THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA POSTS LIMITED FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

TABLE OF CONTENTS

LIST OF ACRONYMS

GAR	**Gross Annual Revenue**
ICT	Information Communication Technology
IESBA	International Ethics Standards Board for Accountants
ISSAI	International Standards of Supreme Audit Institution
MoFPED	Ministry of Finance Planning and Economic Development
NAA	National Audit Act
PERD	Public Enterprises Reform and Divestiture Act 1993
PFMA	Public Finance Management Act 2015
PFMR	Public Finance Management Regulations 2016
PPDA	Public Procurement and Disposal of Assets
UCC	Uganda Communications Commission
UGX	Uganda Shillings
UPL	Uganda Post Limited/Posta Uganda-Trading name
URA	Uganda Revenue Authority
UTL	Uganda Telecom Limited
VAT	Value Added Tax
WHT	Withholding Tax

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA POSTS LIMITED FOR THE YEAR ENDED 30^{TH} JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Uganda Posts Limited (UPL) for the year ended 30^{th} June 2018. These financial statements comprise the Statement of Financial Position as at 30^{th} June 2018, the Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, together with accompanying schedules, a summary of significant accounting policies and other explanatory notes.

In my opinion, the accompanying financial statements of Uganda Posts Limited for the year ended 30^{th} June 2018, give a true and fair view of the financial position of the Company as at 30^{th} June 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), the Companies Act of Uganda 2012 and Section 51 of the Public Finance Management Act, 2015.

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 Company 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 (IESBA) Code of Ethics for Professional Accountants (Parts A and B), 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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matters described below to be key audit matters communicated in my report;

- **Implementation of the Approved Budget**

  Section 45 (3) of the Public Finance Management Act, 2015 states that " An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan for a financial year, submitted under Section 13 (15)" of the said Act. It has been observed over the years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

  During the overall office wide planning, I assessed risks of inadequate revenue collection and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities. Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

  Based on the procedures performed, I observed that a total of UGX.20,457,331,432 was budgeted to cater for the Company's activities during the year under review. However, by the close of the financial year, only UGX.17,604,741,741 (86% of the approved budget), had been received resulting into a budget shortfall of UGX.2,852,589,691 (14%). I noted that the Company was experiencing a sustained decline in revenue collections for the last three years, which was attributed to changing revenue trends due to reduction in usage of traditional postal services. Failure to meet revenue collection targets deprives the Company of the much needed cash flows to implement its planned activities which negatively affects service delivery. Among the planned activities that were not implemented included the consultancy service for transaction advisory services for the redevelopment of post office building infrastructure that was not implemented to completion.

I further observed that the Company spent UGX.263,450,880 on purchase of power backup under the IFAD grant that was not budgeted for during the financial year and without approved supplementary budget estimate. Unbudgeted for expenditures are not only irregular but could lead to diversion of funds from other planned activities. Management explained that the Company had no Board of Directors to approve these budget amendments as the Board's term of service had expired in January 2018.

It was also noted that despite revising the Company strategic plan of 2013-2018 to strategic plan 2016/2018 that was aimed at improving the general operations and effective implementation of its Corporate Plan, the following had not been achieved as envisaged; improvement of financial performance by consistently growing annual turnover by 7% and rationalizing costs; institutionalizing quality assurance (QA) as the key driver of Uganda Post Limited`s competitive positioning and to be the best practice employer, attracting and retaining competent and innovative staff. Failure to have all the planned activities implemented ultimately affects service delivery as well as limiting the effective attainment of the Company's mission and objectives. I advised the Managing Director to ensure adequate planning and implementation of planned activities by strengthening the company's debt collection efforts as well as modifying its current product offering that will enable the company to compete favourably given the changing business environment.

Emphasis of Matter

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

- **Trade and other Payables**

  Paragraph 10.9.2 (ii) of the Uganda Post limited Finance Policies & Procedures Manual 2012 requires the Head of finance to ensure that all liabilities are recorded and settled promptly. Contrary to this provision, trade payables amounting to UGX.13,341,472,070 (2016/17: UGX.14,640,573,300) as disclosed in the statement of financial position remained outstanding at the end of financial year 2017/2018. Failure to settle liabilities promptly was attributed to cash flow challenges facing the Company. There is a risk that this situation may prompt creditors to resort to legal redress to recover their funds from the Company which may cause further financial distress.

In his response, the Managing Director explained that the Company's indebtedness is historical, dating back as far as the Company's incorporation in 1998. He attributed the matter to the failure by the shareholders to pay up the share capital of UGX.5.5bn which denied the Company the cash flow to trade profitably and take advantage of IT changes. I have advised management to devise a strategy for settling the outstanding liabilities to avoid litigation, including but not limited to following up the shareholders for a possibility of having the share capital fully paid up.

