



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE UGANDA NATIONAL AIRLINES COMPANY LIMITED (UNACL) FOR THE
FINANCIAL YEAR ENDED 30TH JUNE 2021**

**OFFICE OF THE AUDITOR GENERAL
UGANDA**

TABLE OF CONTENTS:

LIST OF ACRONYMS.....	3
Qualified Opinion	4
Basis for Qualified Opinion	4
1.0 Failure to undertake stock counts –UGX 8,716,398,000	4
Key Audit Matter	5
2.0 Implementation of the approved budget 2020/2021	5
Emphasis of Matter	11
3.0 Loss for the year – UGX 164,601,281,000	11
4.0 Long Outstanding Payables	11
5.0 Doubtful value of Property Plant and Equipment –UGX 1,127,484,315	12
6.0 Financial analysis and assessment of the Company’s performance	12
Other Information	13
Directors Responsibilities for the Financial Statements.....	13
Auditor’s Responsibilities for the Audit of the Financial Statements	13
Other Reporting Responsibilities	14
Report on the Audit of Compliance with Legislation	15
7.0 Implementation of un-planned Procurement activities	15
8.0 Procurement without Contracts Committee Approval	15
9.0 Supply, delivery , commissioning and safe keeping of Assorted Ground Handling Equipment.....	16
9.1 Supply, delivery and commissioning of Assorted Ground Handling Equipment.....	16
9.2 Contract with DAS Air for Management and safe custody of the Ground Handling Equipment.....	17
10.0 Purchase of vehicle for southern Sudan Office through direct procurement	18
11.0 Supply of inflight service equipment for airbus.....	19
12.0 Failure to seek approval from NITA-U for procurement of IT software	19
13.0 Supply of critical spare parts for business class seats for A330-800 NEO UGX USD 146,230.72.....	20
14.0 Failure to maintain contract management files.....	20
15.0 Human resource management.....	21

LIST OF ACRONYMS

Acronym	Meaning
GoU	Government of Uganda
IESBA	International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
MDAs	Ministries, Departments and Agencies
Bn	Billion
MoFPED	Ministry of Finance, Planning and Economic Development
MoWT	Ministry of Works and Transport
NAA	National Audit Act
NITA-U	National Information Technology Authority of Uganda
NDP	National Development Plan
NPA	National Planning Authority
OAG	Office of the Auditor General
PPDA	Public Procurement and Disposal of Public Assets
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulations
PPDA	Public Procurement & Disposal of Public Assets
BEC	Budget Execution Circular
PS/ST	Permanent Secretary / Secretary to the Treasury
TI	Treasury Instructions
UCAA	Uganda Civil Aviation Authority
UCF	Uganda Consolidated Fund
UGX	Uganda Shilling
USD	United States Dollars
UNACL	Uganda National Airlines Company Limited
PDU	Procurement and Disposal Unit
HR	Human Resource

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE
UGANDA NATIONAL AIRLINES COMPANY LIMITED FOR THE YEAR ENDED
30TH JUNE, 2021**

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the accompanying financial statements of the Uganda National Airlines Company Limited which comprise the Statement Comprehensive Income as at 30th June 2021, the Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows together with other accompanying statements for the year 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 matters described in the Basis of Qualified Opinion section, the financial statements present fairly, in all material respects, the financial position of the Uganda National Airlines Company Limited as at 30th June 2021 and the results of its operations and cash flows for the period then ended, in accordance with the International Financial Reporting Standards and the Companies' Act 2012.

Basis for Qualified Opinion

1.0 Failure to undertake stock counts –UGX 8,716,398,000

UGX 8,716,398,000 was disclosed as the value of the inventories in the statement of financial position. The inventory was comprised of engineering stores (expendable parts) of UGX 8,584,169,627 and general stores (inflight stock, uniform stock and other inventories) of UGX 132,228,783. However there was no evidence that Management carried out end of year stock taking to get actual values of inventories.

A review of stores and discussion with the Management revealed that there were no stores ledgers for engineering stores. Although the general stores had manual ledgers, the ledgers were not capturing Goods Received Note reference numbers (GRN) against the receipts in the ledgers as a reference of the goods received. This implies limited audit trail of items received in stores and issued out.

Without end of year stocktaking figures and proper records of stores, I was unable to confirm whether UGX 8,716,398,000 was a correct closing inventory value.

Although the Accounting Officer explained that a soft record (excel spread sheet) for management of the engineering stores inventory was available, no sufficient evidence was provided to support the assertion. The Accounting Officer further explained that for process improvement, an advanced system specifically designed for aeronautical stores management and control called ADT Wings (Materials module) has been acquired this Financial Year with a target date for full transition being 31st January 2022.

I advised the Accounting Officer to always carry out end of year stocktaking to ascertain the closing items and their values. I also advised the Accounting Officer to put in place properly posted stock ledgers to capture movement of inventory items in the stores.

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 Uganda National Airlines Company Limited 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 qualified opinion.

Key Audit Matter

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.

