

**OFFICE OF THE AUDITOR GENERAL**



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**UGANDA FREE ZONES AUTHORITY**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL**  
**KAMPALA, UGANDA**

**TABLE OF CONTENTS**

LIST OF ACRONYMS..... iii

    Key Audit Matters ..... 1

    Other matter..... 2

    Other Information..... 2

    Responsibilities of the Accounting Officer for the Financial Statements ..... 3

    Auditor General’s Responsibilities for the audit of the Financial Statements ..... 3

    Other Reporting Responsibilities ..... 5

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION ..... 5

FINANCIAL STATEMENTS ..... 7

## **LIST OF ACRONYMS**

<b>F/Y</b>	<b>Financial Year</b>
<b>GOU</b>	Government of Uganda
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>ISSAIs</b>	International Standards of Supreme Audit Institutions
<b>MDA</b>	Ministry, Department, and other Agencies
<b>MOLHUD</b>	Ministry of Lands Housing and Urban Development
<b>PDU</b>	Procurement and Disposal Unit
<b>PFMA</b>	Public Finance Management Act, 2015
<b>PPDA</b>	Public Procurement and Disposal Unit
<b>PS</b>	Permanent Secretary
<b>RT. HON</b>	Right Honourable
<b>TAI</b>	Treasury Accounting Instructions
<b>UFZA</b>	Uganda Free Zones Authority
<b>UGX</b>	Uganda Shillings

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA  
FREE ZONES AUTHORITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

**THE RT. HON. SPEAKER OF PARLIAMENT**

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of Uganda Free Zones Authority (UFZA) for the year ended 30<sup>th</sup> June, 2018. These financial statements comprise of the statement of financial position as at 30<sup>th</sup> June 2018, statement of financial performance and cash flow statement for the year then ended together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Uganda Free Zones Authority for the year ended 30<sup>th</sup> June 2018 are prepared, in all material respects, in accordance with Section 51 of the Public Finance Management Act 2015, and the Financial Reporting Guide 2008.

**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 Statements section of my report. I am independent of the Authority in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), 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.

### **Other matter**

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

- **Acquisition of Land for establishing Free Trade Zones: UGX 7.4 billion**

UFZA procured 109 acres of land located on Busiro block 535-540 plots, 326 at Buwaya (Ssazi Lulongo) Wakiso district at a sum of UGX.7,412,000,000, which was paid on 21<sup>st</sup> June 2018. However, I did not obtain evidence that the certificate of title had been transferred to the names of the Authority.

Failure to have the title transferred implies the Authority has no proof of ownership of the land and there is a risk of encroachment by unscrupulous individuals. The Accounting Officer explained that as a result of the delayed transfer of the certificate of title into the Authority's names, a meeting was convened at the Ministry of Lands Housing and Urban Development (MOLHUD), which was attended by the Minister of State for Lands, Minister of State for Housing, Minister of State for Urban Development, PS MOLHUD, Commissioner Land Registration, Management team at the MOLHUD head office and Wakiso Zonal Office, where in a decision was made to have the title processed within one month from 10<sup>th</sup> October 2018. I advised management to keenly follow up the matter with the concerned Government Agencies to ensure that the Certificate of Title in the names of UFZA is expeditiously processed.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the general information about the reporting entity, the statement of Board responsibilities, the commentary by the Head of Accounts and the key performance highlights. 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 is accountable to Parliament for the funds and resources of the Uganda Free Zones Authority.

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, 2018, 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 Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda Free Zones Authority, and using the Financial Reporting Guide 2018 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Authority's' financial reporting process.

### **Auditor General'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 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 judgement and maintain professional scepticism 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 my 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of Managements' 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 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 them 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, 2008, I report to you, based on my work described on the audit of Financial Statements, that;

- Except for the matters raised in compliance with legislation section below, and whose effect has been considered in forming my opinion on 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 National Audit Act, 2008, I have a responsibility to report material findings on the compliance of the Authority 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;

- **Procurement of air tickets by HR Department**

Section 31 of the Reprint of the PPDA Act 2003 states that a Procurement and Disposal Unit (PDU) shall manage the procurement or disposal process up to the point of contract placement and that for each procurement or disposal requirement, a user department shall nominate an official who shall work with the PDU on all matters relating to that procurement or disposal requirement.

It was however noted that the procurement of air tickets was being handled by the Human Resource Department instead of the PDU of the authority. As a result, a number of weaknesses were observed as detailed below;

- There were no records maintained and archived by the PDU as regards these purchases.
- For each of these procurements, there was no evidence that the entity obtained and evaluated at least three bids/quotations from their list of prequalified service providers in order to maximize competition and demonstrate transparency of the procurement process.
- Choice of supplier was entirely at the discretion of the Human Resource Officer. It was noted that out of the 14 prequalified suppliers, tickets were procured from only 4.

Under the circumstances, there was override of the procurement controls and the entity may not have obtained competitive prices.

Management acknowledged the anomaly but explained that the Authority has a one-man PDU who was also limited in capacity. Whenever he would go on leave, the Manager (Human Resource) would handle the schedule on his behalf. I advised the Accounting Officer to ensure that the PDU's capacity is strengthened to be able to handle all procurement and disposal functions in line with the requirements under the law.

- **Lack of an Internal Audit function**

Section 48 (1) & (2) of the PFMA requires every vote to have an internal auditor who shall; appraise the soundness and application of the accounting, functional and operational controls of a vote; evaluate the effectiveness and contribute to the improvement of risk management processes of a vote; and provide assurance on the efficiency, and the effectiveness of the economy in the administration of the programs and operations of a vote.

It was however noted that the entity does not have an internal audit function. The lack of an internal audit function is likely to affect the integrity, effectiveness and efficiency of the internal controls in place.

Management acknowledged the observation and indicated that they are in the process of recruiting an internal Auditor. I advised the Accounting Officer to expedite the process so as to have the Internal Auditor in place without further delay.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish extending from the end of the signature.

John F.S. Muwanga  
**AUDITOR GENERAL**  
**KAMPALA**  
13<sup>th</sup> December, 2018

## **FINANCIAL STATEMENTS**