

# **THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

## **CPA(U) EXAMINATIONS**

### **LEVEL FOUR**

#### **INTEGRATION OF KNOWLEDGE – PAPER 16**

##### **COMPREHENSIVE CASE STUDY**

##### **MORNING SESSION MATERIAL**

**THURSDAY, 11 DECEMBER 2008**

##### **INSTRUCTIONS TO CANDIDATES:**

1. Time allowed: 6 hours.  
9.00 a.m – 11.30 a.m. (2 hours 30 minutes): Planning.  
11.30 a.m. – 12.30 noon. (1 hour): Break.  
12.30 noon – 4.00 p.m. (3 hours 30 minutes): Writing.
2. The following pages contain case study material.
3. The case study questions are contained in a separate paper marked Afternoon Session Material.
4. The completed answers and any working papers, clearly labelled working papers must be handed in at the end of the afternoon session. Where working papers form part of your answer, ensure that they are appropriately cross-referenced.
5. It is in your interest that you hand in all written material prepared during the examination.
6. Tables are provided on page 19.
7. Please read further instructions on the answer book.

## **ALAYO TECHNICAL SERVICES LIMITED**

Alayo Technical Services Limited (ATS) is a vibrant construction company incorporated in Uganda in December 2001, and started its major operations one month later. The company - head-quartered in Kampala, is wholly Ugandan owned, and undertakes general property construction business and wholesale of some bulky building materials. The company has four regional offices in some major towns of Uganda and an office in the town of Bukoba in the United Republic of Tanzania. To-date, the company employs a total of 150 permanent employees at different levels in its fairly flat organisation structure, with casual and short-term contract workers fluctuating from 150 to 250 depending on the nature of the running contracts.

### **The Strategic Planning Process**

ATS plans to launch a new strategic business plan (SBP) to see them through the next 5 years. The Board and management have targeted December 24, 2008 as the date they should launch the new SBP. The Head of Business Development (HBD) was appointed a while ago to coordinate the SBP process internally, and recently called for a meeting of all heads of department (HODs) with the aim of kick-starting the process. In her notice to the HODs (or their representatives), the HBD requested them to bring the necessary reference materials and notes to this 'very important' first meeting.

The majority of the heads of department attended the meeting. Those present included heads of finance, human resources, marketing & sales, engineering and maintenance, internal audit's representative, and the convenor – the HBD herself. However, there were notable absentees, namely the company secretary and the head of corporate affairs (HCA). The company secretary was representing the company in a case at the Tax Appeals Tribunal – where the company sued the Uganda Revenue Authority (URA) for alleged wrongful assessment of Shs 544 million for non-compliance with certain aspects of the Income Tax Act 1997 – as amended. The facts of this case are attached as Appendix A. The HCA did not give in any apologies or information why he was not attending the meeting.

Each of the departments represented was asked to make a summary presentation of the department's strategic outlook, to set the ball rolling. The Managing Director (MD) was the first to speak, and gave opening remarks before giving 20 minutes to each of the heads of department present to make their initial thoughts and contributions. The remarks of the different officers are included in the paragraphs that follow, all of them directly quoted. Note that remarks and views of the Head of Engineering & Maintenance, and the Projects Coordinator are not captured in this write-up.

## The Managing Director's Remarks:

### Introduction

You are all welcome to this planning session. I must point out from the start, that we have an option to contract this exercise out, or to do it internally. I do not want to bias you with my preference now, and I shall let you comment on whether we should outsource the process entirely, or do it ourselves.

The task before us is formidable but not insurmountable. You may agree with me that we are privileged to be a united and committed team of professionals with the necessary goodwill and support from our junior colleagues. This reminds me of the saying that "*If you want to go fast, travel alone. If you want to go far, travel together*". We also have the necessary legal framework, sufficient goodwill in the marketplace, and the right skill combinations. It is also my belief that the market potential is high, given that the East African Community (EAC) framework is soon likely to work in favour of firms like ours.