2.0 Implementation of the approved budget 2020/2021

On 22nd December 2017 cabinet approved a business and implementation plan for the Uganda National Airlines Company Limited (with the trade name Uganda Airlines). The UNACL Board and Minister of Works approved the annual estimates for UCAA for the 2020/2021 Financial Year to enable implementation of agreed outputs. During my overall risk assessment exercise, I noted that Government entities are still experiencing challenges in implementing approved budgets /estimates, which have continued to affect the performance and credibility of the budget negatively. These challenges include; lack of strategic plans that are aligned to the National Development Plans, underperformance of revenue, implementation of off-budget activities, under absorption of funds, insufficient quantification of outputs, partial and non-implementation of outputs, diversion of funds and challenges in budget monitoring and reporting of performance.

I am aware that the Covid-19 Pandemic continues to significantly affect the implementation of several activities. Consequently, a number of activities were not implemented due to budget cuts and lockdown measures instituted to control the spread of the pandemic. It is against this background that the implementation of the budget was again considered a key audit area during the office-wide planning for the current audit year.

UNACL was incorporated as a limited liability Company, under the company Act, 2012, on 30th January 2018. This choice of incorporation was to allow for an eventual listing and floatation of shares to the public. The Government of Uganda set up a national airline in order to: enhance the country's competitiveness by reducing the cost of air transport and easing connectivity to and from Uganda; to support faster harnessing of opportunities in the economy (tourism, agriculture, minerals, oil and gas); and fulfil the

requirement to establish air transport infrastructure to meet the growing demand for air transport (passenger and cargo).

To achieve its objectives, UNACL planned to implement both recurrent and capital development activities. A review of the entity's budgets revealed that the entity had an approved budget of UGX 1,025.542 billion, covering both GOU receipts and locally generated revenue. **Table 1** below shows a summary of the key outputs of the UNACL for the financial year 2020/21.

Table 1: Summary of Key outputs

Project	Output	Approved budget	Cumulative percentage share of the total sampled approved budget
Project:1512 Uganda National Airline Project	Output: 52 Rehabilitation of Upcountry Aerodromes (CAA)	18,600,000,000	3.3
	Output: 75 Purchase of Motor Vehicles and Other Transport Equipment	539,719,100,000	100

During the financial year 2020/21, UNACL did not prepare an annual budget for the internally generated revenue. However, two (2) outputs under the Project: 1512 Uganda National Airline Project in the GoU subvention annual work plan with an approved total budget UGX 581.144bn were selected for the assessment.

From the procedures undertaken, I noted the following (**Table 2**):

Table 2: Findings on UNACL planned performance

No	Observation	Recommendation
3.1	<p><u>Existence of Strategic Business plans that are aligned to NDP-III</u></p> <p>Paragraph 5 of the budget execution circular for the financial year 2020/2021 cites poor alignment of Government Budgets with the National Development Plans. The PS/ST urges Accounting Officers to ensure that all activities for Financial Year 2020/2021 are aligned with NDP III and implemented accordingly. Regulation 26 (1) of the National Planning Authority (development of Plans) regulations require entities to submit to NPA their five-year development plans for certification before approval.</p> <p>This being the first year of implementation of the NDP-III, the entity was expected to prepare a strategic plan aligned to NDP III and ensure that the plan is approved. The strategic plan would then form the basis of the preparation of the entity's annual plans.</p> <p>Through document review and interviews, I noted that whereas UNACL had a strategic/ business plan document running from 2019-2023, it was not aligned to the National Development Plan III in terms of timeframe as required by the National Planning Authority (NPA).</p>	<p>I advised Management to fast track the preparation and alignment of the strategic/ business plan to the NDPIII sector priorities and have it approved by NPA to facilitate preparation of annual business plans and the achievement of the sector priorities in the NDP III.</p>

	<p>There is a risk that activities implemented during the financial year 2020/2021 were not aligned to the NDP-III sector indicators/targets, which negatively affects the achievement of NDP-III national objectives.</p> <p>The Accounting Officer explained that a strategy session has been planned for end of January 2022.</p>																			
3.2	<p><u>Revenue Performance</u></p> <p><u>Performance of Internal Revenue</u></p> <p>I reviewed the internal revenue estimates, revenue sources and rates charged at Agency level for the financial year 2020/2021 and noted that out of the budgeted revenue of UGX 304,633,836,800 during the financial year 2020/2021; only UGX 48,605,410,000 was collected representing a performance of 16% of the targeted revenue budget.</p> <p>The Accounting Officer explained that there is an on-going process of revenue maximization.</p> <p><u>Performance of GoU receipts</u></p> <p>The UNACL budgeted to receive UGX. 581.143 bn out of which UGX. 558.319 bn was availed, resulting in a shortfall of UGX 22.8 bn, which is 3.9% of the budget. Revenue shortfalls affect the implementation of planned activities.</p> <p>The Accounting Officer explained that the company acknowledges the findings and calls upon the MoFPED to release the funds require for its operations.</p>	<p>I advised the Accounting Officer to develop business and revenue collection strategies are in place to enable full realization of budgeted sums.</p> <p>Further, follow up should be made with MOFPED for the unreleased funds.</p>																		
3.3	<p><u>Budgeting for Business activities</u></p> <p>I reviewed the extent of quantification of outputs and activities for the agency's two (2) planned outputs with a total of eight (8) activities; with an approved budget of UGX 581.144bn representing 56.7% of the agency's approved total budget and noted the following;</p> <ul style="list-style-type: none">Two (2) outputs with a total of eight (8) activities and expenditure worth UGX 558.319 Bn were fully quantified. That is, all the eight (8) activities (100%) within these outputs were clearly quantified to enable the assessment of performance. Detailed schedule availed in Budget performance report. Table 6 below shows the extent of quantification of outputs. <p>Table 6: showing the extent of quantification by outputs</p> <table><tr><th colspan="5">Summary of Performance by Outputs</th><th colspan="4">Activity details-Analysis</th></tr><tr><th>Category of outputs</th><th>No. of outputs sampled</th><th>% of total outputs</th><th>Expenditure UGX</th><th>% proportion to total</th><th>Total no of activities in</th><th>No. of Fully Qua</th><th>No of activities not</th><th>% of quantification of activities</th></tr></table>	Summary of Performance by Outputs					Activity details-Analysis				Category of outputs	No. of outputs sampled	% of total outputs	Expenditure UGX	% proportion to total	Total no of activities in	No. of Fully Qua	No of activities not	% of quantification of activities	<p>I advised the Accounting Officer to consider rolling over unimplemented strategies to the subsequent year for implementation.</p>
Summary of Performance by Outputs					Activity details-Analysis															
Category of outputs	No. of outputs sampled	% of total outputs	Expenditure UGX	% proportion to total	Total no of activities in	No. of Fully Qua	No of activities not	% of quantification of activities												

