

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
PRIVATISATION & UTILITY SECTOR REFORM PROJECT
(DIVESTITURE & REDUNDANCY ACCOUNTS)
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
KAMPALA, UGANDA

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LIST OF ACRONYMS

DRIC	Divestiture and Reform Implementation Committee
FY	Financial Year
IESBA	International Ethics Standards Board for Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSA	International Standards on Auditing
MoFPED	Ministry of Finance Planning and Economic Development
NAA	National Audit Act, 2008
NSSF	National Social Security Fund
PERD	Public Enterprises Reform and Divestiture
PFMA	Public Finance Management Act, 2015
PMU	Privatization Monitoring Unit
PU	Privatization Unit
PUSRP	Privatization & Utility Sector Reform Project
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
URA	Uganda Revenue Authority
USD	United States Dollar

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STATEMENTS OF PRIVATISATION & UTILITY SECTOR REFORM PROJECT
(DIVESTITURE & REDUNDANCY ACCOUNTS)
FOR THE YEAR ENDED 30TH JUNE, 2018**

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the Privatisation & Utility Sector Reform Project (Divestiture & Redundancy Accounts) for the year ended 30th June 2018. 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, the financial statements of the Privatisation & Utility Sector Reform Project (Divestiture & Redundancy Accounts) for the year ended 30th June 2018 are prepared, in all material respects, in accordance with the International Public Sector Accounting Standards (IPSAS) and the Public Enterprises Reform and Divestiture (PERD) Act Cap 98.

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 Project 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 (IESBA) Code of Ethics for Professional Accountants (Parts A and B), 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 key audit matters to communicate in my report.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter in the financial statements that, in my judgement, is of such importance and fundamental to users' understanding of the financial statements.

- **Long outstanding receivables**

An amount of UGX.127.1 billion was disclosed as receivables in the statement of financial position and also under Note 7, which was reduced to UGX.80.9 billion by a provision for bad debts of UGX.46.2 billion. However, analysis of this balance revealed that some of these receivables had been outstanding for long periods of up to 23 years. Notable examples include sales proceeds from: African Textile Mills, Uganda Hotels Limited Lira and Hilltop Hotel, and receivables from Government in regard to URC Nsambya land and Uganda Consolidated Properties. I noted that there was no movement in the figures reported last year for most debtors which is an indicator of a failed recovery effort, thus impairing the balance of the receivables.

I advised the Directors to undertake a review and assessment of the recoverability of these amounts and take appropriate action in accordance with the Public Finance Management Act, 2015.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the project management, report of project management and other supplementary information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 are accountable to Parliament for the funds and resources of the Privatisation & Utility Sector Reform Project (Divestiture & Redundancy Accounts).

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Enterprises Reform and Divestiture (PERD) Act Cap 98, IPSAS, and Public Finance Management Act 2015, 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 Project's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Privatisation & Utility Sector Reform Project (Divestiture & Redundancy Accounts), and using IPSAS unless the Directors have a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Project'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 Project'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 Project'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 [project](#) 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.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act (NAA), 2008, I report to you, based on my work described on the audit of Financial Statements that:

- Except for the matters raised in the compliance with legislation section below, and whose effect has been considered in forming my opinion on the financial statements, the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

In accordance with Section 13 of the NAA, 2008, I have a responsibility to report material findings on the compliance of Privatisation Unit with specific matters in key legislations. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Unauthorized withdrawals from the Divestiture account**

According to Section 26(1) of the PERD Act 2003, the Minister responsible for finance may use the proceeds of divestiture in the divestiture account. Also, the Financial Management manual of Privatization and Utility Sector Reform Project of 2003 Section 1.1.6 vests the minister responsible for finance with the responsibility of determining the usage and operation of the divestiture account.