### View on ATS' Strengths

Just to set the ball rolling, I would like to give you a brief of what we at the Board consider essential strengths, which we all need to further promote:

- The formation of ATS in the year 2001 was guided by the need to have an indigenous firm, ready to match and supply international standard services. We think we have achieved that goal, and we are proud that we are taking advantage of globalisation trends.
- It was our desire that ATS acts as a corporate governance role model for indigenous construction firms, and benefit from sound strategic leadership. The shareholders embarked on attaining the right Board composition and forming properly functioning board committees from the start – especially the Audit Committee and the Remunerations Committee. By the forthcoming Annual General Meeting, the skills combination at the Board was enviable by many of our peers. This Board has since steered this company from strength to strength. You know that not every company can grow total assets and total turnover at an average rate of 50% from year to year (this was for the years 2004 to 2009), and we attribute these achievements to our visionary Board.
- We have managed to create four self-sustaining branches and a major operations unit in the wider East African Community, and we think this has given us a major advantage to meet our clients' immediate needs as well as ensure continuity.
- We obtained an ISO 9001 certification at the end of last year which has boosted customer confidence in our services.

- We are poised to report up to Shs 9.2 billion in profit after tax for the just concluded financial year. This will reflect a return on equity of 14.5%, which ratio is projected change to at least 20% by the third year of this plan, if our plans hold. We are currently reviewing the final statutory audit report, but unfortunately we have disagreed with the auditors on inventory valuation methods, and they insist they shall qualify their opinion. Whereas I have no problem with the qualification, I strongly disagree with the wording of their qualification.

### **View on the Future Outlook**

Our performance has been very good even without an elaborate strategic business plan. Now that we are going to consolidate our thoughts and vision well ahead of time, I believe ATS shall flourish. I want to attribute this outstanding performance to our internal cohesion, the desire for excellency, and hard work. I must tell you that the Board of Directors is quite happy with our performance, and this is evident in our annual appraisal results that are being released this afternoon – a draft of which I have.

ATS is poised to make history by being the first indigenous non-government owned company to get a listing – moreover in tier 1! This is expected to boost our various expansion plans. I have seen the Head of Finance's views on issuing a corporate bond. I see this as another milestone for ATS' participation in the capital markets. I believe we shall get this debt instrument at a maximum of LIBOR + 250 basis points. Whereas I am not very familiar with what influences the final interest cost that ATS shall pay, I believe the technical officers shall advise us accordingly.

We are in the middle of numerous challenges, but you are also aware that “when the going gets tough, the tough get going”. The challenges are multi-sectoral, and are indeed not peculiar to ATS alone. Such challenges generally impede the provision of infrastructure in all developing economies. We need to put our heads together and understand what the environment can actually offer, and take maximum advantage. We must also be very careful with the assumptions we make to cover this SBP period. Our finance team must also carefully do sensitivity analysis for all relevant variables. We shall also need to put our heads together and prepare contingency plans – just in case.

With those few remarks, ladies and gentlemen, I wish to stop here and give each of you a chance to articulate your views on the future of ATS. We should be able to deliberate intelligently and determine where this company should be in the next 5 years and beyond”.

**Note:** There was some murmuring in the meeting on the mention of LIBOR +250 basis points, as members later said, such a rate cannot be attained by a borrower from the third world countries, and with no international credit rating as the case with ATS. Some noted that ‘the price of money is high; leave alone its limited availability in the Uganda financial system’.

## **HEAD OF BUSINESS DEVELOPMENT**

### **Promoting the ATS Brand**

"The ATS brand must become the preferred choice in our industry. We have to make ATS a household name. We need to constantly assure our customers that we provide a service/product they deserve, in line with the old adage that 'the customer is king'. We have to develop the necessary skills to listen and understand our current and potential clients' needs and swiftly respond to satisfy them.

### **The Broad Spectrum of ATS Customers**

We can boast of a wide cross-section of customers, ranging from huge government projects to the construction of toilet facilities for small schools and individuals. Four years ago, we undertook the construction of a boundary wall for a retail customer for which we charged Shs 6.5 million. That shows you how small the firm was at the time. I am glad to say that as of today, about 45% of our contracts (as percentage of total revenue) are of US\$ 500,000 and above in value.