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	Fully quantified outputs	2	100	558.319	100	8	8	0	100																																									
	I noted that UNACL did not have unit cost estimates at activity level to provide a link between inputs, processes, outputs and intermediate outcomes realized during the year.																																																	
3.4	<p><u>Implementation of quantified activities /outputs</u></p> <p>I assessed the implementation of two (2) outputs that were fully quantified with a total of eight (8) activities worth UGX 558.319Bn and noted that;</p> <ul style="list-style-type: none">Two (2) outputs with eight (8) activities and expenditure worth UGX 558.319bn were partially implemented.Two (2) activities were fully achieved whereas six (6) activities were partially achieved. <p>Table 7 below shows the extent of implementation of quantified outputs.</p> <p>Table 7: Showing level of implementation of Fully Quantified outputs</p> <table><tr><th colspan="4">Summary of Performance by Output</th><th colspan="6">Activity details-Analysis</th></tr><tr><th>Cate gory of outp ut</th><th>No of ou tp ut s</th><th>% of im ple men tati on</th><th>Expe nditu re UGX Bn</th><th>% pro por tio n to tot al exp endi ture</th><th>Tot al no of act iviti es</th><th>No of Ful ly im ple men ted act iviti es</th><th>No. Of parti ally imple mented acti vities</th><th>No of acti vities that were not imple mented</th><th>Exten t of imple ment ation of acti vities per categ ory of outpu t</th></tr><tr><td>Fully imple mented outp uts¹</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>100</td></tr><tr><td>Parti ally</td><td>2</td><td>100</td><td>558.319</td><td>100</td><td>8</td><td>2</td><td>6</td><td>0</td><td>50</td></tr></table>									Summary of Performance by Output				Activity details-Analysis						Cate gory of outp ut	No of ou tp ut s	% of im ple men tati on	Expe nditu re UGX Bn	% pro por tio n to tot al exp endi ture	Tot al no of act iviti es	No of Ful ly im ple men ted act iviti es	No. Of parti ally imple mented acti vities	No of acti vities that were not imple mented	Exten t of imple ment ation of acti vities per categ ory of outpu t	Fully imple mented outp uts ¹	0	0	0	0	0	0	0	0	100	Parti ally	2	100	558.319	100	8	2	6	0	50	I advised the Accounting Officer to ensure that outputs are implemented as planned.
Summary of Performance by Output				Activity details-Analysis																																														
Cate gory of outp ut	No of ou tp ut s	% of im ple men tati on	Expe nditu re UGX Bn	% pro por tio n to tot al exp endi ture	Tot al no of act iviti es	No of Ful ly im ple men ted act iviti es	No. Of parti ally imple mented acti vities	No of acti vities that were not imple mented	Exten t of imple ment ation of acti vities per categ ory of outpu t																																									
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Parti ally	2	100	558.319	100	8	2	6	0	50																																									

¹Fully implemented output -All the activities within the outputs are fully implemented

