



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NATIONAL ENTERPRISE CORPORATION (NEC) TRACTOR HIRE SCHEME
FOR THE YEAR ENDED 30TH JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

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NATIONAL ENTERPRISE CORPORATION (NEC) TRACTOR HIRE SCHEME
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 NEC Tractor hire scheme 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, NEC Tractor hire scheme financial statements present fairly in all material respects the financial position of NEC Tractor hire scheme 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 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.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter described in notes 1 and 5 schedule of Non-Current Assets and Trade creditors and accruals in the financial statements.

- **General Performance of the Company**

NEC Tractor Scheme Ltd is a subsidiary of the National Enterprise Corporation which was established to extend tractor hire services to farmers in selected districts. The main objectives of this company are;

- To deliver affordable tractor hire services with efficient after sales services at the community level.
- To promote expansion of farmland which will ultimately result in increased food security for Uganda and the Great Lakes region?
- To transform the agricultural production process by making it faster through mechanization and post-harvest activities.
- To improve the efficiency of agricultural process by ensuring all year round production through irrigation and timely transportation of the produce to the market centers.

I noted that the stated objectives have not been achieved to date to an optimal level since only 20 districts have benefited from the services. The company has made no additional capital investment in tractors since 2010. The book value for the company tractors stands at UGX.327,113,721 after taking into consideration disposals and accumulated depreciation.

It was also noted that during the financial year NEC Tractor hire scheme spent UGX.273,120,000 to hire tractors used to execute works at Katonga farm instead of using their own tractors. I was not provided with a plan to assess how the subsidiary intends to achieve the objectives in the future. Continued hire of machinery by NEC Tractor hire scheme to handle the jobs acquired affects the self-sustainability of the company and deliverance of affordable tractor hire services at the community level. It is likely that the company may not achieve the intended objectives in the near future.

Management explained that the Scheme has partly achieved its objectives. It has operated a tractor hire service in different parts of the country which has benefited farmers. We have offered service to individual farmers, farmer groups and Government

Departments such as OPM (2010/11) and NAADS (2011/2012). The Scheme however experienced challenges associated with low capitalization, poor primary land preparation and stereotypes to tractor use possessed by farmers. These have affected the Scheme from achieving the objectives even further.

The company has a strategic plan that seeks to diversify operations to include bush clearing, crop farming and produce trading to augment the anticipated food processing and supply to Ministry of Defence. Additionally, Management is implementing this plan in the ongoing tractor upgrading exercise that involves replacing old problematic and inferior parts with new-durable ones for deployment in the crop farming project.

I advised the Managing Director to ensure achievement of the objectives they set out to achieve.

- **Nugatory Expenditure - UGX.53,742,465**

UGX.53,742,465 was paid to Uganda Revenue Authority in respect to interest payable which resulted from late remittances of PAYE over the previous years. This cost could have been avoided if management had acted prudently. Payment of interest charges of this nature affects implementation of planned activities in the financial year.

Management explained that the company experienced low turnover resulting in low revenues and poor cash flows. This also led to accumulation of PAYE arrears and has attracted interest charges. Following the recent turnaround of financial performance, the company has been able to clear all PAYE arrears to URA and is paying its monthly obligations promptly.

Management action and follow up is awaited.

- **Trade Creditors**

Outstanding total creditors amounted to UGX.340,696,499 and a sum of UGX.365,582,999 was outstanding as at the close of the financial year. This indicates that the creditors increased by UGX.24,886,500 during the financial year. I note that there is limited effort made to settle the outstanding commitment incurred in the financial year 2015/2016. This is contrary to the PFMA 2015 which deters an entity from taking credit when it has unpaid domestic arrears from the previous financial year. 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 explained that the company is committed to clearing all creditors as revenue is generated and are negotiating with NEC Tractor Project for an acceptable schedule for payment of UGX.340,696,499.

I advised the Managing Director to ensure that the creditors are settled accordingly to avoid possible legal costs.

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 Directors are 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