No individual potential customer should be considered too small for ATS. I have been in touch with the Head of Operations, and we are almost in agreement that we can segment our operations into wholesale/corporate clientele and retail business units. We need your input on how this can be achieved at the various branches without any duplication in human resources. This will enable us deliver the necessary customer focus without doing away with our history just because the company has grown. My point is that even small customers should benefit from our quality and experience in value addition to our customers.

Just this morning, I met the Director of Works for Tororo District Local Government. The district has Shs 65 million for providing toilet facilities in two sub-counties. We cannot fail to submit a competitive bid for this job, much as we shall be bidding for the installation of the first-ever flyovers in Kampala City later in the week. The flyovers are to be developed at the standards of those in New York – for those of us who have seen them physically. It is this kind of widespread goodwill, Mr Chairman, that we need to consolidate, and that spread shall see ATS beyond generations.

### **Industry Rankings for ATS**

We have been ranked as number 5 "preferred service provider" in the construction industry over the last three consecutive years. This cannot be a basis for complacency, and we have to work even harder and be ranked as number one choice, at least by the middle of the five-year planning period. ATS must continue to be recognised for quality and customer responsiveness.

## **Proposal for Diversification**

Lastly, Mr Chairman, allow me to say I have a dream. I can see the company has quite sufficient capital, but also faced with a number of challenges and risks. On the other hand, we have seen the company grow from strength to strength annually. My dream is for ATS to diversify into insurance business. And for my dream to be more meaningful, our current and future employees should be given first opportunity to buy shares in such a new subsidiary or associate company. The mechanism to achieve this should be by way of share-options being offered to staff. I beg to move, Mr Chairman.

## **HEAD OF FINANCE**

Dear colleagues, I am privileged to be part of this important meeting. This is one of my most enjoyable moments ever since I joined ATS some 3 years ago. We should be happy that we are given an opportunity to participate in shaping the direction of ATS, and this task we should do diligently.

## **Listing and Financing Options**

I would like to propose a delay of the initial public offering at the Uganda Securities Exchange. Instead, I propose an issuance of a corporate bond as a way of sourcing long-term finance. The listing could come after the next five years. The company currently has a low return on equity (ROE) and this may negatively affect the potential response from the investing public. Over the next three years, measures to improve this ROE should be devised and vigorously pursued.

We should also consider using more of leasing as opposed to outright purchase of most non-current assets. We believe this should enable us make significant savings in resource allocation and usage over the planning period.

## **Internal Controls and Policies, and Pricing Strategy**

As a fast-growing company, we envisage challenges in our internal control systems. We have, however, started re-drafting the key policies and processes, and we shall propose that more resources and time be committed towards their implementation and regular reviews. These policies cover our branch and central operations, but our initial emphasis shall be in the areas of cash, accounts receivable, and inventory control and management.

We must continue to get our pricing right and at all times. I think we are doing well so far, as per the financial performance results articulated by the MD at the beginning of the meeting. Our customer should be able to benefit from the company's focus on efficiency and quality, and this should be reflected in the prices we charge them.

## Financial Reporting and the Role of Treasury

We shall continue producing quality financial statements with all the requisite qualitative characteristics as per the 'Framework for the Preparation and Presentation of Financial Statements' embedded in the International Financial Reporting Standards (IFRSs). We are not providing any innovation here - because this is a mandatory requirement by the IFRSs, but all I am emphasising is the department's role in complying with the spirit and letter of the standards.

We have had challenges in the past with our selected accounting policies, particularly to with inventory valuation. In times of fast fluctuating commodity prices, it has become difficult to stick to the first in, first out method of inventory valuation. We are still exploring which method shall properly reflect the cost of inventory in the income statement, and the respective values in the balance sheet, without violating the provisions of **IAS 2: Inventories**.

We shall increase the role of treasury as a unit in the department, to enable mobilisation and management of short-term finances. We have in the past utilised short-term financial instruments that were quite expensive, and we have the ability to tame the situation to our advantage.