	<table><tr><td>Impl emen ted outp uts²</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Outp uts Not Impl emen ted³</td><td>0</td><td>0</td><td>0.0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr><tr><td>Total</td><td>2</td><td>10 0</td><td>558. 319</td><td>100</td><td>8</td><td>2</td><td>6</td><td>0</td><td></td></tr></table>	Impl emen ted outp uts ²										Outp uts Not Impl emen ted ³	0	0	0.0	0	0	0	0	0	0	Total	2	10 0	558. 319	100	8	2	6	0		<p>Partial implementation of planned activities implies that the expected services to the customers were not fully attained and the company revenue earning potential curtailed. For example, the UNACL partially implemented the following planned activities.</p> <ol style="list-style-type: none">1. Procurement of spare parts for the Airbus fleet2. 32 pilots supported for A330-800 neo type training3. 60 pilots supported in simulator training <p>The Accounting Officer explained that implementation of majority of the above activities was affected by the covid-19 pandemic and the nationwide lockdown during quarter two and three of the financial year. In addition, budget cuts by MOFPED affected the planned implementation of activities.</p>
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Outp uts Not Impl emen ted ³	0	0	0.0	0	0	0	0	0	0																							
Total	2	10 0	558. 319	100	8	2	6	0																								
3.5	<p><u>Achievement of intended services from implemented outputs-</u></p> <p>I undertook an assessment to establish if there has been customer service improvement from a sample of outputs that were implemented and noted the following (Table 8); -</p> <p>Table 8: Achievement of intended services from implemented activities</p> <table><tr><th>Output</th><th>Planned Target for the FY 20/21</th><th>Achieved Target by Financial year end</th><th>Audit remarks</th></tr><tr><td>Output: 52 Rehabilitation of Upcountry Aerodromes (CAA)</td><td>60 pilots supported in simulator training</td><td>50 pilots supported in maintaining their flying licenses</td><td>Some expatriate Pilots targeted for recruitment turned down the offers. 2 Pilots were on three months suspension. The Covid-19 pandemic also slowed down the recruitment process.</td></tr></table>	Output	Planned Target for the FY 20/21	Achieved Target by Financial year end	Audit remarks	Output: 52 Rehabilitation of Upcountry Aerodromes (CAA)	60 pilots supported in simulator training	50 pilots supported in maintaining their flying licenses	Some expatriate Pilots targeted for recruitment turned down the offers. 2 Pilots were on three months suspension. The Covid-19 pandemic also slowed down the recruitment process.	<p>I advised the Accounting Officer to urgently address the anomalies/gaps noted in the implementation of these outputs to enable its clients fully benefit from the projects/programmes implemented by Government.</p>																						
Output	Planned Target for the FY 20/21	Achieved Target by Financial year end	Audit remarks																													
Output: 52 Rehabilitation of Upcountry Aerodromes (CAA)	60 pilots supported in simulator training	50 pilots supported in maintaining their flying licenses	Some expatriate Pilots targeted for recruitment turned down the offers. 2 Pilots were on three months suspension. The Covid-19 pandemic also slowed down the recruitment process.																													

²Partially implemented Output-Activities within the output are either; Fully implemented, partially implemented or not implemented

³Outputs not implemented-All the activities within the output not implemented at all

		32 pilots supported for A330-800 neo type training	25 of them trained on the A330-800neo Aircraft;	The COVID-19 pandemic affected the training process	
		Long haul routes to London, Dubai and Guangzhou operationalized	Designations have been granted for London and Dubai routes. The process to designate Uganda Airlines is ongoing in China. The remaining last phase for Dubai and London is for the Airline to be granted the Flight Operator Permits (FOP) and routes are expected to be operationalized after obtaining the FOP;	London and Dubai had been set for July 2021 however; Uganda got red listed by both UAE and UK due to the upsurge in the COVID -19 infections. In addition there was a delay in getting UCCA's approval of the inclusion of the A330-800NEO in the Air Operating Certificate	
		100% Self handling at Entebbe Airport achieved;	100% of ordered equipment delivered; Recruitment of self-handling staff ongoing.	There were anomalies identified in the Q3 recruitment process. Interim Management found it prudent to redo the process	
		European Union Aviation Safety Agency (EASA) certification obtained;	Application was submitted to EASA to enable the Airline get clearance to fly to London;	This stalled due to the delay in conclusion of the A330-800NEO inclusion in the AOC	
	Output: 75 Purchase of Motor Vehicles and Other Transport Equipment	Spare parts for the Airbus Fleet procured;	Procurement of the Airbus Fleet spares is ongoing at various stages from different suppliers;	Delayed procurement process	
	<p>The failure to achieve the intended service improvement for customers negates the purpose of budgeting and implementing these activities.</p> <p>The Accounting Officer explained that implementation of majority of the above activities was affected by the covid-19 pandemic and the nationwide lockdown during quarter two and three of the financial year. In addition, budget cuts by MOFPED affected the planned implementation of activities.</p>				

Emphasis of Matter

Without modifying my opinion, I would like to draw the readers' attention to the following matter which have been disclosed in the financial statements of the Company:

3.0 Loss for the year – UGX 164,601,281,000

The company incurred a loss of UGX 164,573,633,000 at the end of the trading year 2020/2021. This was a result of generating low revenue in comparison to its costs. The company generated revenue totalling to UGX 46,927,333,000 from its operations. However, direct costs amounting to UGX 163,519,597,000 were incurred. In addition, the company incurred expenses on employees amounting to UGX 27,936,543,000 indirect overhead expenses of UGX 19,841,895,000 and Finance costs of UGX 230,579,000. The total costs (direct costs, employee expenses, indirect overheads and Finance costs) amounted to UGX 211,528,614,000.

The low revenue outturn in relation to the company's operations costs will lead to the erosion of the company's capital in the medium term if strategies to improve revenue are not devised urgently.

