



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE UGANDA FREE ZONES AUTHORITY
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

Acronym	Meaning
COFTU	Central Organisation of Free trade Unions
IT	Information Technology
MoFPED	Ministry of Finance, Planning and Economic Development
NOTU	National Organization of Trade Unions
UFZA	Uganda Free Zones Authority
TAI	Treasury Accounting instructions
PFMA	Public Finance Management Act, 2015
PPDA	Public Procurement and Disposal of Assets
PDU	Public Procurement and Disposal Unit

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA FREE ZONES AUTHORITY
FOR THE YEAR ENDED 30TH JUNE, 2017

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the financial statements of Uganda Free Zones Authority for the year ended 30th June, 2017. These financial statements comprise of the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements, present fairly, in all material respects the financial position of Uganda Free Zones Authority as at 30th June, 2017 and its financial performance and cash flows for the year then ended in accordance with Section 51 of the Public Finance Management Act, 2015 and the Financial Reporting Guide, 2008.

Basis of Opinion

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

Other Matter

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements.

- **Lack of a Development Budget**

The Authority has been budgeting and receiving subventions from Ministry of Finance to support its planned activities, majority of which are of capital nature such as development of free zones across the country.

In the FY 2016/2017, the Authority budgeted for both recurrent and capital development expenditure of UGX.54,970,319,400 however, only the recurrent budget of UGX.3,384,934,136 was received and the development expenditure remained as 'unfunded priority' under the budget framework paper.

Due to non-provision of capital development budget, the Authority did not meet its capital development needs especially in the creation of the model Public Free Zones area and this has affected the achievement of its mandate. Besides, continuous receipt of subvention from the Ministry as opposed to being a vote is likely to cripple the activities of the entity.

I advised Management to continuously liaise with MOFPED to ensure that the budget of the Authority is fully funded as well as considering the entity for a vote status.

- **Delayed development of free zones**

The overall mandate of the Authority among others is to 'establish, develop and manage Free zones'. The Authority had planned to license 10 free zones in 5 years at a projected investment cost of US\$.446,545,455.

It was observed that during the financial year 2016/17, 6 privately owned free zones were created, 4 of which were single and 2 multi-purpose. Out of the 6, only 2 were operational while construction of the 4th had just commenced. However the Authority operated with a number of challenges. Government has not provided capital development budget to undertake the planned developments and as such there is a risk that the investment growth will be hindered.

I advised Management to liaise with MOFPED to provide capital development budget to enable the entity expedite the operationalisation and developed of the zones.

- **Incomplete composition of Board**

According to Section 9(1) UFZA Act 2014 the Board shall be composed of 8 members among whom shall be a representative of the workers nominated by the Federation of Labour Unions in Uganda. Section 9 (3) of the same Act requires the Chairperson and Vice Chairperson to be appointed from the private sector.

It was noted that the board does not have a representative of the workers and that the Vice Chairperson of the board is not from the private sector but rather a lecturer at Makerere University. In the absence of a properly constituted board, the board may not efficiently carry out its duties.

Management explained that the appointing Authority will be advised accordingly. It should however, be noted that the main Labour Unions (COFTU and NOTU) have failed to nominate a representative to the Board to date.

I advised the Accounting Officer to continuously engage the trade unions and resolve the matter.

- **Staffing gaps**

A review of the authority's establishment revealed that 17 posts out of the approved 43 remained vacant during the year. These posts are critical in the achievement of the mandate of the Authority. These include IT manager, Finance Manager, Internal Auditor and Manager Research, Planning and Policy among others. Staffing gaps have a negative effect on the general performance of the authority and affect the level and quality of service delivery.

Management explained that the Minister of Finance wrote advising on staying any planned recruitments except on replacement basis until the funds allow. The Authority has however held a meeting with UNDP to lobby for support in pursuit of the UFZA Strategic Plan. The meeting recommended that the Government, through the Ministry of Finance Planning and Economic Development should be lobbied to finance the implementation of the Strategic Plan.

I advised the Accounting Officer to liaise with MOFPED to secure funds for recruitment of critical staff of the Authority. Meanwhile I await the progress of the UNDP in funding the strategic plan.

- **Board remuneration payments – UGX.101,600,000**

Public Service Standing Orders bar public officials to concurrently draw two salaries from different government departments. The Minister of Finance, Planning and Economic Development appointed the board with entitlements of sitting allowance and monthly retainer.

It was noted that the Board was composed of full time government employees who were earning salaries from their respective entities but earned UGX.101,600,000 in form of monthly retainer during the year. I noted that the Minister appointed members on monthly retainer fee terms instead of sitting allowances on daily rates. Monthly retainer tantamount to salary as it's an automatic payment and is not pegged to attendance of any board meeting. Payment of monthly retainer is considered a loss to government.

Management explained that the Board Members were appointed by the Hon. Minister of Finance, Planning and Economic Development who issued appointment letters to the same clearly showing their terms of service.

I advised the Accounting Officer to comply with the Public Service Standing Orders.

- **Un-implemented procurements - UGX.49,500,000**

The PPDA Regulations 3 (1) requires the PDU in each financial year to prepare an annual procurement plan for the procuring and disposing entity. The procurement plan should include among others a detailed breakdown of activities of works, services or supplies to be procured. It was noted that planned procurement worth UGX.49,500,000 were not implemented. There is a risk that the operational efficiency of the Authority will be affected.

Management explained that out of the Recurrent Budget of UGX.3,454,934,000 appropriated by Parliament, only UGX.3,384,934,136 was received from Treasury by the Authority for the FY 2016/17. Thus, UGX.69,999,864 from the Authority's Budget was never released by Ministry of Finance, Planning and Economic Development (MFPEd) due

to resource constraints. This therefore hindered the Authority from implementing all its procurements as planned.

I advised the Accounting Officer to engage the MOFPED for funding of the planned activities.

Responsibilities of the Accounting Officer for the Financial Statements

The Accounting Officer is also responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the Free Zones Authority Act and International Financial Reporting Standards on Accrual basis of accounting and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so. The Accounting Officer is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 Accounting Officer 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 Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Accounting Officer, 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.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a long horizontal flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

8th December, 2017

APPENDIX 1

FINANCIAL STATEMENTS