



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ENTERPRISE CORPORATION LUWERO INDUSTRIES LIMITED
FOR THE YEAR ENDED 30TH JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LUWERO
INDUSTRIES 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 Luwero Industries Limited 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, Luwero Industries Limited financial statements present fairly in all material respects the financial position of Luwero Industries Limited 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.

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 statement of profit and loss and in notes 7, 8, 9 and 10 of Trade debtor and trade creditors in the financial statements.

- **Net Loss for the year UGX. 854,360,481**

A review of the financial statements indicated that Luwero Industries Limited incurred a loss after tax of UGX.854,360,481 during the year under review. This resulted from the high operating expenses incurred by the subsidiary during the year. The net loss has now accumulated to a tune of UGX.23,051,319,353.

I also noted that the company was overtrading, as there is continued production of items that cannot be absorbed by the local demand. There is a risk that Luwero Industries Ltd may not achieve its objectives as a profit-making entity and its going concern could be in jeopardy.

Management attributed the net operating losses to the nature of the industry and the fact that the company has not fully recovered to full operating capacity. They also stated that the company's products are of specialized nature which is consumed by specific clients. This implies that while the company has finished products in stock, they cannot easily be purchased by common customers thus affecting the Industry's profitability. Most of the company's equipment and buildings had run into a state of disrepair hence reduced efficiency, increasing depreciation and affecting the overall profitability, yet with continued fixed costs that must be met.

I advised the Managing Director to re-strategize on its product and provide means of improving its profitability

- **Outstanding Trade Debtors -UGX 528,565,840**

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.

It was noted that the entity had outstanding total of trade debtors of UGX.528,565,840 at the close of the financial year 2016/2017 some of which have been outstanding for over three financial years.

I was not availed evidence of initiatives taken by management to recover the funds. Besides, I was also not availed the debt-ageing schedules to confirm the bad debts due for writing off in line with the policy. Failure to recover these funds from debtors negatively impacts on implementation of Company activities.

Management explained that Some debtors have either died or stopped trading making recovery rather difficult have been recommended to the board for write off while the legal department is handling the remaining debtors in line with the company's recovery policy and procedures. A 30% general provision on the remaining debtors has been made in the accounts. The other debtors have been engaged and there is positive response from them.

I advised the Managing Director to intensify efforts to recover the amounts due from debtors while a provision for bad debt should be approved by the board to write off any unrecoverable debts from the financial statements.

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

Paragraph 4.3.2 (xix) of NEC Financial accounting regulations explains that accounts department shall recognise 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.

A review of the financial statements showed that the entity had outstanding trade creditors worth UGX.174, 852,301 some of which have been outstanding for over two financial years. There is a risk that the creditors may cease doing business with the entity and can also lead to litigation costs.

Management explained that the company was committed to settle the outstanding creditors.

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:

- **Budget Performance**

It was noted that the Entity had planned to receive UGX.4,496,000,000 during the year under review from sales and other incomes, however only UGX.2,662,627,536 was received which led to revenue short fall of UGX.1,833,372,464. As a result the entity failed to undertake a number of planned activities that included: construction of new staff houses, renovations of factory buildings and installation of new equipment, new machine shop building and acquisition of two double cabin pick up among others.

I also observed that the entity had an over expenditure of UGX.116,959,736, at the year end. I was not provided with any information on the source of funding of this overpayment since the revenues disclosed could not meet this expenditure.

Best practice requires that an entity prepares balanced budgets, however the entity prepared a deficit budget at the beginning of the year to a tune of UGX.3,546,130,000 without any disclosure of how this deficit would be funded.

Non-disclosure of revenues used to meet the overpayments may cause misstatements in the financial statements. Besides, failure to undertake planned activities may affect performance of the company.

Management explained that the company has not yet fully recovered and not yet 100% operational. As such both production and revenues are still low although her expenditures are inevitably higher than the revenue hence a deficit budget. The Ministry of Defence has been supporting the industry by way of capitalization to meet part of the deficit alongside payment of salaries for technical staff. Indeed, some works on staff housing and renovations of factory buildings were undertaken during the financial year. This explains why there was an apparent over expenditure during the financial year.

I advised the Managing Director to put in place a marketing mechanism that will enable the company make increased sales in the foreseeable future.