The Accounting Officer explained that the effects of the COVID 19 Pandemic grossly affected the UR performance. The airspace was closed for several months. UR had anticipated being operational in 18 routes, but this growth could not be achieved. Besides this, the airbus aircrafts could not be deployed without the Approved Operators Certificate (AOC). The Accounting Officer also explained that the Board approved a request for Management to review the current Company strategy.

I advised the Accounting Officer to review its business strategies to improve the company's generating ability in order to enable the company maintain its operations.

4.0 Long Outstanding Payables

The company had payables totalling UGX **47,032,043,000**. All the outstanding invoices were payable to UCAA. Out of the amount, payables totaling UGX **16,065,309,363** had been due for more than 6 months.

Under the circumstances, the company may incur un-necessary legal costs if the creditor opted for legal redress.

The Accounting Officer explained that the Airline is waiting for specific arrears disbursements from the Ministry of Finance so as to pay these outstanding passenger taxes to UCAA. At the point of setting up the Airlines, Government committed to help the Airline settle these UCAA bills. The Accounting Officer also indicated that by the time of the audit, these invoices had been submitted to MoWT for inclusion in the schedule of arrears for onward submission to Ministry of Finance, Planning and Economic Development.

I advised the Accounting officer to follow up with the MoFPED for settlement of payables in its next budget and business plan.

5.0 Doubtful value of Property Plant and Equipment –UGX 1,127,484,315

UGX 1,127,484,315 as the value of Property Plant and Equipment in the statement of financial position and the corresponding note (Note 12) as at the close of the financial year. However, it was noted that assets were not engraved to give them an identification number for easy identification. It was also noted that the assets could not be traced in the assets' register due to lack of identification numbers.

Further, in note 12 to the financial statements, property, plant and equipment were categorized into eight categories. To the contrary, a review of the assets register revealed that the non – current assets in the excel sheet assets register were not captured in the same assets' categories as per the note 12 to the financial statements. It was also noted that the excel sheet (Assets register) capturing assets did not have a column to describe the individual assets.

Due to failure to engrave the individual assets with identification numbers for audit trail in the assets register, I was unable to confirm whether all the assets were captured in the assets register and appropriately used in computing the values of property, plant and equipment.

The Accounting Officer explained that a supplier has been engaged and Bar codes sequencing shared with the supplier and printing of the tags is on-going. The Accounting Officer also explained that at the time of audit, updating of the assets register was work in progress.

I advised the Accounting Officer to ensure that the assets are appropriately engraved and the assets register updated.

6.0 Financial analysis and assessment of the Company's performance

I carried out financial analysis of UNACL financial performance and observed that the Company had made losses for the year 2019/2020 and 2020/2021 amounting to UGX102.442bn and UGX164.573bn respectively. On review of the operating margin, I observed that the costs before considering interest and taxes exceeded company revenues for the two years. I also observed that due to the losses incurred, the Company generated negative return on assets of 12.2% for the year 2019/2020 and 13.1% for the year 2020/2021. Further, the Company's revenue is still far below its assets.

The Company's losses and the ratios computed are an indication that Uganda National Airlines Company Limited is currently not performing well in terms of profitability and ability to sustain provision of services without further Government intervention for funding and Management strategies to improve revenue generation.

The Accounting Officer acknowledged the findings and explained that a strategy session is scheduled by the end of January 2022 where in among others, strategies for revenue maximization and cost cutting will be developed.

I advised the Accounting officer to ensure that strategies are devised to improve the revenue generating potential of the Company, while putting in place cost cutting mechanisms. I also advised the Accounting Officer to engage Government on further financing to be able to cover the current operating costs.

Other Information

The Directors are responsible for the other information. The other information comprises the Report of the Directors, Statement of responsibilities of the Board of Directors 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.

Directors Responsibilities for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the Companies Act, 2012 and International Financial Reporting Standards on Accrual basis of Accounting and for such internal controls as management determines 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 management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are 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 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 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 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

As required by the Companies Act 2012 and the National Audit Act, I report to you, based on my audit, that, except for the effect of the matters raised in the preceding paragraphs:

- 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 Corporation, so far as appears from my examination of those books; and
- The Corporation's statement of financial position and statement of financial performance are in agreement with the books of account.

Report on the Audit of Compliance with Legislation

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.

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

7.0 Implementation of un-planned Procurement activities

PPDA ACT, 2003 Section 58 (5)(7) states that a Procuring and Disposing Entity (PDE) shall notify the Secretary to the Treasury and the Authority of any changes made to its procurement plan and submit the updated and approved plan to the Authority. In addition, Procurement shall not be carried out outside the procurement plan except in cases of emergency situations.

I noted that UACL implemented twenty five (25) procurements outside the approved procurement plan for the FY 2020/2021. The procurements were made in different currencies amounting to (for each currency); Euro 1150,854.06, Kenya Shillings 61,879.2, USD 65,441.36, Tanzania Shillings 7,752,600 and UGX 346,738,939.

Execution of procurements outside the approved procurement plan leads to diversion of funds and affects realization of the approved procurement plan targets hence affecting service delivery provision to the intended beneficiaries.