## HEAD OF MARKETING & SALES

We have plans to re-brand ATS as a whole in support of what the HBD was emphasising. Initial suggestions indicate this may involve change of name as well, but we are yet to agree on this and have not suggested any possible new names anyway.

We have also established through our market research unit, that all EAC countries have a shortage of residential housing units, which continues to grow from year to year. Whereas we cannot be happy in the misery of fellow human beings, this creates an enormous opportunity for ATS. We therefore intend to expand our marketing efforts everywhere in the EAC countries. Please look at the table on the screen, which I believe speaks for itself:

### EAC Countries' Population, Inflation Rates and Housing Status:

Country	Population (million) <sup>1</sup>	Inflation rate (%) <sup>2</sup>	Housing shortage ('000' units)
Tanzania	38.5	11	400
Kenya	35.6	28	350
Uganda	28.9	16	600
Rwanda	9.2	20 <sup>3</sup>	175
Burundi	7.9	24	155
Total	120.1		

<sup>1</sup> Source: The New Vision, October 16, 2008 – page 2.

<sup>2</sup> As at October 2008, - source: Ugandan print media.

<sup>3</sup> As emphasized in the story, "Rwanda inflation hits 20%", New Vision – October 16, 2008.

Lastly, whereas we all believe in profitability, ATS must strive to remain socially relevant in the communities that we operate. There is need for a comprehensive and effective corporate social responsibility strategy, and this in itself has a lot of value-addition for ATS.

### **HEAD OF HUMAN RESOURCE:**

We have grown staff numbers to the current level of 150 permanent staff in the last 3 years (from 60 staff in 2006). I believe we can maintain this growth momentum, which I am told, has translated directly into the financials.

My key objectives over the next 5 years shall be staff motivation and the company's ability to hire and retain the best brains in the country. You agree with me that we are not doing badly in this regard. Retention of staff or rather the retention of staff competences shall be high in our priorities over the coming years. Staff training and counselling services shall all be priority on our agenda. Provision of safety to ATS workers at all sites remains a key priority, given the recent incidents at a number of construction sites in Uganda.

I have talked to numerous members of staff who have indicated we need to start an employees' Savings and Credit Cooperative Society (SACCO) that is open to all staff – but this does not need a management or board resolution. Other members have indicated the desire to have an additional contributory retirement benefit scheme – besides the NSSF – all aimed at promoting the welfare of all of us at ATS. I shall soon write a Board paper on the scheme's introduction, and it should be put in place within the first two years of the SBP period. Remember the saying that *"few words the better when the mind is heavy"*.

Let me end by bringing to your attention the resignation of our Assistant Manager - Technical Services, Mr Luyonda. He has indicated he shall leave the company in the next 2 months. We all wish him well, and he goes as an ambassador to the world outside ATS.

### **INTERNAL AUDIT DEPARTMENT'S PRESENTATION**

The department was represented by the Internal Audit Officer (who is two ranks below the head of department). When she was given the floor, other heads of department expressed dissatisfaction that a junior officer was attending their 'high-level' meeting. The majority view was that since it was just the starting of the process, the department's contribution should be made at a later date when the boss is available.

The chairman, however, did not entertain this reasoning, and instead ruled; "We should focus on ideas and not on personalities or ranks. Does it matter that the MD or an officer like her raises a strategic issue from which we can all benefit? – after all she is merely representing her HOD". Eventually the officer was allowed to speak, but noticing the discomfort in the meeting with



her impending presentation, she said only a few words without much elaboration:

### **Summary Focus of the Internal Audit**

"It appears it would be wise to save your time with a few words, and probably this will heal your apparent discomfort with my presence. My HOD did instruct me to make an executive summary, and I shall restrict myself to that.

We plan to continue to execute our roles with professionalism, speed, proactively, and with as much independence as possible. All we request for is your maximum cooperation, and do not see us as witch-hunting you whenever we seek for audit information, but as partners in the achievement of the overall mission and goals of ATS. The internal audit role has pretty changed recently, to the extent that you should have enough sleep when we do not raise any audit issues in your area of operation.