I noted that out of the UGX.89,159,550,897 withdrawn from the Divestiture Account, only UGX.19,452,738,259 was authorized by the Minister for Finance as required by the law. I was not provided with evidence of authorization by the Minister for a balance of UGX.69,706,812,638 withdrawn. In addition, there was no evidence of an approved budget or work plan by DRIC or the Minister responsible for Finance for the utilization of the withdrawn amounts. The failure to plan, and in the absence of a clear documented process on the use of the divestiture proceeds, puts the funds at risk of misuse.

The Accounting Officer explained that the Privatization Unit's work plan for the financial year 2017/2018 was approved. I however noted that the approval was after the budget cycle, and was given by the DST who did not have express authority. I advised the Accounting Officer to put in place mechanisms to ensure adherence with the set guidelines in the PERD Act in regard to withdrawals and utilization of funds from the divestiture account.

- **Expenditure on purchase of Shares in a Sugar company –UGX. 50.1bn**

Section 26 of the PERD Act 2003 provides for the use of proceeds of divestiture. The Minister is mandated to use the proceeds of the divestiture as follows;

- a) costs and expenses associated with termination of contracts of employment between a public enterprise specified in class II, III or IV of the First Schedule to this Act and its employees as a result of the divestiture of that enterprise;
- b) liabilities of a public enterprise specified in any of the classes referred to above
- c) costs and expenses incurred in the process of preparing a public enterprise specified in any of the classes referred to above; and
- d) Costs and expenses of divestiture.

The Section further provides that any costs and expenses associated with termination of contracts of employment between a public enterprise and its employees shall be paid from the proceeds of divestiture of that enterprise in priority to all other liabilities, costs and expenses. The Minister may transfer wholly or partly all proceeds of divestiture in the divestiture account to the redundancy account where the said funds are not required to meet any present or future costs, expenses or liabilities. The said funds would be applied for promoting Ugandan entrepreneurs for agricultural and industrial development.

I noted that a total of UGX.50.17 billion was transferred from the divestiture account to the consolidated fund for the purchase of shares in a company that was constructing a sugar factory on the directives of the Minister responsible for finance (UGX.18.7 billion) and the PS/ST (UGX.31.47 billion). I noted however that the Privatization Unit had several unpaid former employee benefits of divested companies who have lodged cases in courts of law and with some cases already decided. This implies that present and future employee obligations exist, and in accordance with the provisions in the PERD Act, these obligations should have been prioritized.

In addition, I was not availed proof of share transfer, and therefore, I could not establish that the funds were put to proper use. There was also no justification to use proceeds from the sale of shares in an established sugar company to purchase shares in another sugar company at a nascent stage. The Accounting Officer explained that, the funds in question were transferred in accordance with Section 26

of the PERD Act which indicates that payment of expenses of termination of employment are to be paid first from the proceeds of that enterprise, and that at the time of transfer of the funds, there were no pending liabilities of staff regarding Kinyara Sugar Limited. However, I note that other divestiture related creditors existed at the time.

I advised the Accounting Officer to ensure that the management of the Divestiture Account is carried out in compliance with the laws specified in the PERD Act.

- **Failure to Prepare and submit Annual reports to Parliament**

Section 40 of the PERD Act requires the Minister responsible for finance to at least once in every six months, submit a report to Parliament on the steps taken to implement the PERD Act. Cardinal, among the implementations is collection of revenue and expenditures from the Divestiture Account.

No evidence was presented to confirm that the Minister presented these reports to Parliament in the current and previous year. This is attributable to disregard of both the PERD Act and the PFMA requirements to prepare reports to parliament. This in effect makes it difficult for parliament to exercise proper oversight on the activities undertaken under the PERD Act.

In response, the Accounting Officer explained that, the Privatization Unit was consolidating reports for the period for the Minister's submission to Parliament in fulfillment of the PERD Act. I advised the Accounting Officer to ensure that all the required reports are prepared and submitted in a timely manner.

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
21st December, 2018

FINANCIAL STATEMENTS