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

20th December, 2017

Appendix I: Outstanding Trade Debtors

No.	Trade Debtor	2016/17	2015/16
	-	UGX	UGX
1	Allied Security Syst. & Investigators	6,303,700	6,303,700
2	Accurate security services Ltd	100,000	100,000
3	Alarm Protection Services Ltd	1,750,240	1,750,240
4	AEN Uganda Ltd	6,172,000	6,172,000
5	Array services Ltd	18,443,577	7,547,883
6	Axis Security Services	25,000	25,000
7	Baryehuki Margret-RDC Nakasongola	241,000	241,000
8	Baziiwane Ronald	10,000	10,000
9	Bisangwa Innocent	661,500	661,500
10	Bin It Services Ltd	4,292,878	5,832,066
11	Bruce Wright c/o Dyncoup International - Kololo	5,018,957	5,018,957
12	B.C.R General Ltd	1,114,000	1,114,000
13	Bakurubyo General Enterprises Ltd	3,626,360	1,189,280
14	Capt Henry Matsiko	293,945	293,945
15	Maj. Nasaba	200,000	200,000
16	Capt. Sifuna	418,000	418,000
17	Capt.Turyahikayo Johnson	719,000	719,000
18	Cartrucks (U) Ltd	14,200,000	14,200,000
19	Chandi David Jamwa	887,500	887,500
20	Cobra security services - SWILA	3,016,000	3,016,000
21	Col. Otema	-	708,593
22	Brig.Gavas Mugenyi	1,076,047	1,076,047
23	Col.Kateregga Livingstone	1,503,000	1,503,000
24	Brig.Kawagga	4,460,000	4,460,000
25	Complete Security	15,205,500	15,205,500
26	Data Fig & Co.	299,000	299,000
27	Desan Services ltd	83,020,166	134,743,332
28	Detail protection services	21,428,000	21,428,000
29	Director Special Branch	1,289,977	1,289,977
30	Dr.Mukisa	850,000	850,000
31	Ebiu Boniface	456,500	456,500
32	Eagle Logistics Solutions	4,858,080	4,608,000
33	Edson Musiime	712,172	712,172
34	Emma Byekwaso	680,000	680,000
35	ERB Holdings Ltd	6,444,576	6,421,400
36	Fadica Foods	100,000	100,000
37	Eskip Services Ltd	373,765	373,765
38	Forte security services Ltd	400,000	400,000

39	Frowlex Sawmillers (U) Ltd	954,321	954,321
40	Freedomoil & Gas services Ltd	5,929,783	5,929,783
41	G4S Secure Solutions	472,383	472,383
42	Global Networks Ltd	9,850,000	9,850,000
43	Global PS Lotto Investment (U) Ltd	4,267,468	4,267,468
44	GM Tempeco	1,404,000	1,404,000
45	Green Label Services	60,486,136	150,486,136
46	Hash security Co. Ltd	875,000	875,000
47	Hope Bizimana	462,618	462,618
48	Swatt security Ltd	2,776,000	2,776,000
49	Irumba	850,000	850,000
50	Muwanga David	34,200	34,200
51	Justice Karokora A.N	7,500	7,500
52	K9 Patrol Ltd	17,260,000	17,260,000
53	Kampala Parking Industry	10,000	10,000
54	Kenya Ordinance Factories Corporation	670,720	670,720
55	Komugisha Mary	74,500	74,500
56	Maj.Gen. Muhoozi	341,000	341,000
57	Lt.Bwomezi c/o UPDF	13,019,924	13,019,924
58	Lt.Ekwenyu Joseph	258,906	258,906
59	Luwero District Administration	2,525,321	2,525,321
60	Mabuya Pinalson	1,027,500	1,027,500
61	Madoi Elijah	150,000	150,000
62	Marshal security Group	2,096,000	2,096,000
63	Masaba Mutenyo Muhamud	857,500	857,500
64	Masindi Local Government	147,004	147,004
65	Matsiko Duncan	344,264	344,264
66	P.B Holdings	6,639,164	7,101,164
67	Mukasa Edward	300,000	300,000
68	Mukunzi Alex	-	1,126,045
69	Mulongo Simon	490,100	490,100
70	Mwesigye Rogers	350,000	350,000
71	Mwesigwa Ben	35,000	35,000
72	NLS Waste Services Ltd	42,212,168	26,469,233
73	Nakasongola Town Council	41,482,003	21,055,366
74	National Focal Point	1,563,200	1,563,200
75	Niyonsaba Alex	392,900	392,900
76	Nkwasiwe Stephen	80,005	80,005
77	Nyeko Charles	50,000	50,000
78	Obama Isaac	53,000	53,000
79	President's office C/o I.S.O	405,200	405,200
80	Rashid Luswa Kasigwa	7,500	7,500
81	Rhino gurads	2,125,000	2,125,000
82	Security Plus (U) Ltd	31,250,000	31,250,000
83	Royal Van Zanten	1,032,484	1,032,484
84	Save the Children Nakasongola	134,757	134,757