The Accounting Officer explained that since UNACL had just started operations, a number of critical activities came up during execution that had not been included in the procurement plan. Additionally, the aviation industry has a strict regulatory regime where new vital criteria are introduced that sector players have to comply with in order to remain compliant in the industry. The Accounting Officer further explained that the company acknowledges that there was an oversight in updating the procurement plan in accordance with Section 58 (5)(7) of the PPDA Act which was occasioned by the suspension of key staff in the PDU and the remaining staff concentrated on completing the on-going procurements to avert crises that would arise from delayed completion of such procurements.

I advised the Accounting Officer to always endeavor to follow procurement plan when carrying out procurements.

8.0 Procurement without Contracts Committee Approval

Regulation 12(2) of the PPDA (Rules and Methods for Procurement of Supplies, Works and non-consultancy services) Regulations, 2014 requires that the Procurement and Disposal Unit (PDU) shall make a submission to the Contracts Committee in respect of procurement under the direct procurement method.

However, it was noted that a Purchase Order no. 0021 dated 14th December 2020 was made to Collins Aerospace for the supply of inflight equipment as detailed in Table 10

below at a price of USD 25,694.46 (VAT Exclusive) without the approval of the Contracts Committee.

Failure to obtain Contract Committee approval negatively affects the transparency of the procurement process and could result in procurement of items in a manner that is uneconomical.

The Accounting Officer pledged that in future they will ensure that the Contracts Committee performs its duties.

I advised the Accounting Officer to ensure that all procurements are approved by the Contracts Committee prior to execution or contract signing.

9.0 Supply, delivery , commissioning and safe keeping of Assorted Ground Handling Equipment

9.1 Supply, delivery and commissioning of Assorted Ground Handling Equipment

Uganda Airlines Company Limited under procurement ref. No. UNACL /SUPLS/2019-2020/00164 entered into 3 contract agreements with UGUREL INSAAT TAAHHUT HAVACILIK VE DIS TICSTI Limited for the supply, delivery and commissioning of assorted ground handling equipment for a sum of EUR **4,102,693.15**. The first contract was signed on 17/07/2020 for EUR 1,388,525.90, the second contract was signed on 31/08/2020 EUR 2,609,167.25, and the third contract was signed on on 14/06/2021 for EUR 105,000.

According to Management, the ground handling equipment was specialized motorized equipment used in ground handling of aircraft. The equipment was delivered in the month of February 2021 and kept with DAS air to date (18/11/2021). Euro 3,902,808.86 has been paid to-date.

Further review of records relating to the supply revealed the following;

- There were two firms being evaluated at preliminary stage. I noted that all the two bidders failed the preliminary stage (compliance) although the Evaluation Committee did not cancel the evaluation process. The Evaluation Committee changed the evaluation criteria.
- There was no evidence of appointment of a contract manager (management team) to manage the contract. I was also not provided with contract management file to ascertain whether the contract was properly managed.
- Evidence to confirm whether equipment delivery was witnessed was lacking. I was neither availed with copies of delivery notes nor was I availed with copies of goods received notes. There was no evidence of any technical team report confirming that the equipment delivered were in the right quantities and of the required quality.
- The equipment was delivered in February 2021 but to date 20/11/2012 (9 months) the equipment had not been put to use.

The Accounting Officer explained that the system has been that the Manager responsible for the procurement in the department becomes the contract manager, but

it will be improved by writing formally. The Accounting Officer also explained that UNACL is still in the process of obtaining a ground handling license from the Civil Aviation Authority of Uganda to be able to use the equipment due to the regulations at Entebbe International Airport.

I advised the Accounting Officer to;

- Ensure that Evaluation Committees follow pre- set evaluation criteria during bid evaluation.
- Appoint contract managers to manage the contracts.
- Follow up for the ground handling license to enable the equipment to be put to use.

9.2 Contract with DAS Air for Management and safe custody of the Ground Handling Equipment

A review of payment vouchers revealed that an amount of USD **8,620.7** vide payment voucher No PV07/21/072 was paid to DAS Air as rent for the month of April 2021. Further to the above a review of invoices revealed that DAS Air had billed Uganda Airlines a total of USD **43,103.5** for unpaid ground rent.

An inspection done found assorted items of ground handling equipment in the yard of the DAS Air as per the photographs below:



Review of records revealed the following;

- Uganda Airlines had not made any tenancy agreement with the DAS air. According to Management, the tenancy agreement was still in draft form waiting for signing. Due

to lack of the tenancy agreement, I could not ascertain how the rent invoiced and paid was arrived at.

- There was no official handover report from Uganda Airlines to DAS Air. I could not ascertain how many pieces of the equipment were in exact custody of DAS Air and how many were under the direct control of Uganda Airlines.
- All the pieces of the equipment were in open space without any protective cover.

Without clear terms and conditions by which Uganda Airlines for keeping its ground handling equipment in the yard of DAS Air, there is a risk of conflict on who will be responsible in case of any damage or loss of equipment.

The Accounting Officer explained that will expedite the ground handling equipment tenancy agreement in the short term and the ground handling license as the long term solution to enable use of the equipment.

I advised the Accounting Officer to expedite the drafting and signing of the ground handling tenancy agreement.

10.0 Purchase of vehicle for southern Sudan Office through direct procurement

Section 6 of the PPDA Act states that direct procurement may be used when there is insufficient time for any other procedure such as in an emergency situation; or where the works, services or supplies are available from only one provider.