- **Unpaid up Share Capital**

Uganda Posts Limited was incorporated in 1998 with one million shares valued at UGX.25,000 per share. A total of 999,999 shares are owned by the Ministry of Finance, Planning and Economic Development, while Ministry of Information and Communications Technology, and National Guidance owns one share.

A review of the financial statements revealed that all shares were issued but only 779,487 were fully paid up, leaving a balance of 220,513 shares unpaid worth UGX.5,512,825,000. Unpaid share capital denied the company funds to implement its strategic plans.

The Accounting Officer stated that this matter had been brought to the attention of the shareholders at its Annual General Meetings for resolution. I advised the Accounting Officer to continue engaging the share holders with a view of ensuring that the outstanding share capital is paid up, to ease the Company's cashflow challenges.

- **Overdue Receivables**

Paragraph 4.2.1 of the Uganda Post Limited Debt Management Policy 2016, stipulates that the standard payments terms for sundry debtors is 30 days from date of invoice.

Contrary to above, by the end of the financial year under review, UPL had uncollected receivables of UGX.7,855,540,320 (2016/17: UGX.7,988,185) as per the statement of financial position. Further analysis of debtors' accounts revealed debtors ranging between 60 days and 180 days as shown below;

Period in Days	Amount(UGX)
60 Days	451,123,854
90 Days	878,885,347
120 Days	133,398,052
180 Days	6,140,183,516
Total	**7,855,540,320**

Accumulation of receivables implies that the Company is not adhering to its Debt Management policy which in turn denies the Company the necessary cash flows needed to implement its planned activities.

In his response, the Managing Directors explained that the debts in question were majorly Uganda Telecom debts worth UGX.2,429,848,039 that have remained outstanding due to a disagreement in the sharing arrangements. Nevertheless, Management has heightened efforts to collect debts by establishing a debt collection unit under the department of Business Services to follow up on outstanding debtors. I advised management to strengthen the Company's debt collection efforts and devise a strategy of recovering debts in a timely manner.

- **Outstanding Levy on Gross Annual Revenue**

Section 68(1) of the Uganda Communications Commission (UCC) Act 2013 empowers UCC to levy a charge on the gross annual revenue (GAR) of operator's license under this Act at a rate not less than 2 percent and not exceeding 2.5 percent.

A review of the financial statements revealed that Uganda Posts Limited had not paid 2% of its gross annual revenue totalling to UGX.631,517,772. This may lead to imposition of sanctions by Uganda Communications Commission and possible cancellation of Uganda Posts Limited's license which will negatively affect its operations and revenue base.

In their response, management explained that Uganda Posts Limited had entered into a Memorandum of Understanding (MOU) with Uganda Communications Commission to pay UGX.50 million monthly until the debt is fully settled.

I advised the Accounting Officer to ensure compliance with the MoU and settle the outstanding amount, in order to ensure smooth continuity of its business operations.

Other Matter

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements.

- **Nugatory Expenditure**

    According to Paragraph 10.12.1 of Treasury Instructions 2017, an Accounting Officer shall exercise all reasonable care to prevent and detect unauthorized, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

    Contrary to the above requirement, it was noted that the company paid a total of UGX.330, 537,700 in fines, court awards and legal fees as shown in **Appendix II.** The penalties and fines resulted from interest on late payments, breach of contracts and litigation costs among others.

    The payments were outside the planned activities of the entity hence affected implementation of planned activities since the funds were utilized for unplanned expenditures.

    The Accounting Officer acknowledged the anomaly and explained that the litigation portfolio of Uganda Posts Limited is historical and dates back to company's year of incorporation in 1998 and attributed the cause of this to the company's cash flow challenges and promised to continue the effort of reducing avoidable fines and penalties by exercising due care.

    I advised the Accounting Officer to exercise due care in managing the affairs of the entity and always adhere to the set contractual terms to avoid unnecessary litigation costs.

- **Expired Contracts for Members of the UPL Board**

    I noted that the term of the Board of Directors of Uganda Post limited expired on 31/12/2017; half-way into the financial year, hence the entity operated without a Board up to the close of the financial year. The powers to appoint the company board of directors is vested in the Minister of ICT with approval of Cabinet as specified in Article 74 (2) of the Memorandum and Articles of Association of Uganda Post Limited 1998

I noted that lack of a Board limited the oversight role of directing and controlling the business affairs of the company including compliance with the applicable laws.

The Accounting Officer explained that the Minister for ICT and National Guidance is in the process of appointing a new Board of Directors for UPL.

I advised the Accounting Officer to follow up with the Minister of ICT with a view of expediting the appointment process of the Board.