It was considered such a captivating presentation that everybody actually wished she could continue and elaborate, but she was determined to move.

### **Draft Resolutions of the First Meeting**

The meeting took close to 4 hours of presentations, discussions and reactions and counter-reactions, and after all had been said, the secretary had captured the following as key resolutions:

- A. **Draft Vision Statement:**
  - To be the leading and preferred technical services provider for the transformation of the housing sector in the East Africa Community.
- B. **External Facilitator for the Planning Process**
  - To appoint an external facilitator to attend and moderate all the planning sessions.
  - The consultant should be knowledgeable in various fields relevant to the technical and behavioural aspects of strategic planning for a construction company. He/she shall work with the Committee Secretary to come out with the draft SBP for approval by the directors.
- C. **The Board's Input and Involvement**
  - To hold at least one 2-day planning session with full participation of the directors in the early stages of the strategic planning process. (Note that some members were not very sure whether it was the role of management to draft strategy or whether the responsibility solely lied with the Board of Directors).

**D. Proposed Way forward and later Implementation Mechanisms:**

- When researched information is available, a two-day senior staff retreat to be arranged – with board members for integration of ideas prior to making the final write-ups;
- To further refine and understand the environmental analysis – see Appendix B;
- Participatory reviews of the SBP to be conducted every year;
- Make the SBP a rolling strategic plan, where the plan is comprehensively evaluated every two years, and a new 2-year period added to replace the expired period.
- Immediate creation and manning of the quality assurance department. (Note that the key job outputs were discussed, but not concluded, and a detailed job description may be required).
- Involve high profile customers and personalities in the end of year company celebrations.

**Closing Remarks by the MD**

Ladies and gentlemen, I want to thank you for the zeal and professionalism you have exhibited in this initial planning meeting. Allow me to quote *Henry Ward Beecher*, who said "Greatness lies not in being strong, but in the right use of strength". There are all indications that you are a great team by the way we have progressed thus far. ATS shall continue to play a key role in the promotion of innovative construction ideas from within and without.

As I have always said, this company's future is in our hands. We can choose to sink it or to keep it afloat. It is always my pleasure to be associated with strong teams like this.

However, we have always identified a number of internal weaknesses; let us make sure we do not hide our heads in the sand. Let us face these challenges head-on, and make them history to the discomfort of our adversaries. I must also mention that we should not allow our egos to be a stumbling block to the company's growth and objectives.

With such a well thought out plan in place as the final piece is likely be, I believe operational challenges shall also be history at ATS. Allow me to borrow the words: "this is the moment for ATS", and "together we can!".

**Key Pending Assignments:**

Of the many pending issues, two were emphasised for immediate follow-up: the strategic use of the internet which was assigned to Head of Information Technology (IT); and detailed information to support negotiations with a potential financier and a potential contractor. The issues from these assignments are attached as Appendix C, while the rest of the pending issues are listed as Appendix D. The Head of Finance was also to put together key assumptions – which are now returned as Appendix E.

### **Staff End of Year Party for Staff and Exceptional Customers**

At beginning of December, ATS organised a dinner for all staff and major business customers at the Sheria Hotel Limited, Entebbe (one of the projects the company successfully completed two years ago). The party attracted over 400 high-profile guests, in addition to the staff contingent and their spouses.

More about the party/dinner is attached as Appendix F. The chief guest was the Minister of State for Finance – Infrastructure Rehabilitation, and you should have listened to her!

