials, which were however not delivered as a result of refusal by the concessionaire. The company is exposed to risk of litigation and unnecessary costs.

In response, management explained that it has engaged the Ministry of Energy and Mineral Development to have the materials released to the company, which was the best evaluated bidder without success.

Management is advised to engage all the necessary stakeholders and have the matter resolved without further delay.

Other Matter

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements.

- **Role of the Ministry of Energy and Mineral Development (MEMD)**

The Public Enterprise Reform and Divestiture (PERD) Act 1993 provides for the role of the Minister responsible for Finance and the line ministers, in monitoring the performance of the Public Enterprises. The Act describes the "line Minister", in relation to a public enterprise, as the Minister responsible for the sector in which that enterprise falls.

However review of the Concession Agreement, revealed that the shareholding of KML is between the Minister of Finance, Planning and Economic Development (MoFPED) and the Minister of State in charge of privatization and Investment. The role of the Ministry of Energy and Mineral Development is not specified in the concession agreement.

Without any specified roles in the concession, MEMD cannot effectively undertake its supervisory role over the operations of the Concession.

In response, management stated that the Prime Minister's office is working on a revision of the laws (PERD Act) for all agencies to be directly answerable to the responsible ministry, which shall cater for subsequent concessions. It was further stated that MEMD was directly involved in all processes leading to and including the concession through the Directorate of Geological Surveys and Mines.

I await the effects of revision of the relevant Law.

- **Failure to appoint a Board Chairperson**

It was noted that since retirement of Board chairman for the company, there was no appointment of a replacement, contrary to Section 9 (4) of the PERD (Public Enterprises Reform and Divestiture) Act. It was further observed that neither board meetings nor Annual General Meeting were held from October 2016 to May 2017. The absence of a board chairman and failure to convene meetings of top organs of the entity undermines the strategic oversight of the organization.

I advised management to liaise with the responsible Minister and shareholders to appoint a new Board Chairperson and convene the stipulated meetings to offer the necessary oversight.

- **Budgeting and operational challenges of KML**

KML submitted an annual budget of UGX 2.4 Billion for FY 16/17 to MoFPED for approval, in anticipation of the Concession fees revenues. However, only UGX.243M was received from MoFPED during the financial year to settle salary arrears. This was 10% of the budget. The company has thus relied on revenues from sale of scrap, subleases and unreliable rental revenues. This was due to delayed payments by the Concessionaire and non-approval of the budget and work plan by MoFPED.

The underfunding has affected activities such as monitoring/supervision of the concessionaire and operation & maintenance (O&M) of non-conceded assets.

In response, management explained that the budgeting and operational challenges of KML are as a result of the legality regarding incorporation of KML as a private company which inhibits it to operate as a Vote holder, and the fact that the Annual Concession Fees (ACF) are paid to MoFPED and not KML.

I advised management to liaise with relevant stakeholders and resolve the legal matters of incorporation of the company without further delay.

Director's Responsibilities for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Uganda Companies Act, 2012, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Company's management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2012, I report to you, based on my audit, that:

- I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit;
- In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and
- The Company's statement of financial position and statement of financial performance are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

11th December, 2017