- **Lack of Land Titles for UPL Land**

According to Paragraph 16.13.11 of the Treasury Instructions 2017, a government entity shall be considered to have control if it has the certificate of title. If the government entity does not have title to the land, the entity shall not be considered to have control. The same criteria shall apply to buildings.

However, I noted that the company lacked land titles for several of its properties distributed across the country as shown below;

No	Plot Number	Location of Property/Land
1	Plot 40 Margarita Road	Kasese
2	Plot 18-20 Gogonyo Road, Pallisa	Pallisa
3	Plot 76 Mawokota Block 92, Mpigi	Mpigi
4	Plot 6-10 Birch Avenue Masaka	Masaka
5	Plot 2-6 Mutekanga Road, Kamuli	Kamuli
6	Plot 1-11 Nsambya Road	Kampala

This was attributed to costly and slow pace of acquisition of land titles. Lack of land titles exposes the company land to the risk of loss through encroachment. In response, the Accounting Officer stated that there is an on-going process to obtain certificates of title for all properties.

I advised the Accounting officer to expedite the process of acquiring certificates of title so as to safe guard its land from encroachment.

- **High Rate of Staff Turnover**

According to Objective four (4) of the Posta Uganda Limited Revised Strategic Plan 2016-2018, the Company is strategized to be a best practice employer in attracting and retaining competent and innovative staff. However, I noted that during the financial year under review, twenty one (21) members of staff (i.e. 12% of UPL staff) left the organization as a result of expiry of contracts, dismissals and transfer of services and these were not replaced, leading to staffing shortfalls within the Company. This was attributed to a deliberate policy by the Board to keep staffing levels low in order to cut down costs. Management also stated that majority of their staff leave for better paying jobs.

High staff turnover affects Company operations and achievement of Company objectives as a result of man power gaps. It could also reflect negatively on the image of the organization. I have advised management to devise a strategy of retaining staff in the Company and also ensure that vacant positions are filled for efficient and effective service delivery.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors report, Statement of Directors responsibilities, 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, am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors 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 Directors are accountable to Parliament for the funds and resources of the Uganda Posts Limited.

The Directors are also responsible for the preparation of financial statements in accordance with the requirements of the International Financial Reporting Standards (IFRS), the Companies Act of Uganda 2012, Section 51 of the 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 Directors are responsible for assessing the Company's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda Posts Limited, unless the Directors have a realistic alternative to the contrary.

The Directors are responsible for overseeing the Company's' financial reporting process.

<u>Auditor General's Responsibilities for the Audit of the Financial Statements</u>

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 Company'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 Directors' 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 Company'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 Company 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 Directors 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 Directors 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 Directors, 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, as well as the Companies Act of Uganda 2012, 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.

- 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;
- In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and

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 the UPL 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;

- **Outstanding Tax Payments**

  I noted that UPL had outstanding tax payments of UGX.4,317,502,160 as disclosed in the statement of financial postion. Of these, UGX.1,035,638,150 relates to unpaid Pay As You Earn (PAYE) and UGX.3,281,864,010 relates to unpaid value added tax (VAT). Violation of the Income Tax and VAT laws exposes the company to a risk of fines and penalties.

  In their response, management explained that included in total VAT of UGX.3.282 billion is VAT attributed to rental income receivable from UTL of UGX.2,429,848,039, which has not been received and others relates to revenues receivables written off during financial year 2016-2017. Management is settling the obligations as they fall due and hopes to enter into a Memorandum of Understanding with URA to resolve this matter.

  I advised management to ensure compliance with tax laws and I await the outcome of their actions in settling this mater.

- **Non Alignment of Strategic Plan to the National Development Plan (NDP)**

  The National Development Plan II is the second of the five-year NDPs that will be implemented under Vision 2040 and covers the fiscal period 2015/16 to 2019/20. Section 13(7) of the Public Finance and Management Act, 2015 stipulates that the entity obtains a certificate of compliance issued by National Planning Authority (NPA) confirming that the entity budget is aligned to the strategic plan and the NDP.

I observed that the entity was instead issued with a certificate of non-compliance by the National Planning Authority due to failure to align the time horizon of the Strategic Plan (2013/2014 – 2017/2018) and the NDP II (2015/16 – 2019/20). Furthermore, the Strategic Plan (2013-2018) expired at end of financial 2017-2018 and had not been replaced. Failure to align the company's strategic plan time horizon to that of NDP II implies that the activities were not matching and conforming to the NDP objectives for the period under review which inhibits measurement and comparison of outputs.

The Managing Director in his response stated that the preparation of the new strategic plan is in progress through setting up a strategic planning committee that has developed an abridged annual work plan till FY2019/20 effectively aligning Uganda Posts Limited`s strategic plan to the NDP II. I have advised the Managing Director to ensure that the new strategic plan being compiled is aligned to the National Development Plan as required by the law.

John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
19th December, 2018