



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
MANDELA NATIONAL STADIUM LIMITED
FOR THE 18 MONTHS PERIOD ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

F/Y	Financial Year
GOU	Government of Uganda
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards for Supreme Audit Institutions
IFRS	International Financial Reporting Standards
MNL	MANDELA NATIONAL STADIUM LIMITED
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning and Economic Development
NAA	National Audit Act
PFMA	Public Finance Management Act, 2015
UGX	Uganda Shillings

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS
OF MANDELA NATIONAL STADIUM LIMITED

FOR THE 18 MONTHS PERIOD ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the accompanying financial statements of Mandela National Stadium Limited for the 18 Months period ending 30th June 2018. These financial statements comprise the Statement of Financial Position as at 30th June 2018, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, accompanying schedules and a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 26.

In my opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mandela National Stadium Limited as at 30th June 2018 and its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2012 of Uganda.

Basis for Qualified Opinion

• **Irregular Disclosure of Going Concern**

Audit reviewed the financial statements and noted a number of going concern issues which were not adequately disclosed by management details of which are indicated below;

- The stadium reported losses of UGX.238,902,339 for 2018 leading to increase in accumulated deficit to UGX. 5,650,698,007. If this trend continues the capital base of the Stadium will be wiped away.
- I noted that the stadium current ratio stood at 0.43:1. This implies that the company's current assets can only pay off 43% of its current liabilities. In the circumstances the stadium in its current position is not likely to meet its debt obligations without selling off its long-term or capital assets.
- The Stadium's assets have continued to deteriorate without provisions in the budget for their maintenance, an indicator that the assets may not be able to

generate the required income to finance planned activities and pay service providers.

Management explained that the stadium faced numerous challenges from the year 2010 to 2012 such as lack of funding for capitalisation, long accumulated creditors including statutory obligations like NSSF and Uganda Revenue Authority. Management indicated that the stadium has developed a new strategic plan 2019-2024 to refocus the stadium's direction.

The above factors are an indication of the Stadium's inability to sustain itself in the foreseeable future.

I advised the Accounting Officer to make appropriate disclosures in the financial statements in regard to the going concern.

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 Company 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 key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion further, I draw your attention to notes 2 and 4 in the financial statements:

- **Accumulation of Payables**

Regulation 8 of the PPDA regulations (contracts) 2014 requires a procuring and disposing entity not to enter into a contract until the accounting officer confirms in writing that the required funds have been committed for the proposed contract.

A review of the balance sheet indicated that payable increased by UGX.108,316,744 from Ugx.4,043,684,570 in previous year to UGX. 4,152,001,314 in the current year. Notable among the payables were; taxes due to Uganda Revenue Authority that increased from UGX. 2,489,003,397 in 2016 to UGX.2,932,123,208 as at 30th June 2018, NSSF penalty; UGX.337,142,883 and NSSF contributions ;UGX.267,176,172.

In response, management explained that the payables are due to historical challenges, NSSF arrears relate to the period 2004-2010 while URA arrears have accrued from way back in 2009. Seventy percent (70%) of these obligations are penalties and interest accrued over the years. As efforts to reduce the obligation using the internally generated revenue are on, management is engaging the shareholders to settle this matter.

The increase in payables exposes the stadium to a risk of legal costs, penalties and fines which will further constrain its operations.

I advised management to ensure that the historical debts are paid to avoid continued accumulation of interest and possible attachment of stadium property.

- **Accumulation of Receivables**

A review of the balance sheet statement revealed that receivables increased by UGX.696,988,531 (64%) from UGX.1,075,824,604 in 2016 to UGX.1,772,813,135 for the period ended 30th June 2018. Notable among the receivables were trade debtors amounting to UGX.1,287,189,306 and rent debtors amounting to UGX 462,814,906. The disclosed receivables amount is significant as it represents 50% of the total income of UGX.3,562,752,207 earned during the year.

