



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA PROPERTY HOLDINGS LIMITED
FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

UPHL	Uganda Property Holding Limited
ISA's	International Standards on Auditing
IESBA	International Ethics Standards Board for Accountants
IPSAs	International Public Sector Accounting Standards
IFRS	International Financial Reporting Standards
UGX	Uganda Shillings
ISSAI	International Standards of Supreme Audit Institutions
PFMA	Public Finance Management Act
ICPAU	Institute of Certified Public Accountants of Uganda

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA PROPERTY HOLDINGS LIMITED
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 Property Holdings Limited 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 Property Holdings Limited as at 30th June, 2017 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) and Guidelines issued by the Institute of Certified Public Accountants of Uganda (ICPAU). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Uganda, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence we 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 Matters

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

- **Uncertainty of UPHL business in Kenya**

Kenyan Parliament recently passed a new law (Land Amendment Act 2016) prohibiting foreign individuals, Companies and Governments from owning land 25kms from the border or second tier from Ocean and also non-renewal of expired leases for non-Kenyans. Subsequently, UPHL wrote to the Minister of Finance, Planning and Economic Development (MoFPED), the Attorney General and other relevant Government stakeholders informing them of the development.

It was noted that UPHL property is leasehold. I observed that the new law directly affects 8 of the Company's property and as such, creates uncertainty on the actions of the entity and diverts UPHL from implementing its objectives and mandate. A case in point was the shelving of the plans to purchase land in Lamu at cost of UGX.1bn. The new law does not favour UPHL and therefore has negative effects on the strategic intents of the Company.

Management explained that the law is being challenged in courts of law and awaits the verdict. Management is using inter-governmental relations between Kenya and Uganda to ensure that the properties of UPHL remain safe in Kenya.

I advised the Accounting Officer to continue engaging the relevant institutions such as Ministry of Foreign Affairs, Office of the Prime Minister and use of the East African Community to resolve the matter.

- **Non-payment of Rent by Occupants**

The entity is facing challenges that require urgent attention. Government has continued to benefit from services of UPHL without the occupants paying rent. Non-payment of rent or a minimum user fee limits UPHL in effectively managing the properties and carry out renovation (a case in point is Farmers House Building. The roof was leaking and needed urgent replacement, water and electricity works have not been replaced since 1969 and need to be overhauled). Failure to pay rent affects the pace of renovation and timely payment of utility and security services.

Management agreed to follow up the matter and ensure lasting solution is established.

I advised the Accounting Officer to liaise with MoFPED and Accounting Officers of the respective entities occupying the premises to ensure that they budget and pay rental fees.

- **Outstanding Receivables**

I noted that UPHL had outstanding debtors at Mombasa Office of UGX.657,865,915 during the prior year. This debt increased to UGX.1,340,609,494 during the year under review registering an increment of 104%. Increase in debtors may imply laxity in implementation of the debtor's management policy which limits receivables to not more than 5% beyond 30 days. There is a risk of financial loss to the Company if the debts are not collected and end up being written off.

Management explained that UPHL has a debtor's management policy that is used to manage its debtors. The policy is being followed and it is realising the debtor's management objectives. As of 30th June, 2017, UGX.1.046 bn of the UGX.1.34 bn debtors was owed by four major clients. Out of UGX.1.34bn, UGX.836 m had been recovered by end of November. Management has appointed an auctioneer to collect the outstanding amount.

I advised the Accounting Officer to strengthen debt recovery efforts and ensure that all the debts are timely recovered.

- **Outstanding Payables**

UPHL had outstanding liabilities of UGX.1,608,946,252 to suppliers of goods and services as well as unsettled tax obligations at the year end. Of this amount, UGX.1,362,210,406 related to trade and other payables whereas UGX.46,735,846 relate to outstanding Corporation taxes. Some of the suppliers had outstanding liabilities for more than 120 days. As at 30th November, 2017, the outstanding payments to suppliers of goods and services stood at UGX.304,600,523. Delayed settlement of arrears poses a risk of litigation from the suppliers.

Management explained that UPHL endeavours to settle all its current obligations within 30 days from the date of invoicing. The isolated cases pointed out had issues related to reconciliations.

I advised the Accounting Officer to endeavour settlement of obligations early enough to avoid unnecessary accumulations, penalties and interests.

- **Unimplemented Activities/Programs-UGX.1.034 bn**

Total income for the entity increased from UGX.6.8bn in 2015/16 to UGX.7.2bn in 2016/17 thus registering a profit before tax of UGX.554m in 2016/17.

Review of the capital expenditure budget and the performance report of the company revealed that some planned activities of a capital nature were not implemented during the year as planned. The table below refers; Non implementation of the planned programmes implies that the Company did not achieve its objectives.

Nature of Activity	Amount (UGX)	Remarks
Acquisition of Land in Lamu and Tanga	1,000,000,000	Not acquired as planned.
Office Generator	34,000,000	Generator for Mombasa office not bought as planned.
TOTAL	1,034,000,000	

Management explained as follows;

- After considering the current legal regime in Kenya, the Board reviewed the company strategic plan and shifted the project to acquisition of land in Kampala during the year 2017/18.
- The procurement for the Generator was undertaken and the contract issued to the best bidder. However, the best bidder declined to supply the generator. This will be revised during the year 2017/18.

I advised the Accounting Officer to follow up the matters and ensure that they are resolved with the authorities. Further, the planned purchase of a generator should be finalised.

Responsibilities of the Directors for the Financial Statements

The Directors are also responsible for the preparation and fair presentation of the financial statements in accordance with 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 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 management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional 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 Company'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 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 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 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 requirements

As required by the Company's Act and the National Audit Act, 2008, I report to you, based on my audit;

- i. 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.
- ii. In my opinion, proper books of account have been kept by the Company so far, as appears from my examination of those books; and
- iii. The statement of financial position and statement of financial performance are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

15th December, 2017

FINANCIAL STATEMENTS