



THE REPUBLIC OF UGANDA

UGANDA DEVELOPMENT CORPORATION

**REPORT AND OPINION OF THE AUDITOR GENERAL ON THE FINANCIAL
STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014**

OFFICE OF THE AUDITOR GENERAL

UGANDA

TABLE OF CONTENTS

LIST OF ACRONYMS.....	2
REPORT AND OPINION OF THE AUDITOR GENERAL TO PARLIAMENT FOR THE FINANCIAL YEAR ENDED 30 TH JUNE 2014	3
1.0 INTRODUCTION.....	6
2.0 BACKGROUND INFORMATION.....	6
3.0 MANDATE OF UDC.....	7
4.0 AUDIT OBJECTIVES.....	7
5.0 PROCEDURES PERFORMED.....	8
6.0 AUDIT FINDINGS.....	9
6.1 Un-cleared Receivables.....	9
6.2 Governance.....	9
6.3 Government Investments.....	11

LIST OF ACRONYMS

GoU	Government of Uganda
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JVs	Joint Ventures
KIS	Kalangala Infrastructure Services
MoFPED	Ministry of Finance, Planning and Economic Development
MTIC	Ministry of Trade, Industry and Cooperatives
PFAA	Public Finance and Accountability Act
UDC	Uganda Development Corporation
UDCL	Uganda Development Company Limited
UGX	Uganda Shillings
USD	United States Dollars
Ltd	Limited
BoD	Board of Directors
ED	Executive Director
LFFP	Luwero Fruit Factory
KOICA	Korea International Cooperation Agency

UGANDA DEVELOPMENT CORPORATION

REPORT AND OPINION OF THE AUDITOR GENERAL TO PARLIAMENT

FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Uganda Development Corporation (UDC) for the financial year ended 30th June 2014 as set out on pages 8 to 11. The financial statements comprise of the statement of income and expenditure, statement of changes in equity, statement of cash flows and a summary of significant accounting policies and other explanatory information for the year then ended.

Management Responsibility for the Financial Statements

Under the provisions of the Companies Act (Cap 110), the Directors of the company are responsible for the preparation of the financial statements which give a true and fair view of the Company's state of affairs and its profit or loss in accordance with the International Financial Reporting Standards (IFRS). The responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of my report sets out my opinion on the financial statements. Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

Opinion

- The financial statements present fairly in all material respects the financial position of the Uganda Development Corporation as at 30th June, 2014 and the income and expenditure for the year then ended in accordance with the International Financial Reporting Standards stated under Note 1(a) to the financial statements.
- The expenditure and receipts have been applied in all material respects for the intended purpose.

Other Matters

Without qualifying my opinion, I consider it necessary to communicate the following matter other than those presented or disclosed in the financial statements.

- **Lack of law operationalizing UDC**

UDC was incorporated into Uganda Development Company Limited (UDCL), under the Company Act Cap 110, in 2003. In January 2008, Cabinet resolved to revive the Corporation as the “development arm of Government”. The entity however has never been operationalized by an Act of Parliament.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

3rd March, 2015

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA DEVELOPMENT CORPORATION FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

This section outlines the detailed audit findings, management responses and my recommendations in respect thereof.

1.0 INTRODUCTION

I am mandated by Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended), to audit and report on the public accounts of Uganda and of all public offices including the courts, the central and local government administrations, universities and public institutions of the like nature and any public corporation or other bodies or organizations established by an Act of Parliament. Accordingly, I carried out the audit of the Corporation to enable me report to Parliament.

2.0 BACKGROUND INFORMATION

Cabinet in the Cabinet minute 50 (CT 2008) directed that Uganda Development Corporation be revived as the investment vehicle through which government will invest in strategic sectors of the economy to trigger industrial and economic development. Further, the directive also mandates UDC to be the government implementer of Public Private Partnerships among others.

Consequently, UDC was placed under the Ministry of Finance, Planning and Economic Development (MoFPED). UDC operated as a subvention of the MoFPED and all its accounts and finances were directly administered by the Accounting Officer of MoFPED.

In October 2011, UDC was transferred to the Ministry of Trade, Industry and Cooperatives (MTIC), the line ministry under which it operated prior to divestiture. As such, UDC operates currently as a subvention of the MTIC until the UDC Bill is passed into law, when it will become an autonomous statutory entity with a fully-fledged structure.