On 11/03/2020 Uganda Airlines issued a purchase order ref. No 207 under procurement refer, No UNACL/SUPLS/19-20/00197 to M/S Muybach Motors Ltd for supply of a brand new motor vehicle at a total price of USD 28,000 tax free.

According to the supplier tax invoice No. 004/9/2020 dated 1st September 2020 for USD 28,000, the vehicle was a TOYOTA RUSH, 2019 MODEL, 1500 CC Petrol automatic transmission.

A review of payments revealed that UGX 103,532,800 (USD 28,000) was paid to the supplier vide payment voucher No. PV09/20/025 dated 4/9/2020. A review of the relevant documents and discussion with Management revealed that the vehicle was purchased through direct procurement.

There is a risk that the vehicle was procured at a high price and may not be of the required quality.

The Accounting Officer explained that this had occurred by the time of commencement of office by the current accounting officer and is part of the on-going investigation.

I advised the Accounting Officer to ensure adherence to PPDA requirements in the procurement process.

11.0 Supply of inflight service equipment for airbus

Uganda National Airlines Limited made contract agreement with M/s Ninesun Manufacturing Limited on 5th Feb 2021 under procurement reference Number UNACL/SUPLS/2020-2021/00100, for supply of inflight service equipment for airbus at a contract amount of USD 319,226.86.

According to the supplier price schedule, the items included customer blankets, pillows, serving trays, serving glasses, head dress covers and head phones among others. The funds were paid to the supplier in two instalments as advance payments.

I was not provided with evidence that the items were actually delivered, witnessed for quality and quantity and handed over to DAS Air stores. There was no evidence of Memorandum of understanding between Uganda Airlines and DAS Air for keeping of the Uganda Airlines items delivered in the DAS Air stores. It was not clear who was responsible for their safe custody.

There is a risk the items were not supplied. There is also a risk that the items may go missing without accountability in case they were supplied, due to lack of a formal understanding on the terms and conditions of storage by DAS Air.

Whereas Management indicated that the documents were available, these were not availed to me.

I advised the Accounting Officer to enter into a formal understanding on the terms and conditions of storage by DAS Air and also provide evidence that the items were actually supplied as per the terms of contract agreement.

12.0 Failure to seek approval from NITA-U for procurement of IT software

According to section 4(d) of the NITA-U Act, the Authority is mandated to regulate and enforce standards for IT hardware and software equipment procurement in all Government Ministries, departments, agencies and parastatals. In addition, according to guidance from the PS/ST in the Budget Execution Circular (Ref: BPD86/107/02) all Government MDAs and parastatals are directed to seek NITA-U approval before embarking on any procurement of ICT related products and services.

During the financial year, UNACL concluded the procurement of a contractor for the provision of an Enterprise Resource Planning (ERP) software solution (Ref: UNACL/NCONS/1920/00238) at a contract sum of USD 1,066,910 (VAT Exclusive) as well as the provision of an integrated Passenger Service System (Ref: UNACL/NCONS/1920/00239) at a contract sum of USD 1,234,441 (VAT Exclusive). My further review revealed that these procurements were conducted and finalized without seeking the necessary approvals from NITA-U.

Failure to seek the approval could result in the procurement of ICT software that is below standard, procurement of software which NITA-U has already developed or acquisition of software that is not compatible with the general Government ICT requirements, hence duplicating efforts and potentially wasting resources.

The Accounting Officer explained that the IT systems referred to are specific to the aviation industry; may not be readily available with NITA-U and follow industrial best standards in regard to system requirement specifications which are subjected to compliance assessments by the aviation industry regulators. The Accounting Officer also indicated that the company referred the matter the PPDA Accreditation in regards to Airline Systems.

I advised the Accounting Officer to ensure the NITA-U approval is sought for ongoing and future procurements of IT software and hardware.

13.0 Supply of critical spare parts for business class seats for A330-800 NEO UGX USD 146,230.72

The company issued a purchase order on 27/01/2021, in line with contract Ref no.: UNACL/ SUPLS/2021/00180 to M/s Stelia Aerospace for Supply of critical spare parts for business class seats for A330-800 NEO at a price of USD 146,230.72 (all taxes exclusive). However, during the audit, the following were noted.

- Whereas by 25/11/2020, the items had already been supplied and installed at USD 146,230.72, the Accounting Officer authorized the procurement on 26/11/2020.
- There was no approval and justification for the use of direct procurement on file.
- The contract on file was not signed by both parties.
- Management approved payment of 50% without an advance guarantee.

In view of the above, I could not confirm whether value for money was achieved during the whole procurement process.

The Accounting Officer explained that in future the company will conduct its procurement in line with the set out procedures in the PPDA Act and the UNACL Accredited procurement manual.

I advised the Accounting Officer to conduct procurement in line with PPDA regulations.

14.0 Failure to maintain contract management files

Section 51 (1) of the Public Procurement and Disposal of Public Assets (Contracts) Regulations, 2014 states that the Accounting Officer or a person appointed by the Accounting Officer from the user department, shall manage the contract. (2) The Procurement and Disposal Unit shall provide a copy of the contract to the person appointed by the Accounting Officer to manage the contract.

