



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ENTERPRISE CORPORATION (NEC) FARM KATONGA
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ENTERPRISE CORPORATION (NEC) FARM KATONGA
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 National Enterprise Corporation (NEC) Farm Katonga for the year ended 30th June 2017. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, NEC Farm Katonga financial statements present fairly in all material respects the financial position of NEC Farm Katonga as at 30th June 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Sec 18 of the National Enterprise Act Corporation Cap 312 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 Statement's section of my report. I am independent of the Corporation 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, were of most significance in my audit of the financial statements of the current period. I have determined that there are no other 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:

- **Ability of the farm to continue operations**

Government made additional investment to a tune of UGX.7.9bn in NEC Farm Katonga. As a result, livestock has increased from 337 at the beginning of the financial year to 3,203 and new infrastructure development worth UGX.6.3bn is now in place. However I note that the administrative costs have increased from UGX.27,354,500 in the prior year to UGX.102,456,365 without corresponding revenue.

There is no business plan to enable me establish that the increased livestock and the improved infrastructure at the farm are planned to be maintained. There is risk that if no additional funding is provided the entire project may fail.

Management explained that they have a draft Business Plan for the farm for a three year period and yet to be presented to the Board for approval. The plan shows the projected investment cost and project income and expenditure. The Corporation is in discussions with MAAIF for additional funding to sustain the increased activities in the short term.

I advised the Managing Director to ensure that MAAIF provides additional funds required to cater for the operational costs until such a time that the farm becomes self-sustaining.

- **Lease Of Farm Land To Iranian Investor**

Over UGX.7.9 billion was spent during the year on capital developments projects at NEC Farm Katonga to enable the production of high export grade slaughter cattle for export abattoirs. This investment was initiated on the 17 square mile land of the farm.

I noted that the 17 square miles land on which this investment was being carried out was leased out earlier by Government to Iran Agro Industries Ltd and all land titles were handed over to the lessee. At the time of writing this report, management had not revoked the lease and as such, it appears NEC is making investments on land which it does not own. There is a risk that the investor (Lessee) may soon claim ownership of the entire project or demand for compensation which may result into unnecessary cost if this matter is not urgently resolved.

Management explained that NEC is in possession of the land, the Iranian Agro Industrial Group having failed to fulfil the pre-lease conditions of developing the land where it was agreed that the lease shall automatically lapse without notice, compensation or recourse to court. NEC is engaging the Iranian Agro Industrial Group to hand over NEC land titles in its possession.

Management further explained that NEC has referred this matter to the Commission of Inquiry into land matters for further handling.

I advised the Managing Director to avail the current status of ownership of land and operations of this farm land.

- **Encroachment on Farm Land**

I noted that the farmland has been encroached heavily by herdsmen and other encroachers who have fenced off part of the land. Management at the firm indicated that the encroachers' herds of cattle spread diseases affecting farm animals. One of the encroacher fraudulently transferred land to 2 individuals in June 2016. The land transferred includes block 378 plots 1 & 2 measuring 508 Ha which was subdivided to create block 116 plots 23 & 24. Another block 116 plots 16 & 17 grabbed by other 2 individuals have illegal land titles. I raised this issue to parliament in my earlier report and it appears that no action has been taken.

Management explained that NEC successfully evicted most but not all the encroachers and has erected a parameter fence around its land and opened its boundaries to stop further encroachment. NEC has also caveated all the titles fraudulently by the encroachers and gone ahead to institute legal proceedings against them in courts of law. The court processes are ongoing pending hearing and final disposal. NEC has also referred these matters of encroachers to the Commission of inquiry for further administration.

I advised the Managing Director to ensure that all land encroachers are cleared off the Farm land.

- **Budget performance**

The entity had planned to receive UGX.150,000,000 during the year under review from sale of cattle and milk, among others, however only UGX.146,390,500 was recorded during the year from cattle sales and some debtors. Milk sales were budgeted at

UGX.14m but no collection was made from this revenue stream. Failure to undertake planned activities may cripple the farm development.

UGX.3,754,702,700 was received from MAAIF for capital development of the farm under beef fattening project. These funds had earlier not been planned but came in as a strategic intervention. It was noted that some of the funds were utilised to cater for earlier planned activities such as procurement of a motor cycle and bull fattening of UGX.40m.

Management explained that the extra funding of UGX.3,608,312,200 received from MAAIF was earmarked for expenses of bull fattening project. The budgeted activities of paddock construction, motorcycle purchase and desilting of dams were part of activities financed under the bull fattening project.

I advised the Managing Director to improve on the productivity of the farm animals especially milk production in order to improve on its revenue collections as planned.

Responsibilities of the Managing Director for the Financial Statements

The Managing Director is responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the Public Enterprises Reform and Divesture (PERD) Act and International Financial Reporting Standards on Accrual basis of accounting and for such internal controls as management determines as 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 Managing Director is responsible for assessing the Corporation'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 Corporation or to cease operations, or have no realistic alternative but to do so.

The Managing Director is responsible for overseeing the Corporation'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 Corporation'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 Authority'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 Authority 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 Managing Director 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 Managing Director 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 Managing Director, 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 National Enterprise Corporation Act, 1989 and the National Audit Act, 2008, I report to you, based on my audit, that:

- 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 corporation so far, as appears from my examination of those books; and
- iii. The statement of financial position and statement of Support, Revenue and Expenses are in agreement with the books of account.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

20th December, 2017

FINANCIAL STATEMENTS

APPENDIX 1