



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA AIR CARGO CORPORATION
FOR THE YEAR ENDED 30TH JUNE 2017

OFFICE OF THE AUDITOR GENERAL
UGANDA

LIST OF ACRONYMS

CAA	Civil Aviation Authority
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
NSSF	National Social Security Fund
PAYE	Pay as you Earn
UACC	Uganda Air cargo corporation
UGX	Uganda Shillings

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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 the Uganda Air Cargo Corporation 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, Uganda Air Cargo Corporation statements present fairly in all material respects the financial position of Uganda Air Cargo Corporation as at 30th June 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), the Uganda Air Cargo Corporation Act (Cap. 322), and Divestiture Act Cap 98 under class (ii) of the state enterprises.

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 statutory 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.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter described in notes 20 and 21 schedule of Trade payables and accruals in the financial statements.

- **Rent payable to Civil Aviation Authority**

Included in the Trade payables rent due to CAA totalling to UGX.1,919,600,129. I was not availed with the breakdown of how this amount had accumulated because there was no rental agreement between CAA and UAC. Besides there was no creditors' ledger availed to enable me verify this amount. There is a risk that the entity will not be in position to pay the outstanding rent and may end up into litigations.

Management explained that communicated to Civil Aviation Authority in regard to the outstanding rent. Part of the bill indicated as owed by UACC was contested, in regard to the manner in which CAA computed and levied interest charges on outstanding rent. Reconciliation as at 5th September 2017 has since confirmed that the Corporation owes the CAA about US\$.115,000 from 1st July 2000 as a reference point. Management has presented its position to the Minister of Works, Transport and Communications and the Managing Director CAA and their feedback on the matter is awaited.

I advised the Accounting Officer to follow up the matter with the relevant Authorities and have it resolved.

- **Salary Arrears paid**

It was noted that management paid UGX.2,507,453,904 as salary arrears during the year, however, a review of the payments made revealed the following anomalies:-

- Management did not provide a payroll from which they based on to make payments.
- No salary ledgers were availed to verify amount owed to each staff therefore the amount disclosed in the final accounts as salary arrears of UGX.2,507,453,904 could not be verified.
- During the financial year, no payments were seen in relation to PAYE and NSSF implying that the company could be defaulting and this action may result into fines and penalties in the future.

Payment of salaries without a payroll prepared may result into double payment of salaries

Management explained that on a monthly basis, the Human Resource Manager prepares a staff payroll that is sent to the responsible manager for approval. Actual retirement of

the payroll has been a challenge given the irregular nature in which the Corporation has been receiving revenue. In addition the PAYE and NSSF contributions associated with each of the months are filed and routine interaction with the statutory bodies are held to pave a way of future settlement of dues and halting of interests on outstanding.

I advised the Accounting Officer to prioritise payment of salaries, PAYE and NSSF to avoid paying fines in form of interest.

Other Matters

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

- **Repair of C130-5X-UDF Air Craft**

It was noted that aircraft No. C130-5X-UDF has remained grounded since 2014 and is due for a major modification to replace its centre wing box. As at the close of 30th June 2017, USD.8.8 million was required for repair of the aircraft. This matter has been forwarded to Ministry of Defence and Ministry of Finance to avail funds as capital contribution to no avail. I also noted that the company has continued to incur costs like insurance, flight crews and technical support.

A market research carried out indicated that a new similar air craft requires between USD.80,000,000 and USD.90,000,000 to buy when new and it takes five years to build one. There is a risk that the company may end up losing this valuable aircraft if no action is taken on time.

Management explained that they have continued to engage the Ministry of Finance, Planning and Economic Development in regard to returning the grounded C130 aircraft to full serviceability.

I advised the Accounting Officer to continue pursuing MOFPED to avail funds for repair of this Aircraft before it is wasted.

- **Reimbursement from Ministry of Defence for Y12 Aircrafts**

Two air crafts (Y 12s) were withdrawn by the Ministry for a period of over a year, hence denying the company expected revenue. During that period Air Cargo continued to incur costs in relation to these air crafts in form of air crews' salaries, insurance and maintenance costs with a view that Ministry of Defence would reimburse these costs totalling to USD.934,522. I was not availed with any evidence of refund of the money

spent. The outstanding debt has tied up revenue that should have cleared outstanding obligations such as salaries, PAYE and NSSF.

Management explained that they wrote to the Ministry of Defence in regard to this reimbursement and the bill has been captured as part of the payables to UACC. We are optimistic that the funds will be settled soon and these will go a long way in offsetting a number of pressing creditors that the corporation currently has.

I advised the Accounting Officer to continue following up this issue with the Ministry to enable the entity clear the outstanding obligations.

Responsibilities of the Accounting Officer 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 Accounting Officer is accountable to Parliament for the funds and resources of the statutory.

The Accounting Officer 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 Accounting Officer is responsible for assessing the statutory's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Statutory, and using the Financial Reporting Guide 2008 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the statutory'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 Statutory'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 Statutory'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 Statutory 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 Accounting Officer 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 Accounting Officer 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 Accounting Officer, 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.

A handwritten signature in black ink, appearing to read 'John F.S. Muwanga', with a long horizontal flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

21st December, 2017

FINANCIAL STATEMENTS