### **Appendix A: Key Issues in the Recent URA Assessment:**

The accounting profit of Shs 5.643 billion was reported by the company for the year ended 30 September 2007, which the finance department had used as taxable profits with minor adjustments. This profit was net of depreciation charges of Shs 697 million for the same period. The key issues under contention are as follows:

- Included in the value of machinery and equipment was a revaluation amount of Shs 540 million on specialised excavation equipment bought over 5 years ago. The revaluation had taken place at the start of the accounting period in question.
- The HBD was using a company car valued at Shs 120 million for her various travels including to and from office. No mention of it was made in the tax returns.
- The company imported and installed a billing software costing Shs 460 million in January 2007. This was done during a trip abroad by the MD, and it had not been declared on the return to tax authorities. Assets of this nature are depreciated over a three-year period by ATS. The URA assessment also raised the issue of Shs 80 million paid to the expatriate consultant who installed the software, which figure was expensed under professional fees.
- The company had claimed a 20% initial allowance on two 14-seater vans used to transport workers between various sites. Each van cost Shs 55 million on 1 April 2007.
- The head office building, bought four years ago at Shs 900 million, was included in the financial statements at a net book value of Shs 1.95 billion following a revaluation at the start of the accounting period. The tax computation had used revaluation figures to claim industrial building allowance, but URA has added all that back.
- ATS had under its corporate social responsibility programme, donated Shs 15 million to a volunteer women's group in a village where the Board Chairman grew up. ATS team insist there was no relationship between the donation and the chairman's history.

## **Appendix B: An Insider's Analysis of the ATS's Environment**

The following issues were captured as key in ATS's environment:

### **Threat of New Entrants**

- The boom in the construction industry was projected to continue over the next 10 to 15 years, which could attract a multitude of new actors.
- An increasing number of firms in property construction eroding profit margins.
- New firms are coming in with aggressive marketing strategies.
- The ministry of works has recently gone through a pre-qualification exercise and short-listed at least 100 suppliers/contractors.
- Regional blocs are removing individual country trade barriers.
- Many smaller firms have merged and some have been taken over.
- There is high customer retention of contractors once they do a good job. Existing niches may not be easy to penetrate.
- Failure to portray ATS as "aiming at value for money in all we do".
- Quality control has not been a major virtue, yet it is the focus of new entrants.

### **Threat of Substitutes**

- An increasing number of potential contractors including individual masons, but the most dangerous competitors are those who are able to evade taxes, or who have government connections.
- We are concentrated in the construction/property development sector, with no established capacity to easily switch trades.

### **Strength of Suppliers**

- Strong links with financiers and materials suppliers.
- Buying at factory prices without any middlemen. The suppliers are, however, emphasising use of middlemen but we need to work out how we can still maintain good prices.
- Most suppliers are strong business firms and continue to flourish, which gives hope for continuity.

### **Strength of Customers**

- The Government remains the single largest customer of ATS services – at least by value of contracts.
- The growing demand for high quality finishing imposes higher costs.
- Local and central government demand for timely execution of contracts even with slow settlement of progressive certificates.

## **Appendix C: Results from Two Assignments to Members:**

### **Head of IT (Assisted by HBD): Use of the Internet**

It is our intention to increase usage of the internet and the intranet. We believe this shall significantly increase communication and information flow between departments.

I have already tested the system through which our customers shall be sending inquiries and feedback and suppliers sending invoices, with provisions to upgrade to cater for tracing of key events with key staff on various assignments.

It shall be necessary to develop an internet usage code, to guide our staff on the 'dos and don'ts' while using the new system. For the external users, I am afraid there are no laws or enforceable regulations to prevent misuse.

### **Investment Analyst: Opportunities for Immediate Investments**

Given the nature of ATS's business focus, two projects to build internal capacity have been identified, but negotiations have not been concluded, regarding interest rates and initial project costs.

**Project A:** The project costs Shs 810 million, and is expected to generate net cash inflows of Shs 340 million, 310 million, 290 million, and 270 million over its useful life of 4 years. A Ugandan financier has shown interest in funding this project, but the interest rate has not yet been determined.

**Project B:** The project has the following annual cash inflows: Shs 400 million, 370 million, 350 million, and 320 million over its 4-year economic life. ATS Management is still negotiating with a potential contractor the overall initial project costs, while a financier has promised to finance 50% of the project at 12% per annum. The financing would not change ATS's existing capital structure.

