



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**NATIONAL ENTERPRISES CORPORATION HEADQUARTERS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**NATIONAL ENTERPRISE CORPORATION**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the financial statements of National Enterprise Corporation for the year ended 30<sup>th</sup> 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, National Enterprise Corporation financial statements present fairly in all material respects the financial position of National Enterprise Corporation as at 30<sup>th</sup> 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.

**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 Commission 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.

## **Emphasis of matter**

Without qualifying my opinion, I draw attention to the following matter described in notes 4 and 6 schedule of current Assets and creditors and accruals in the financial statements.

- **Dormant Investments in Subsidiaries – UGX.2,460,326,737**

Included in current assets are investments in NEC Kamba Ltd and NEC Pharmaceuticals Ltd to a tune of UGX.2,460,326,736 and UGX.250,000,000 respectively. Despite that capital investment, these subsidiaries have remained dormant with no activity ongoing. The current status of these subsidiaries is not known. The objective of investing in these companies may never be achieved since they have remained redundant for over years.

Management explained that the Corporation has taken action and identified a prospective investor for NEC Pharmaceuticals. Negotiations between the Corporation and the investor are ongoing and the investor is expected to provide the requisite capital to enable the facility to start production.

The investment in NEC Kamba was a funding sent by the Ministry of Finance for NEC's contribution for purchase of machinery for Briquette production in NEC Kamba. The Ministry of Finance later instructed the machines to be transferred to the National Council of Science and Technology. The Corporation will adjust this investment in the financial statements to reflect the transfer to National Council of Science and technology.

I advised the Managing Director to revamp the operations of NEC Pharmaceuticals and also amend the financial statements to eliminate the over statement of investment.

- **Sundry debtors and Prepayments**

Paragraph 3.1.4 (v) of NEC financial accounting regulations states that, any debt that becomes overdue for more than 30 days shall be subject to debt recovery procedures including legal intent to sue within 14 days of notification. Failure to comply shall lead to legal action.

NEC disclosed UGX.260,379,800 as sundry debtors and prepayments. Included in this amount are debtors of NEC Health world Pharmaceuticals amounting to UGX.56,000,000 which are likely to become bad debtors since this company was closed some time back. I also noted that debtors from Magnetic Holding Ltd and Stem Apparel amounting to UGX.73,129.800 and UGX.131,250,000 respectively have not been collected for over five years. I was not availed with any plan of collecting these funds. It appears NEC has not taken any action to recover this money. Failure to recover these funds from debtors negatively impacts on implementation of Company activities.

Management explained that recovery of UGX.56,000,000 owed by NEC Health world Pharmaceuticals Ltd have been difficult because the Company did not take off. A provision for doubtful debts of UGX.56,000,000 was made in the accounts and the issue was to be brought to the attention of Board of Directors for debt write off.

I advised the Managing Director to intensify efforts to recover the collectable debts and initiate write off of uncollectable debts.

- **Outstanding Trade Creditors –UGX.174,852,301**

Paragraph 4.3.2 (xix) of NEC Financial accounting regulations explains that accounts department shall recognize credit purchases when goods or services from a supplier are received and verified correct. The accountant shall record the same in the creditor's ledger.

I noted that 10 creditors have remained unpaid for more than 5 years. Failure to settle creditors over a period of more than two financial years may attract additional costs in form of interest and may also reduce the credit worthiness of the entity.

Management promised to settle all outstanding creditors in batches of UGX.20 million per quarter in the financial year 2017/2018

I await the outcome of Management efforts to settle the outstanding obligations.

### **Other Matter**

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

- **Inactive Board of Directors**

During the year, the Minister of Defence appointed a 13 member Board of Directors (BOD) for National Enterprise Corporation as per section 6 of the NEC Act. However, the BODs had not been inaugurated at the time of audit in November 2017, and has therefore not performed its duties as required by the law. There is no evidence in form of minutes to show that the entity ever held any meetings. There is a risk that the entity may not achieve its strategic objectives as it lacks corporate governance and direction.

Management explained that in the period of absence of the Board, the Corporation has been receiving strategic guidance from the supervising Ministry of Defence.

I advised the Managing Director to follow up this matter with the appointing authority and ensure the Board of directors is inaugurated.

- **Budget Performance**

NEC planned to receive UGX.2,788,000,000 during the year under review. However, only UGX.2,065,586,141 was received leaving a deficit of UGX.722,413,859 unrealized. Despite revenues received during the year NEC HQTR was not able to undertake a number of planned activities that included: site & estate development, renovations & constructions, payment of terminal benefits and capitalization of its subsidiaries among others. Failure to realize planned revenue negatively affects implementation of approved activities for the period.

Management explained that the resulting variance of UGX.722,413,859 was because of shortfalls from rental income and receipts from subsidiaries. Management is to ensure receipt of the planned revenues by seeking tenants for premises at Plot 58, 6th Street through advertisements, improving the operational capacity of the subsidiaries and liaising with the Ministry of Finance to ensure that the funds allocated to the Corporation are fully remitted.

I advised the Managing Director to follow up the matter and ensure all revenue is collected.

### **Responsibilities of the Managing Director for the Financial Statements**

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Managing Director is accountable to Parliament for the funds and resources of the Ministry.

The Managing Director is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, and the Financial Reporting Guide, 2008, 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, the Managing Director is responsible for assessing the Commission's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Commission, and using the Financial Reporting Guide 2008 unless the Managing Director has a realistic alternative to the contrary. The Managing Director is responsible for overseeing the Ministry'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 Ministry'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 Ministry's ability to deliver its mandate. 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 Ministry to fail to deliver its mandate.
- 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

20<sup>th</sup> December, 2017

**FINANCIAL STATEMENTS**