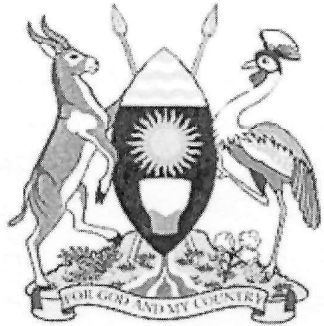


OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA



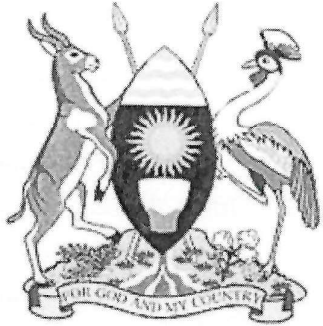
REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
KIIRA MOTORS CORPORATION
FOR THE YEAR ENDED 30TH JUNE 2020

OFFICE OF THE AUDITOR GENERAL
UGANDA

LIST OF ACRONYMS

ACRONYM	MEANING
ICT	Information Communication Technology
IESBA	International Ethics Standards Board for Accountants
IFMS	Integrated Financial Management System
INTOSAI	International Organization of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
KMC	Kiira Motor Corporation
LGs	Local Governments
MDAs	Ministries, Departments and Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
MoSTI	Ministry of Science Technology and Innovation
PFMA	Public Financial Management Act
TI	Treasury Instructions
UGX	Uganda Shilling

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**REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF
KIIRA MOTORS CORPORATION FOR THE YEAR ENDED 30TH JUNE, 2020**

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Kiira Motors Corporation for the year ended 30th June 2020, which comprise the statement of Financial Position as at 30th June 2020, the Statement of Financial Performance, 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, the accompanying financial statements of Kiira Motors Corporation for the year ended 30th June 2020, give a true and fair view of the financial position of the Corporation as at 30th June 2020, and of its financial performance and its cash flows for the year then ended in accordance with the basis of Accounting disclosed under note 12(3) to the financial statements, the Companies Act of Uganda 2012 and Section 51 of the Public Finance Management Act, 2015 (as amended)

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Corporation 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 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;

1.0. Under Funding of the Corporation

Although Cabinet approved the roadmap for the Commercialization of the Kiira Electric Vehicle Project with a Seed fund of UGX.143.7 Bn to be availed over a period of 4 Years,

the amount has not been appropriated in the budget. Only UGX.43.2Bn has so far been released in the last two financial years as shown in the table below;

S/n	F/Y	Amount UGX
1.	2018/19	23,200,000,000
2.	2019/20	20,000,000,000
	Total	43,200,000,000

I further noted that Kiira Motors Corporation (KMC) and National Enterprise Corporation (NEC) signed a Memorandum of Understanding (MOU) on 16th January, 2019 to undertake construction works for the Kiira Vehicle Plant Start-Up facilities at the Jinja Industrial and Business Park in Jinja District at a projected cost of UGX.63,650,346,854, which was above the available funds.

During the financial year 2018/19, out of the UGX.23.2Bn provided, UGX.18,186,194,326 was paid to NEC. While in the current year under review (2019/2020), I observed that, although NEC issued certificates of completion of work worth UGX.27,326,107,414 only UGX.12,077,264,397 was paid leaving a balance of UGX.15,248,843,017 unpaid. This is an indication of over commitment of the entity, which could lead to financial distress because contractor's certificates of completion of works are far above the approved budget leading to accumulation of payables.

The Chief Executive Officer acknowledged the observation and stated that they engaged MoFPED severally and it was appreciated that operationalization of the Kiira Vehicle Plant is one of the priority areas for creating an enabling environment for Science, Technology Engineering and Innovation (STEI) and strengthening Uganda's STEI capacity between 2021 and 2026 and that they have since requested the Permanent Secretary/Secretary to Treasury for the official funding commitment for Kiira Motors Corporation to enable timely implementation of the requisite activities.

I await the outcome of the engagement with Ministry of Finance Planning and Economic Development. Meanwhile there is need to align the financing of the project activities so that contractor payments are structured in line with available resources.

2.0. Implementation of the Approved Budget

Every year, the government plans and allocates funds to MDAs for the implementation of activities that would enable the country to attain sustainable development. I observed that MDAs have challenges with regard to implementation of planned activities, which negatively affects service delivery and improvement of the people's wellbeing. As a result, the implementation of the approved budget was considered a key audit matter and during the office-wide planning, I identified risks common with MDAs which include; non-implementation of strategic 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.

Consequently, I developed procedures in order to address the performance of the budget of the Institute including;

- Ascertaining the amount received by the Institute and the source of the funding
- Inquiring from management on off-budget financing received and ascertaining the basis for the off-budget financing, if any.
- Comparing the approved budget against the actual receipts
- Comparing the planned vote function outputs against the actuals and determining the variances
- Reviewing utilization of the funds.

Based on the procedures performed, I noted that Kiira Motors Corporation is mandated to Champion Value Addition in the Domestic Automotive Industry for Job Creation and Diversification of the Ugandan Economy as a Key Growth Area in Line with Vision 2040. To achieve this mandate, Kiira Motors Corporation planned to implement a number of both recurrent and development deliverables under various programs. A review of the entity's budgets revealed that the entity had an approved budget of UGX.20,000,000,000. Out of which UGX.20,000,000,000 was released resulting into 100% release of the budget.