## **Appendix D: Unresolved Areas that Require Further Research:**

Other issues briefly touched on in the first meeting but not concluded:

- Steps ATS can take to reduce the weighted average cost of capital;
- The key steps to be taken in re-branding of the company if re-branding was identified as a key strategic tool;
- Diversification considerations: whether the company should pursue diversification into the transport sector – with the belief that it would benefit a lot from the massive transfers of workers and equipment from site to site;
- How the company can position itself to benefit from the impending oil production in the western rift valley in Uganda;
- The contingent plans ATS should put in place should the much talked about world-wide economic depression – sparked off by the credit crunch in the USA spill over to Uganda and the rest of Africa.
- Design disciplinary actions for members who are regularly absent from meetings and duty without apology.
- HBD and Company Secretary to draft the company's corporate social responsibility strategy. This should be presented to the Board Audit Committee for approval before the main SBP is concluded.

## **Other Outstanding Operational Issues**

The following issues also have significant implications on the timely finalisation of the strategic business plan, and achievement of the desired operational efficiency and the company's overall competitiveness:

- Need to portray ATS as the construction company of choice, and this should be reflected in the mission statement.
- The role of IT in management of the ever increasing competition dynamics; and completion of the ATS website: [www.ats-constructiongiants.com](http://www.ats-constructiongiants.com) to supplement marketing efforts.
- Contingent plans: The Secretary to the committee needs to bring to the plenary all aspects of contingent plans and strategies; and a draft business continuity policy.
- Sustainability: The ever-increasing oil and other raw material prices have pushed factory prices up by 22.5%, and cannot be easily matched by equal or reasonable pricing adjustments.
- Strategies to react to the international financial crisis.
- Mechanisms to promote staff innovation – so as to take advantage of the ever emerging opportunities.
- Strategy on partnership – we shall be teaming up with other construction firms of equal or grater strength (in form of joint ventures) every time we are faced with sizeable bids or contracts.

## **Appendix E: Key Assumptions of the SPB**

The following assumptions - as summarised by the secretary to the planning committee were captured to guide the preparation of the SBP:

- (a) Inflation was assumed to average 9.5% per annum, with the cost of building materials assumed to increase by at most half the inflation rate per annum.
- (b) Foreign exchange rate of Shs 1,850 per USD, the current rate.
- (c) Population of the East African countries to grow at an average of 4.5% per annum.
- (d) Urbanisation growth rates to average 6% per annum in all major cities of the EAC, while growth rates in the construction and real estate sector to average 10% per annum.
- (e) The Land Act amendment bill was expected to be enacted into law within the financial year 2008/2009.
- (f) Continued government prioritisation of infrastructure development including setting aside funds for grants to private firms in this sector.
- (g) Economic growth rate to continue at an average of 8% per annum, and to be translated into improved household incomes across the populations.
- (h) Prosperity for all programme of the government was expected to reduce income inequalities by at least 20% over the SBP period.
- (i) No provisions to be made in relation to the financial crisis in the first world.
- (j) Continued political stability in the great lakes region; and peace to be attained and maintained in Northern Uganda.
- (k) Stability in the financial services sector, alongside macro-economic and financial variables including exchange rates.

### **Challenges Facing the Construction Industry in Uganda To-date:**

- (a) Limited availability of long-term capital to finance the purchase of the necessary heavy capital equipment; few finance companies.
- (b) Absence of a professional regulator for the construction industry; and lack of a vibrant Construction Companies Association for self regulation.
- (c) Poor infrastructure – including the road network.
- (d) Limited availability of institutional investors that would buy into ATS as core investors, and provide the much needed capital.
- (e) Intermittent power supply and high prices of petroleum products.
- (f) Lack of enforcement of housing policies, allowing unplanned or sub-standard developments in urban centres.
- (g) General scarcity of building materials, construction equipment, and poor construction technologies.



## **Appendix F: Key Speeches at the End of Year Party:**

The party doubled as an opportunity to get the real feel of the Government's policy and outlook, as the company had invited the Minister of State for Finance – Infrastructure Rehabilitation, as chief guest.

### **The Board Chairperson's Welcome Remarks**

This is a special time when we celebrate our humble achievements made in the year. The celebration, however, comes at a critical time when the global financial system faces its major turmoil in recent years, and we are yet to quantify the likely impact the crisis could have on the Ugandan economy.

