



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
NEC UZIMA LIMITED
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF

NEC UZIMA 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 NEC Uzima Ltd 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 Uzima Ltd financial statements present fairly in all material respects the financial position of NEC Uzima Ltd 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.

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.2,620,956,800 during the year under review, however only UGX.1,699,902,000 was realized. This resulted into short fall in revenue collected of UGX.929,554,800. As a result NEC UZIMA could not undertake a number of planned activities that included acquisition of delivery truck, machinery and equipment, furniture and fixtures among others. Failure to undertake planned activities may affect the development of NEC UZIMA Ltd.

Management explained that their line of business is competitive and greatly affected by the rainy season which has a direct impact on sales volumes.

I advised the Managing Director to intensify the product awareness to enable the company make increased sales in the foreseeable future given the dynamic nature of the business environment today.

- **Failure to prepare Manufacturing Accounts**

NEC Uzima Limited is a manufacturing enterprise specializing in production of bottled natural mineral water. A business that manufactures goods must prepare manufacturing accounts so as to be able to calculate the cost of manufacture.

I noted that while NEC Uzima limited is a manufacturing company, it did not prepare manufacturing accounts. It was not clear how a manufacturing company operates without explicitly reviewing cost of material consumed, the direct costs, and other factory overheads so as to come up with the production costs of completed goods that help set the price of the goods on the market. There is a risk that the company may unknowingly sell at a loss in the name of competition to enable derive the production costs of completed goods.

Management agreed with the observation and indicated that they will recruit a cost accountant at the factory to continuously review the cost of production however in the mean time they have been using cost incurred at the time of manufacturing to derive the selling price of goods in the market.

I advised the Managing Director to recruit a cost accountant or train the existing one at the factory who should help in the preparation of manufacturing accounts in line with applicable standards.

- **Lack of a Subsidiary Board**

Chapter 1 of the NEC financial accounting regulations states that each Limited Liability Company shall be governed by a subsidiary Board of Directors, which shall recommend policy and monitor the functional activities of the subsidiary, through the management of the Corporation.

It was established that NEC Uzima did not have a subsidiary board in place despite having been in operation since the year 2015. Management is not being guided on the overall policy making, approval of the subsidiary company's budget, checking of the programmes, performance of the management of the subsidiary and appointment of the personnel of the subsidiary. In the absence of the Board of Directors the overall performance, operations and internal control systems of the entity are affected.

Management agreed with the finding and indicated that the Appointing Authority is handling the matter.

I advised the Managing Director to liaise with the appointing authority and ensure immediate appointment of a subsidiary board.

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 Sec 18 of the National Enterprise Act Corporation Cap 312 and the 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

APPENDIX 1

FINANCIAL STATEMENTS