



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF MANDELA NATIONAL STADIUM
LIMITED FOR THE YEAR ENDED 31st DECEMBER 2016**

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF MANDELA NATIONAL STADIUM LIMITED
FOR THE YEAR 31ST DECEMBER 2016

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the financial statements of Mandela national stadium limited for the year ending 31st December 2016 set out on pages 13 to 26 which comprise the statement of financial position, as at 31st December 2016, Income and Expenditure statement, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In my opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mandela National Stadium Limited's as at 31st December 2016 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda.

Basis of Qualified Opinion

- **Irregular Disclosure of Going Concern Status**

IAS 1.25 requires management to make an assessment of an entity's ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed.

If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case IAS 1 requires a series of disclosures. I reviewed the financial statements of MNS-ltd and noted a number of going concern issues which were not adequately disclosed by management details of which are indicated below;

- The stadium reported losses of UGX.669,415,803 for 2016 leading to increase in accumulated deficit to UGX.5,411,795,668. If this trend continues the capital base of the Stadium will be depleted.
- Companies are required to maintain a current and acid test ratios that provides sufficient leverage against liquidity risk given the level of predictability and volatility in a given business sector.

I found out that the current and acid test ratios stood at 0.275:1. This implies that the company's current assets can only pay off 27.5% of current liabilities. In other words the stadium in its current position is not likely to pay off its obligations without having to sell off long-term or capital assets.

- Analytical review of the stadium's financial statements revealed the MNS-LTD's Return on Assets (ROA) stands at -0.04%. ROA is calculated by dividing a company's annual earnings by its total assets. The Negative ROA is an indicator that the company is not efficiently utilizing its assets to generate earnings.

The Stadium's assets have continued to deteriorate without provisions in the budget to finance their maintenance; an indicator that the assets may not be able to generate the required income to finance planned activities and pay service providers.

Management attributed the state of affairs to frequent management and board changes. It was further stated that it has strengthened its marketing and sales department to attract new business.

I explained to management that the above factors are an indication of the Stadium's inability to sustain itself in the foreseeable future.

I advised the Accounting Officer to always make appropriate disclosures in the financial statements in regard to the going concern. I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the Constitution of the Republic of

Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current year.

I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion further, I draw your attention to the following matter presented in notes 2 and 4 to the financial statements.

- **Increase in the amount of outstanding payables**

A review of the statement of financial position indicated that payables increased from UGX.2,733,389,848 to UGX.4,043,684,570 in the current year. Notable among them were taxes due to Uganda Revenue Authority amounting to UGX.2,489,003,397 and UGX.746,501,127 NSSF outstanding obligations.

The amount of payables disclosed were found to be 187% of the revenue generated during the year under review casting doubt on the Stadium's ability to pay them off in the subsequent year.

I explained to management that increase in payables exposes the stadium to legal costs, penalties and fines which further constrains its operations.

In response management indicated this issue has been brought to the attention of the shareholders and will be addressed in the next Annual General Meeting.

I await the outcome of the shareholders Annual General Meeting deliberations of this issue.

- **Outstanding receivables**

MNS-Ltd disclosed in the statement of financial position receivables of UGX.1,075,824,605 , which is a significant amount as it represents 50% of the total income of UGX.2,166,629,604 earned during the year.

I explained to the Accounting officer that un-recovered receivables hinder management's ability to meet operational costs and settlement of outstanding obligations.

Management indicated it has developed a Debt Management Policy with stringent mechanism of collecting the due funds.

I advised the accounting officer to ensure timely collections of all monies due to the company.

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.

- **Failure to clear taxes for donated items**

The 8th protocol between Government of China and Government of Uganda signed 2012 required the latter to meet the clearing, forwarding, warehousing and taxation costs on donations for the stadium.

The Stadium received donations comprising of firefighting equipment from the Government of the People's Republic of China in 2012. The equipment received was warehoused pending tax clearance. I however noted since that to date the consignment has not been cleared with the URA and has since accumulated Ugx.103, 947,985 in storage and demurrage costs as at December 2015.

Management indicated that requests were made to the shareholders for financial assistance in vain and storage charges continued to accumulate. The stadium

stands a risk of losing its assets in case of fire outbreak since its firefighting equipment previously installed was written off and may also discourage further donations from the People's Republic of China.

I advised management to ensure that storage and demurrage charges are cleared and equipment installed without further delay.

- **Management of the stadium's Land**

A review of the land status file indicated that in 2015, the Stadium got a stamp duty waiver of UGX.1.6 billion for the transfer of block 234 (1.660 hectares) and block 234 (48.54 hectares) from Uganda Land Commission into its names. However, I noted that to date the land titles have not been duly transferred.

Inspection of the land boundaries further revealed that land encroachment has continued to persist with visible un-authorized income generating activities such as washing bays, market, brick laying activities and car garages.

Management explained that most of the land cases have been brought to the attention of relevant state agencies and are being handled. On other hand management indicated the stadium was still handling the process of transferring the land into the company's names.

I advised management to ensure that encroachment and land transfer issues are expeditiously handled.

- **Un fulfilled contractual terms for Mandela Sports Hotel.**

MNS-Ltd rented out the Stadium Hotel to Fortune Energy Ltd (FEL) to rent the stadium for a period of 10 years effective 1st February 2016. Section 3 B(1) of the contract required FEL to pay premium and rent for the first six months totaling to UGX.354,000,000 upon signing or execution of the agreement as a precondition to being allowed access to and or being handed the facility.

The operator paid UGX.50,000,000 out of the UGX.354,000,000 agreed contract sum on 22nd June 2016 and was handed over the facility with UGX.304, 000,000 outstanding. I further noted that MNS-Ltd did not appoint a contract manager to

monitor the implementation of the contract agreement and there was no Solicitor General's approval of the signed contract contrary to regulations 7 (f) of the PPDA regulations (contracts) 2014.

This is an indicator of poor contract management as the hotel was handed over without following the contract terms and conditions. Furthermore, not seeking the solicitor general's approval violates the PPDA regulations.

I advised management to collect all the rent dues as per the contract and to always seek the Solicitor General's approval for contracts above the threshold of UGX.200Million.

Directors' 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 year 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

9th November 2017