From the procedures undertaken, I noted the following;

No	Observation	Recommendation																				
1	<p>Implementation of the Strategic Plan</p> <p>The overall Government National Development Plan (NDP II) expired at the end of FY 2019/20. In line with the NDP II, that Kiira Motors Corporation had an approved strategic plan for the period 2018/19 -2021/22, which set out both the long term and short term targets to be achieved during the duration of the strategic plan.</p> <p>I noted that at the time of the audit (June 2020), out of the planned six (6) strategic targets/goals, three (3) target had been fully achieved and three (3) were partially achieved as summarised in the table below;</p> <p>The extent of achievement of 2015/16-2019/2020 strategic plan</p> <table border="1"> <thead> <tr> <th>No</th> <th>Level of performance by the end of 2019/2020</th> <th>No of strategic goals/objectives</th> <th>% of total number of strategic objectives</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Fully achieved</td> <td>3</td> <td>50</td> </tr> <tr> <td>2</td> <td>Partially achieved</td> <td>3</td> <td>50</td> </tr> <tr> <td>3</td> <td>Not achieved</td> <td>0</td> <td>0</td> </tr> <tr> <td></td> <td>Total</td> <td>6</td> <td>100</td> </tr> </tbody> </table> <p>The Accounting Officer explained that the underperformance in achievement of strategic objectives like the recruitment of staff and registration of intellectual property rights was due to inadequate funding.</p>	No	Level of performance by the end of 2019/2020	No of strategic goals/objectives	% of total number of strategic objectives	1	Fully achieved	3	50	2	Partially achieved	3	50	3	Not achieved	0	0		Total	6	100	<p>I advised the Accounting Officer to continue engaging MoFPED to ensure that the partially achieved targets are rolled over to the next strategic plan.</p>
No	Level of performance by the end of 2019/2020	No of strategic goals/objectives	% of total number of strategic objectives																			
1	Fully achieved	3	50																			
2	Partially achieved	3	50																			
3	Not achieved	0	0																			
	Total	6	100																			

Emphasis of Matter

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

3.0. Non-Current Assets - Land

Although Kiira Motor Corporation was allocated 100 acres of land, in Kiira Town Council, Jinja District, by Uganda Investment Authority under lease on 30th June, 2015 and a certificate of title issued by the Registrar of Titles on 27th July 2017, the land is only disclosed as a note without value attached and neither is it recorded in the assets register. This is contrary to IFRS 16 that required that such leases be capitalized and recorded on the balance sheet. The assets are thus understated in the Statement of Financial Position.

The Accounting Officer explained that the 100 acres of land was not meeting the recognition criteria at the time of the audit review. They have been working on changing of land use and extension of the lease period in the FY 2020/21 which are key formalities towards the valuation of land to determine value. The lease renewal was issued to KMC on 11th February 2021. Once the construction of the Kiira Vehicle Plant is completed, a comprehensive valuation exercise will be undertaken.

I advised the Chief Executive Officer to liaise with the Chief Government Valuer to consider having the land valued and the figure included in the financial statements since the substance is that the benefits are accruing to the Corporation which is currently utilizing the land.

4.0. Contingent Asset

Note 10 in the Financial Statements refers to a Contingent Asset of UGX.8,923,350,798 being funds that had specifically been released for Kiira Motors for the financial years 2012/2013 and 2015/2016 when Kiira Motors project was still under Makerere University. These funds had been planned for construction of start-up facilities of the Kiira vehicle plant in Jinja.

These funds should have been handed over by Makerere University to the project to be used for the purpose for which it was released. However, as at the time of audit reporting, 5 to 7 years later, the funds have not been passed on. There is a risk that the funds were diverted and utilised by the University.

Management stated that they had been following up the issue and would intensify its engagement with Makerere University.

I advised the Chief Executive Officer to continue his liaison with University management, to ensure the funds are transferred for use in project implementation as earlier planned.

Other Matters

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

5.0. Absence of Fully Constituted Board of Directors

Kiira Motors Corporation was incorporated as a Private Limited Company with Initial Share Capital of UGX.100,000,000 divided into 10,000 Ordinary Shares of UGX.10,000 each on 1st April 2014. Government is currently investing through subventions to finance the construction of the Kiira Motor factory in Jinja. The Memorandum and Articles of Association of Kiira Motors Corporation prescribes a nine (9) member Board of Directors which provides for a majority of five (5) independent Directors and the formation of Standing Committees of the Board as shown below;

- i) The Executive Chairperson, Kiira Motors Corporation, serving as the Chairperson of the Board of Directors.
- ii) The Permanent Secretary, Ministry of Science, Technology and Innovation representing Shareholders.
- iii) The Vice Chancellor, Makerere University representing Shareholders.
- iv) The Chief Executive Officer, Kiira Motors Corporation
- v) Five (5) independent directors, forming a majority with at least two of them being women.

I observed that only two of the nine (9) members of the Board of Directors, the Executive Chairperson and the Chief Executive Officer were duly appointed, leading to an inadequately constituted Board. This may lead to challenges in governance, apparent gaps in policy guidance, oversight and implementation of project activities.

Management acknowledged the observation and explained that an amendment was made to the Articles of Association and the identification process had been done for 13 nominated members to serve on the Kiira Motors Corporation Board of Directors and this is scheduled for cabinet approval in March 2021.

I advised the Chief Executive Officer to follow up with the line Minister to expedite the process such that a fully constituted Board is put in place.

Other Information

The Directors are responsible for the other information. The other information comprises the Corporation Information, Report of the Directors, the statement of Directors responsibilities, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon. My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent

with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Directors are accountable to Parliament for the funds and resources of Kiira Motors Corporation.

The Directors are also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act, 2015 and for such internal control as management determines 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 Corporation'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 Accounting Officer has a realistic alternative to the contrary.

The Directors are responsible for overseeing the Corporation'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 skepticism throughout the audit. I also;

- a) 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.
- b) 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 Corporation's internal control.

- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- d) 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 Corporation'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 Corporation to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Directors, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements, that; the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.'



John F.S. Muwanga
AUDITOR GENERAL

21st May, 2020

FINANCIAL STATEMENTS