From the 20 procurements sampled at the company for financial year under review, I noted that neither was there Accounting Officer's appointments of contract managers nor were there contract management files. The procurements were made in different currencies amounting to (for each currency); Euro 212,050.67, Kenya Shillings 12,253,905.74, USD 109,803,962.54 and UGX.347,242,879. Further, as a result of failure to appoint contract managers, contract management plans (using Form 49 in Schedule 2) were not prepared to aid contract monitoring.

As a result, I could not confirm whether the service providers met all performance or delivery obligations in accordance with the terms and conditions of a contract. I could also not verify appointment of contract managers by the accounting officer in respective procurements.

The Accounting Officer explained that the contract managers were not formally appointed by any other separate instrument. The Accounting Officer explained that in future she will formally appoint Contract managers for all procurements with clear terms of reference as per Regulation 53 of the Public Procurement and Disposal of Public Assets (Contracts) Regulations, 2014.

I advised the Accounting Officer to always appoint contract managers or contract management teams for proper execution of contract responsibilities of both the company and service providers.

15.0 Human resource management

15.1 Lack of staff structure / establishment

Paragraph 2.3 (a) of the Uganda National Airlines Company Limited Human Resource Policies and Procedures Manual 2019 states that the Board shall approve the level of positions into which recruitment may be made. Recruitment shall only be initiated to fill approved positions in an organization chart.

However, I was not availed with the Board approved staff structure and establishment to assess staff recruitment needs and staffing status.

Without an approved staff structure, the basis for recruiting the 107 staff during the financial year is rendered irregular. This also affects proper planning and budgeting for staff costs.

As a consequence, Uganda National Airlines Company Ltd budgeted to incur Salaries and Staff costs amounting to UGX 22,319,111,536 (USD 6,048,000). However, review of the financial statements and payrolls for the period indicated that UGX 27,238,350,000 (USD 7,381,008) was incurred in respect of salaries and staff expenses. This resulted into excess expenditure of UGX 4,919,238,464 (USD 1,333,008).

The Accounting Officer explained that Uganda Airlines being a startup Airline, recruitment needs always continue evolving as operations get streamlined. As a way forward Management has developed departmental structures to establish and assess staff recruitment needs and staffing gaps for this financial year 2021/22. Management has been facing a lot challenges in staffing and more gaps were created when most incumbents were suspended for a period of time of which service delivery had to be sustained.

The Accounting Officer also explained that some of the excesses were brought about by the suspensions that happened in May and June where people in acting positions had to be appointed. The Accounting Officer further indicated that pilots to support the operations of Airbus were recruited from International organizations and their salary expectations were above the budget.

I advised the Accounting Officer to develop the staff establishment for Board approval to aid proper employee cost planning and budgeting.

15.2 Delayed conclusion on suspension cases

Paragraph 16.13 of the Uganda National Airlines Company Limited Human Resource Policies and Procedures Manual 2019 states that all records relating to investigations, acquittals and punishment shall be entered and retained in the personal files.

Through review of heads of departments' files, I noted that on the 21st of April 2021, some HoDs were suspended for a period of 3 months (effective 29th April, 2021) to enable the appointed committee to investigate and report on stated allegations.

On 3rd August 2021, letters were written to the affected staff asking them to respond to the allegations raised on them in 5 days. Review of the staff files revealed that there were no committee resolutions on the cases and as a result Management extended the suspension on 20th August 2021 for another 3 months.

No correspondence was found on file regarding the progress of the investigations at the time of audit (November 2021).

Failure to respond to interdicted staff may lead to unnecessary court cases thus wasteful expenditure through court costs and compensations. Since the affected staff remained on the same terms of contract, the officers appointed to act in their positions receive extra pay implying double payment for the same position. As a consequence, the company has lost a total of UGX 2,319,017,267 in a seven months' period (May to November 2021).

The Accounting Officer explained that the entire process and proceedings can only be discussed with our shareholders. It is outside Management scope since it is being handled by the MOWT with the guidance of the Attorney General.

I advised the Accounting Officer to expedite the process of investigation and communicate the conclusions to the affected staff.

15.3 Lack of a salary structure/ Job grades

Through a review of the company's Human Resource Policies and Procedures Manual 2019, I noted that the company did not have approved salary structure and job grades.

Review of the company payroll further revealed that in some cases employees in the same positions were earning different salary amounts without clear justification. For example, in the position of Cabin Crew, some employees were earning a gross of UGX 4,000,000 while others were earning UGX 2,000,000. In the position of Cabin Crew Purser, some staff were earning a gross of UGX 10,061,368, others UGX 7,500,000 while others UGX 5,000,000. Captain category employees were earning UGX 65,276,364, UGX 63,440,090 UGX 62,693,620, UGX 54,110,665, and others UGX 38,296,187.

There were major salary disparities amongst officers in the same rank. Paying different salaries to the staff at the same level demotivates employees and can lead to low performance of the affected staff.

The Accounting Officer explained that the final stages of developing the salary structure for approval by the interim Board and the MoWT.

The Accounting Officer was advised to develop a proper salary structure for approval by the Board.

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

John F.S. Muwanga
AUDITOR GENERAL

27th December, 2021