3.0 MANDATE OF UDC

UDC was revived as the development arm of government with its original objective being to facilitate the industrial and economic development of Uganda (as at inception in 1952), the specific and broadened mandate for the revived UDC shall include the following supplementary objectives:-

- To function as the investment vehicle through which government will invest in strategic sectors of the economy to trigger industrial and economic development of the country.
- To be the government implementer of Public Private Partnerships. UDC will initiate, participate in, promote and finance commercial undertakings, either singly or in partnership with other stakeholders.
- To take over old and new GoU investments in private sector companies including GoU shareholding in Munyonyo Common Wealth Resort, Tri-Star Apparels Ltd, Nile Hotel Ltd, Amber House Ltd and others as shall be identified from time to time.
- To establish subsidiary and associated companies for furtherance of its mandate, enter into joint venture agreements or schemes with local and or foreign investors, plan and execute sale of its mature undertakings to the private sector, liquidate any undertakings that have become non-viable and rehabilitate essential ones.
- To invest all monies of the Corporation not immediately required for the business of the Corporation, in such investment and in such manner as it may deem wise.
- To enter into bilateral relations and arrangements with any person(s), firm, company, statutory body, or government engaged in such business which UDC may deem convenient and profitable in connection with its objectives or calculated to enhance the value of or render profitable any of UDC's property.

4.0 AUDIT OBJECTIVES

The audit was carried out in accordance with International Standards on Auditing (ISA) and accordingly included a review of the accounting records and agreed procedures as was considered necessary. The audit was carried out in regard to the following:-

- a. To express an opinion as to whether the financial statements present fairly, in all material respects, the Company's revenue and costs incurred for the year, in conformity with generally accepted accounting principles;
- b. To evaluate and obtain a sufficient understanding of the internal control structure of the Company, assess control risk and identify reportable conditions, including material internal control weaknesses;
- c. Perform tests to determine the extent of compliance with the applicable laws and regulations;
- d. Report on whether all funds have been used in accordance with conditions of the relevant regulations and only for the purposes for which the financing was provided, with due attention to economy and efficiency;
- e. Report on whether goods and services financed have been procured in accordance with relevant procurement laws;
- f. Report on whether staff claims and payments are in line with their letters of appointment and if allowances of whatever nature are claimed against supporting documents;
- g. Report on whether the assets are being used in the interest of the Company.

5.0 PROCEDURES PERFORMED

(a) Revenue/Receipts

Obtained schedules of receipts and reconciled the amounts with the Corporation's cashbooks and bank statements.

(b) Expenditure

Vouched transactions to establish whether documentation were in support of the expenditures agreed with the amounts and descriptions on the vouchers; reviewed and reconciled the bank statement transactions to test for occurrence and whether they were properly controlled and accounted for.

(c) Internal Control System

Reviewed the internal control system and its operations to establish whether the controls were sound and were applied throughout the period under review.

(d) Procurement

Reviewed the procurement of goods and services during the period under review and reconciled with the procurement plan.

(e) Fixed Asset Management

Reviewed the use and the management of the Corporation's assets during the period under review.

(f) Financial Statements

Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

6.0 AUDIT FINDINGS

6.1 Un-cleared Receivables

Included in the accounts receivable of Shs.276,621,000 are receivables expected from MoFPED and MTIC of Shs.230,910,000. At the time of reporting, these receivables had not been settled. It was also observed that Shs.6,757,000 carried forward from the previous year had equally not been settled.

Management explained that un-cleared receivables of Shs.6,756,700 paid by UDC during the time MoFPED was in charge of Soroti has a remote chance of being cleared and was recommended for write-off once a fully constituted Board is in place. Management is also in liaison with MoFPED and MTIC to have the outstanding receivables cleared.

I urged management to put in more effort and ensure that these receivables are collected.

6.2 Governance

6.2.1 Lack of law operationalizing UDC

Following the enactment of the Public Enterprise Reform and Divestiture Act in 1993, UDC was classified as a Class III enterprise in which GOU was to completely divest itself.

Accordingly, all subsidiaries and affiliates of UDC were sold off as separate entities to different private sector actors, leaving UDC as a shell company. UDC was incorporated into Uganda Development Company Limited (UDCL), under the Company Act Cap 110, in 2003. In January 2008, Cabinet resolved to revive UDC as the “development arm of Government”. This was followed by the appointment of a Chief Executive Officer in February 2009, and the establishment of an operational office with start-up staff in June 2010. However, it was noted that the law to operationalize the Corporation has not been passed.

Management explained that the matter was before Cabinet for discussion prior to submission to Parliament.

I urged management to follow up the matter with the authorities to allow operationalization of the Corporation.

6.2.2 Lack of a Board of Directors (BoD)

Best practice requires that an institution like Uganda Development Corporation should have a board in place. Such a board would perform functions such as putting in place policy guidelines and monitoring their implementation, recruitment of staff, approval of the annual budget and putting in place rules and procedures to guide day to day operations. However, there is no BoD in place instead there is an acting Executive Director (ED) who reports directly to the Minister.