85	The Gideons Men Ltd	11,398,000	11,398,000
86	White show Man's Ltd	279	279
87	Sgt. Sieko	30,000	30,000
88	Swift Waste Masters Ltd	1,506,670	774,900
89	Smart International c/o Mr.Baguma	1,773,000	1,773,000
90	Senkasi Henry	50,000	50,000
91	Silver Shadow	4,147,200	4,147,200
92	Maj.Ezra Byaruhanga	205,000	205,000
93	Soltam	249,600	249,600
94	Special Revenue Police Services (SRPS)	4,836,268	4,836,268
95	SPLA	-	204,471,726
96	Staff Debtors (Appendix 7 b)	Kamya Paul	8,847,446
97	Mugisa Juma	60,000	60,000
98	Task Force Security	150,000	150,000
99	MIC plastics	150,200	250,200
100	Tiger Security Group Ltd	20,000,000	20,000,000
101	Chieftainancy of Military Intelligence-CMI	94,000	94,000
102	Securex Agencies Ltd	1,875,000	1,875,000
103	Uganda Police Training Wing	20,000	20,000
104	Wamala Stephen	6,488	6,488
105	Waste Haulers Ltd	5,141,574	726,000
106	Wasswa Willibroad	408,300	408,300
107	Smart Recycle & Disposal Ltd	59,300	621,860
	TOTAL	528,565,840	823,183,626

Appendix II: Outstanding Trade Creditors

No.	Trade Creditor	2016/17	2015/16
		UGX	UGX
1	Lab Consult U ltd	90,000	90,000
2	Musisi Ahmed	210,000	210,000
3	Digi-tel communication syst. Ltd	8,000,150	8,000,150
4	Muhamudu kanyike	770,000	770,000
5	Super Bargains (U) Ltd	4,298,580	4,298,580
6	M & E Tools	1,949,315	1,949,315
7	Denel pty ltd	4,065,684	4,065,684
8	Target Consultants (Arthur Kalwas)	7,572,420	7,572,420
9	K.K.I. Importers & distributors	970,000	970,000
10	Line & Dots	1,000,000	1,000,000
11	Ouma & Tinyinondi & Co Advacates	20,000,000	20,000,000

12	UTL- HQ	1,882,727	1,882,727
13	UTL-K'LA	1,129,602	1,129,602
14	Staff Benefits	-	1,020,000,000
15	PAYE	-	524,413,421
16	VAT Payable	59,852,541	1,461,930,292
17	Mulwoza & Co.	24,000,000	24,000,000
18	Lusairu Emmanuel	100,000	100,000
19	Mubangizi Emmanuel	850,000	850,000
20	Kiwanuka Godfry	1,000,000	1,000,000
21	D.Salvo Roberto	850,000	850,000
22	Haji Mustapha Zaidi	850,000	850,000
23	Njenge Isaac	850,000	850,000
24	S&G innovations	7,782	7,782
25	Agri Industrial Sec. Guards Ltd	10,000	10,000
26	Mpabaisi Mahmood	2,000,000	2,000,000
27	Christian Guards Security	16,000,000	16,000,000
28	Muhumuza Vicent	1,000,000	1,000,000
29	Okaka Fred	500,000	500,000
30	Ssali Paul	2,000,000	2,000,000
31	Z4 International Spares	7,485,000	7,485,000
32	Eng. Waduwa	2,000,000	2,000,000
33	Lukyamuzi Emmanuel	7,500	7,500
34	MOVIT In House Sec. Organisation	60,000	60,000
35	Robert James Wright	685,000	685,000
36	John T. Adams	685,000	685,000
37	Sekiziyivu Sammy Jones	650,000	650,000
38	Mawelere RISO -Luwero	1,000,000	1,000,000
39	Baira Charity	471,000	471,000
	TOTAL	174,852,301	3,121,343,473

FINANCIAL STATEMENTS