



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF NATIONAL HOUSING AND**  
**CONSTRUCTION COMPANY LIMITED FOR THE SIX MONTH PERIOD ENDED**  
**30<sup>TH</sup> JUNE 2017**

**OFFICE OF THE AUDITOR GENERAL**  
**UGANDA**

## **Table of Contents**

LIST OF ACRONYMS.....	3
Qualified Opinion .....	4
Basis of Qualified Opinion .....	4
Emphasis of Matter.....	5
Key Audit Matters .....	5
Other Matter .....	7
Other Information.....	8
Management’s Responsibilities for the Financial Statements .....	8
Auditors’ Responsibilities for the audit of the Financial Statements .....	9
Report on Other Legal and Regulatory Requirements .....	11
FINANCIAL STATEMENTS.....	12

## **LIST OF ACRONYMS**

<b>RT. HON</b>	Right Honorable
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>GoU</b>	Government of Uganda
<b>IAS</b>	International Accounting Standard
<b>IFRS</b>	International Financial Reporting Standard
<b>FIFO</b>	First-in, First-out
<b>LAICO</b>	Libyan African Investment Company
<b>MoFPED</b>	Ministry of Finance, Planning and Economic Development
<b>NHCCL</b>	National Housing and Construction Company Limited
<b>PFMA</b>	Public Finance and Management Act, 2015
<b>UGX</b>	Uganda Shillings
<b>PPDA</b>	Public Procurement and Disposal Authority

**REPORT OF THE AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF NATIONAL HOUSING AND CONSTRUCTION**  
**COMPANY LIMITED FOR SIX MONTH PERIOD ENDED 30<sup>TH</sup> JUNE 2017**

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

**QUALIFIED OPINION**

I have audited the financial statements of National Housing and Construction Company Limited set out on pages 11 to 45, which comprise the statement of financial position as at 30<sup>th</sup> June 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effect of the matter described in the basis for qualified opinion section of my audit report, the financial statements present fairly, in all material respects, the financial position of National Housing and Construction Company Limited as at 30<sup>th</sup> June, 2017, and its financial performance and cash flows for the six month period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012.

**Basis of Qualified Opinion**

• **Non-compliance with IAS 40: Investment Property**

The Company has adopted fair value model for subsequent measurement of Investment Properties under IAS 40 where it is required to report all items of investment property at fair value on a continuous basis, at each reporting date. However, the Company reports the fair values of its items of investment property on a selective basis. Accordingly, I was unable to satisfy myself, using alternative audit procedures, the valuation of investment property as at 30<sup>th</sup> June, 2017.

• **Incomplete Records On Investment Property**

The Company has investment property of UGX.298.98 billion as at 30<sup>th</sup> June, 2017 for which I have been unable to satisfy myself by alternative audit procedures in relation to its completeness and existence due to incomplete records maintained by the Company.

I conducted my audit in accordance with International Standards on Auditing (ISAs). 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 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.

### **Emphasis of Matter**

Without qualifying my opinion further, I draw your attention to Note 32 to the financial statements:

- **Material Uncertainty Related To Going Concern**

The financial statements of the Company are prepared on a going concern basis notwithstanding the fact that it has sustained negative operating cash flows over the past 6 years.

The continuation of the Company's operations is dependent upon future profitable operations, the continued financial support from the shareholders and the ability of the Company to generate sufficient cash flows to meet its obligations as they fall due.

However, there is uncertainty on the Company's ability to continue as a going concern due to sustained negative operating cash flows over the past 6 years. I have also not been able to ascertain the feasibility of the Company's projected cash flows over the next 5 years.

### **Key Audit Matters**

Key audit matters are those matters that, in our 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.

In addition to the matter described in the Basis for qualified opinion section, I have determined the matter described below to be the key audit matter to be communicated in my report;

- **Inventory valuation**

As at 30<sup>th</sup> June, 2017, the Company held UGX.83,339,336,000 of inventory of which 97% related to inventory property constructed for sale in the normal course of the company business. Given the nature and size of the inventory balance relative to the total assets of the Company, and the estimates and judgements involved in the determination of inventory values, the valuation of inventory required significant audit attention. As per the applicable accounting policies, inventories are held at the lower of cost and net realizable value. Cost is determined using specific identification method for inventory property and the First-in, First-out (FIFO) cost method for the rest of the inventory items. At period-end, the valuation of inventory is reviewed by management and the cost of inventory is reduced where inventory is forecast to be sold below cost.

The determination of whether inventory will be realized for a value less than cost requires management to exercise judgement and apply assumptions. Management undertakes the following procedures for determining the level of write-down required;

- a. Use inventory ageing profile together with historical trends to estimate the likely future saleability of slow moving and old inventory units;
- b. Perform a unit-by-unit analysis of the remaining inventory to ensure it is stated at the lower of cost and net realizable value and a specific write-down is recognized if required; and
- c. Ensure costs include all costs incurred in bringing inventory to its present location and condition – specifically the interest costs.

I performed the following procedures over the inventory valuation process of the Company to ensure that the Company was complying with the standards and its set out valuation procedures;

- a) For a sample of inventory items, I re-performed the FIFO cost calculation and determination of the actual unit cost where specific identification method was used;

- b) On a sample basis I tested the net realizable value of inventory lines to the recent selling prices; and
- c) I assessed the Company's exposure to recoveries on slow moving inventory.

From my procedures performed above, I noted no significant matters to report.

### **Other Matter**

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

- **Incorrect Accounting For Sales Transactions**

I observed that the Company recognizes revenue from the sale of inventory units and/ investment property upon receipt of full payment. However, a review of the underlying agreements relating to the various transactions revealed that;

- a. There are cases of transfer of control and/ risk and rewards to customers where sales were not recognized;
- b. In some instances full payments were received but revenue was not recognized;  
Certain sales transactions recognized in the books of account in a wrong accounting period; and
- c. Certain sales transactions are recognized but the assets remain in the books of the Company.

Although audit adjustments have been made wherever considered significant, incorrect accounting for sales transactions may result into misstatement of the Company's financial statements. There may be instances where the approach adopted by the Company does not comply with basic accounting principles.

I advised management to ensure that sales are recognized in accordance with the requirements of the relevant accounting standards.

- **Inadequate Controls Over Recognition of Legal Fees**

I noted that:

The Company has not been recognizing legal costs incurred over the years amounting to UGX.2.3billion.

Contrary to the Company's procurement procedures and PPDA requirements, legal services were procured from providers who were not on the official pre-qualified list.

In certain instances, no appointment letters and/ formal description of scope of work availed to me for the services provided; and

No adequate evidence on how external legal service providers were monitored or supervised, and how their advice is acted upon.

Although corrections have been made through audit adjustments, lack of adequate controls over processing of accounting transactions and inadequate monitoring of service providers may result in misstatement of the Company's financial statements and fraudulent transactions.

I advised management to ensure that appropriate compliance with the Company's procedures manual, PPDA Act and accounting policies are adhered to.

### **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.

### **Management's Responsibilities for the Financial Statements**

The directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012, and for such internal control as the directors determine is

necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditors' Responsibilities for the audit of the Financial Statements**

My objectives as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008, 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 ISAs 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 ISAs, 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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.

### **Report on Other Legal and Regulatory Requirements**

As required by the Companies Act, 2012, I report to you, based on my audit, that:

- 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
- The Company's statement of financial position and statement of financial performance are in agreement with the books of account.



John F.S. Muwanga

**AUDITOR GENERAL**

10<sup>th</sup> May, 2019

## **FINANCIAL STATEMENTS**