The absence of the Board implies that the Corporation is not being guided properly with regard to strategic decisions. Further, the staffing gap of 15 out of the establishment of 41 cannot be filled.

Management explained that it was awaiting for the passing of UDC Bill into law before the Board can be constituted.

I advised management to liaise with the Minister to ensure that law is enacted and the Board instituted.

6.3 Government Investments

6.3.1 Lack of a land title for Investment in Luwero Fruit Factory Project (LFFP)

LFFP project is a proposed Government directed intervention aimed at supporting value addition in fruit processing for the promotion of industrial growth, income diversification and increasing household incomes in the greater Luwero Regions of Nakasongola, Nakaseke, Kyankwanzi, Kiboga, Mityana, Wakiso and Mubende districts.

At the reporting time, 10 acres of land had been secured from Luwero District Local Government for construction of the Fruit Factory. Shs.313.3 million had so far been injected towards the set up and development of the project. However, it was noted that despite the investment, there was no land title.

Management explained that it had embarked on the process of securing a 99 year lease title of the said 10 acres through Buganda Land Board (BLB).

The outcome of management effort is awaited.

6.3.2 Kick-start of Soroti Fruit Factory Project (SFFP)

The Soroti Fruit Factory project is a proposed Government directed intervention aimed at supporting value addition in fruit processing for the promotion of industrial growth, income diversification and increasing household incomes in the Teso Region.

Accordingly, a company – Soroti Fruits Limited (SOFTE) that will own and operate the facility had been incorporated and 4.8 acres of land for the processing facility obtained in the Soroti Industrial and Business Park for the construction of the factory and the land title had been secured. Shs.5,105 billion had so far been injected by Uganda Government specifically to provide infrastructure services at the project site such as water, electricity, roads and provision of a water tank. A grant of US\$7.4 million from a Turnkey Factory had also been secured from Korea International Cooperation Agency (KOICA) . However, at the time of writing this report, this investment had not taken off.

Management explained that the grant from KOICA worth USD 7.4 million had been secured but had not been channeled to the project because KOICA is still procuring a

contractor who is to construct the factory and also supply and install equipment. The construction of the factory is anticipated to commence in February 2015.

I urged management to ensure that the process of obtaining the grant and construction of the factory is expedited.

6.3.3 Dilapidated Lake Katwe Salt Project

UDC owns property in Kasese under the Lake Katwe Salt Project. These comprise of dilapidated senior quarters (12 Bangalows) and junior quarters (10 blocks).

Part of these properties were rented to some individuals and companies during the year under review. A total of Shs.62,731,232 was collected and banked on URA accounts as Non Tax Revenue. However, it was noted that although the properties are generating some revenue, the structures are dilapidated and are a concern to management.

I advised management to seek for funding from the responsible authority to have the buildings renovated.

6.3.4 Kalangala Infrastructure Services Project

Kalangala Infrastructure Services is a Public Private Partnership arrangement mandated to improve infrastructure on Bugala Island in Kalangala District. It is a US\$50 million Project. To facilitate the PPP arrangement, a special purpose vehicle was formed in the names of "Kalangala Infrastructure Services Ltd". GOU, through UDC acquired 45.7% Ordinary shares and 45.7% convertible preference shares in Kalangala Infrastructure Services Ltd by investing Shs 16.876 bn. The activities to be undertaken and the output to-date are indicated in the table below;

Output expected	Performance
<ul style="list-style-type: none"> • The reconstruction and expansion of the 66km road of the main island. 	37% of road construction works have been completed;
<ul style="list-style-type: none"> • The construction of power generation and distribution lines throughout the island. 	60% of transmission lines were completed and 30% of power generation plant completed. 90% of solar generation equipment supplied at site.
<ul style="list-style-type: none"> • Rehabilitation and construction of water supply systems on Bugala 	Two pilot water supply systems installed at Kasekulo and Mulabana supplied water

Island.	to approximately 5000 people at both landing sites;
<ul style="list-style-type: none"> • Provision of ferry services between Luuku and Bukakata landing sites. 	first ferry commenced operation in August 2012 and second ferry will be delivered by September 2014;

It was noted that some of the activities appear to be a duplication under Ministry of Agriculture, Animal Industry and Fisheries under VODP, Ministry of Energy, Ministry of Water, Ministry of Works and UNRA. Undertaking duplicated activities may result in uncoordinated outputs and results.

Management promised to liaise with all the relevant entities and ensure that the activities are harmonized.

I await management action on the matter.

FINANCIAL STATEMENTS