To our staff, I am delighted that we currently work as one united team, unlike some tendencies in the past, at the time I joined the company's Board. I am glad all of you are putting your best efforts according my personal assessment, and all I can say is 'keep it up'.

To you Madam Minister, we shall be pleased to follow up with your office on the incentives you have always mentioned, regarding investments in the construction sector. This is particularly on issues to do with initiatives that would support the low-income earners to acquire decent housing. We are also aware of the Public-Private Partnerships (PPPs) that your cabinet recently approved, but from which we are yet to get any tangible benefits.

Madam Minister, I am glad to inform you that management and the Board have had a series of meetings aimed at coining out a new strategic business plan for ATS, and we shall be inviting you again to the launch before the end of this month. If our assumptions hold true, and with your support as government, Ugandans shall have an effective 'home-made' property development partner.

With your coming this evening, we feel assured of the future, and we believe our hopes in the public sector are well invested. We wish you all the best, and we shall always consider you our close ally in Government.

Madam Minister, I thank you once again for accepting our invitation; we are very grateful, and I now invite you to address this gathering. And may the Almighty God bless you all.

### The Finance State Minister's speech:

"On behalf of my ministry and on my own behalf, I want to thank your Board, Management and all staff for the exemplary performance and contribution you are making in the construction industry generally, and to the real estate sector in particular.

I am glad that you are utilising the conducive investment atmosphere created by our government. The government looks at the real estate sector as very instrumental in helping us achieve the government's medium term objectives. As you are aware, you cannot reduce poverty levels without an efficient physical infrastructure and shelter for our population. You are also aware that the media portrays Uganda as being way behind the progress towards the achievement of *Millennium Development Goals* (MDGs). Of course we are making significant strides, and I am glad for the private sector's contribution in this regard, and for ATS in particular.

The ATS brand promotes a unique mix of government contractors, and reinforces the confidence in the market reforms that the government embarked on a few years ago. As a ministry, we are happy that indigenous investors are benefiting from these reforms, proving our critics wrong. I am also happy with the progressive capital injections into your company over the years, which I am told has accumulated to Shs 63.8 billion of equity capital (share capital and reserves) to-date.

I want to pledge the government's continued willingness to support the private sector in your endeavours to develop this country. The government has demonstrated this will frequently both in the president's manifesto, and in my Senior Minister's budget speeches over the years. I believe you have started getting the benefits of the many investment incentives in this area.

We envisage a more stable economy, especially as we fast-track the establishment of the East African Community. You are therefore looking at an enormous market. Note that my ministry has embarked on blacklisting firms that do shoddy work. I hope you shall be able to maintain your high standards and avoid ever appearing on such a list – least the *Hot Pepper* shall scream, "*Shoddy contractors are linked to a government Minister!*"

Allow me to end by reminding you of Mary Kay Ash, when he said, "there are three types of people in this world: those who make things happen, those who watch things happen, and those who wonder what happened". We all have a choice on what type of person we can be. I pray that management and staff of ATS choose with me, to continue making things happen in our Uganda. Thank you very much.

For God and my Country.

**Table 1: PVIF- Present Value of Shs 1 Due at the End of n Periods**

Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.718	0.694
3	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.609	0.579
4	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.516	0.482
5	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.437	0.402
6	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.370	0.335
7	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.314	0.279
8	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.266	0.233
9	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.225	0.194
10	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.191	0.162
11	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.162	0.135
12	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.137	0.112
13	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.116	0.093
14	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.099	0.078
15	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.084	0.065

**TABLE 2: PVAF - Present Value of an Annuity of Shs 1 per Period for n Periods**

Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.847	0.833
2	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.566	1.528
3	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.174	2.106
4	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.690	2.589
5	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.127	2.991
6	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.498	3.326
7	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.812	3.605
8	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	4.078	3.837
9	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.303	4.031
10	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.494	4.192
11	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.656	4.327
12	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.793	4.439
13	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	4.910	4.533
14	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	5.008	4.611
15	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	5.092	4.675