In response, management explained that the increase in the debtors' figure was mainly due to the stalling of implementation of the hotel management contract. The tenant delayed the renovation of the hotel due to discovery of major electrical and plumbing repair works that were not anticipated at the time of contract signing. This has hindered the operation of the hotel hence the client has not made any payment since takeover of the hotel in July 2017 and increased the tenant's debt from UGX. 92M in December

2016 to UGX 735 million as at 30th June 2018. Management also indicated that the company is in final stages of instituting legal action against the hotel tenant as a remedy to this matter.

Failure to recover trade receivables hinders management's ability to efficiently operate the stadium, cover day to day operations and hence leads to accumulation payables.

I advised management to seek for guidance from the Solicitor General's Office before considering a costly legal action.

- **Underperformance of Revenue**

Section 5.1 of the Stadium's financial manual requires management to prepare its annual and quarterly budget in accordance with the requirements of the board. It further requires management to put in place specific measures and activities geared towards fulfilling the overall objectives or themes of the budget.

During the period under review, the Stadium realised revenue of UGX 3,012,000,000 out of the budgeted revenue of UGX 3,706,341,000 leading to a revenue shortfall of UGX 694,000,000 (15%). This was caused by dilapidated facilities that don't attract customers and lack of marketing sales staff.

In response, management explained that the internally generated revenue had a shortfall because of the poor state of the facilities. Management further indicated that a new strategic plan has been developed to refocus the direction of the company. Further, it has sought for capital development funding from the stadium's shareholders and will emphasize it in the Annual General Meeting scheduled for March 2019.

Unrealized revenue hinders the stadium's ability to meet their operational costs hence leading to accumulation of losses and debts, and missing the overall objectives and themes of the budget.

I await the results of the strategies management has put in place.

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.

- **Irregularities in outsourcing of Mandela Sports Hotel**

The Stadium management outsourced the Stadium Hotel to Fortune Energy Ltd (FEL) to rent the stadium for a period of 10 years effective 1st February 2016. Section 3 B(1) of the contract required FEL to pay premium and rent in accordance with the contract terms.

Audit noted that management neither appointed a contract manager in time to monitor the implementation of the contract nor had the contract approved by the Solicitor General contrary to regulations 7 (f) of the PPDA regulations (contracts) 2014.

In response, management explained that there is a Contract Management Committee comprising Mandela National Stadium Limited staff and nominees from the Ministry of Works & Transport and the Ministry of Education & Sports.

However, I noted that the Contract management committee was appointed two years and four months after signing of the contract in May 2018 and this was too late to enforce the contract terms.

As a result of poor contract management and failure to seek the Solicitor General's approval, the stadium is stuck in a non-performing contract.

I advised management to seek the Solicitor General's guidance on how to go about with a non-performing contract.

- **Increased Encroachment on Stadium Land**

The stadium is situated on a piece of land consisting of block 234, plot 234 (1.66 hectares) and block 234 plot 1334 (48.54 hectares).

A review of the land status file indicated that the number of land encroachers has increased, with individuals claiming ownership of part of the stadium land. I further noted that the encroachers engage in income generating activities such as shops and washing bays. It is also a dumping ground for refuse from Kira Town Council, Wakiso district.

Management explained that some occupants claim not to have been compensated by Government at the time of acquiring the land while others of late have presented special titles, and management has reported the case to Police and also requested Uganda Land Commission to cancel the purported special titles. Further, the stadium

management has taken steps to protect stadium land such as lodging a complaint with the judicial commission of inquiry on land and writing to the Secretary Uganda Land commission requesting to cancel the special titles on stadium land among others.

Increased and uncurbed encroachment of stadium land will lead to loss of government land.

I advised management to ensure that further encroachment on the land is curbed by removing all the land encroachers and fencing off the unutilized land as it awaits government intervention on the land.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, 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 is accountable to Parliament for the funds and resources of the Mandela National Stadium Limited.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the International Financial Reporting Standards and the Company's Act of Uganda, 2012 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 company's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the MANDELA NATIONAL STADIUM LIMITED, 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 company'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 Company'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 Company'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 Mandela National Stadium Limited 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 sections 19 (1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements that:

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.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, sweeping flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

17th December, 2018