

**OFFICE OF THE AUDITOR GENERAL**



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL**  
**ON THE FINANCIAL STATEMENTS OF THE PETROLEUM FUND**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2015**

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

## **TABLE OF CONTENTS**

|                                                                                                                                           |    |
|-------------------------------------------------------------------------------------------------------------------------------------------|----|
| LIST OF ACRONYMS.....                                                                                                                     | ii |
| REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PETROLEUM FUND FOR THE YEAR ENDED 30th JUNE 2015.....                    | 1  |
| DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PETROLEUM FUND FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2015..... | 3  |
| 1.0 INTRODUCTION.....                                                                                                                     | 3  |
| 2.0 BACKGROUND INFORMATION.....                                                                                                           | 3  |
| 3.0 OBJECTIVE OF THE PETROLEUM FUND .....                                                                                                 | 3  |
| 4.0 FINANCING OF THE FUND .....                                                                                                           | 4  |
| 5.0 AUDIT OBJECTIVES.....                                                                                                                 | 4  |
| 6.0 AUDIT PROCEDURES PERFORMED.....                                                                                                       | 4  |
| 7 FINDINGS.....                                                                                                                           | 5  |

## **LIST OF ACRONYMS**

|      |                               |
|------|-------------------------------|
| BOU  | Bank of Uganda                |
| NTR  | Non Tax Revenue               |
| PFMA | Public Finance Management Act |
| UGX  | Uganda Shillings              |
| URA  | Uganda Revenue Authority      |

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE  
PETROLEUM FUND FOR THE YEAR ENDED 30th JUNE 2015**

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

I have audited the financial statements of the Petroleum Fund for the year ended 30<sup>th</sup> June, 2015. These financial statements comprise of the Statement of Financial Position as at 30<sup>th</sup> June, 2015, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended together with other accompanying schedules, notes and accounting policies.

**Management Responsibility for the financial statements**

Section 60 of The Public Finance Management Act, 2015 (PFMA) requires the Accountant General to prepare financial statements for bi- annually and annual financial year that give a true and fair view of the state of affairs of the Fund.

The accountant General is also responsible for the preparation of financial statements in accordance with the International Financial Reporting Standards and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

**Auditors' responsibility**

My responsibility as required by Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to audit and express an opinion on these statements based on my audit. I conducted the audit in accordance with the International Standards on Auditing (ISAs). The standards require that I comply with ethical requirements, plan and perform the audit to obtain reasonable assurance on 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 misstatements of 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 financial statements in order to design audit procedures that are appropriate for the circumstances, but

not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 obtained is sufficient and appropriate to provide a basis for my opinion.

Part "A" of this 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**

In my opinion, the financial statements present fairly in all material respects the financial position of the Petroleum Fund as at 30<sup>th</sup> June 2015 and the results of its operations and cash flows for the year then ended and comply in all material respects with PFMA 2015 and the International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read 'John F.S. Muwanga', with a long, sweeping horizontal line extending to the right.

John F.S. Muwanga

**AUDITOR GENERAL**

21<sup>st</sup> December, 2015

## **PART "B"**

### **DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PETROLEUM FUND FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2015**

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

#### **1.0 INTRODUCTION**

Article 163(3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me 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 like nature, any public corporation or other bodies or organizations established by an Act of Parliament.

Section 73 of PFMA, 2015 further mandates me to specifically audit the accounts of the Fund. Accordingly, I carried out the audit of the Fund to enable me report to the Parliament.

#### **2.0 BACKGROUND INFORMATION**

The Petroleum Fund was established under Part vii\_ Petroleum Revenue Management, Section 56 of The Public Finance Management Act 2015 as a Fund where all petroleum revenues which accrue to Government shall be paid into. It was operationalised in March 2015.

#### **3.0 OBJECTIVE OF THE PETROLEUM FUND**

The Objectives of the Fund are:

- Serve as a depository for all revenues accruing to Government from petroleum
- Support the annual budget under the authority of an Appropriation Act
- Provide funds for investments as approved by Parliament in accordance with the petroleum revenue investment policy issued by the Minister of Finance, Planning and Economic Development

#### **4.0 FINANCING OF THE FUND**

The Fund received revenue of USD 36,058,521 arising from the settlement of a tax dispute between Uganda Revenue Authority and Tullow Operations Uganda PTY, translating into UGX 119,323,709,754.

#### **5.0 AUDIT OBJECTIVES**

The audit was carried out in accordance with the International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary. In conducting my reviews, special attention was paid to establish whether:

- a. The financial statements have been prepared in accordance with consistently applied Accounting Policies fairly presenting the revenues and expenditures for the period and the financial position as at the end of the period.
- b. All funds were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.
- c. Goods and services financed have been procured in accordance with the Government of Uganda procurement regulations.
- d. Sufficient internal controls have been applied consistently throughout the year to safeguard the assets of the Fund and mitigate the risk of misstatement of the financial statements.
- e. All necessary supporting documents, records and accounts have been kept in respect of all Fund activities and are in agreement with the financial statements presented.

#### **6.0 AUDIT PROCEDURES PERFORMED**

The following audit procedures were undertaken:

##### **a. Revenue**

Obtained schedules of all revenues collected and reconciled the amounts to the Fund's cashbooks and bank statements.

b. **Expenditure**

The Fund payment vouchers were examined for proper authorization, eligibility and budgetary provision, accountability and support documentation.

c. **Internal Control System**

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

d. **Procurement**

Reviewed the procurement of goods and services by the Fund during the period under review and reconciled it with the approved procurement plan.

e. **Fixed Assets Management**

Reviewed the use and management of the Fund assets during the period audited.

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 evaluated the overall financial statements presentation.

**7.0 FINDINGS**

Management has in all material respects complied with the Government of Uganda financial regulations except for the following issues;

**7.1 Categorization of audit findings**

The following system of profiling of the audit findings has been adopted to better prioritise the implementation of audit recommendations.

|          | <b><i>Category</i></b>   | <b><i>Description</i></b>                                                                                                                                                                                         |
|----------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>1</i> | <i>High significance</i> | <i>Has a significant / material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder</i> |

|   |                              |                                                                                                                                                                                                                                                          |
|---|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|   |                              | <i>interest.</i>                                                                                                                                                                                                                                         |
| 2 | <i>Moderate significance</i> | <i>Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.</i>                                                  |
| 3 | <i>Low significance</i>      | <i>Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.</i> |

## 7.2 **Summary of audit findings**

| <b>No</b> | <b>Title of finding</b>                                     | <b>Significance</b> |
|-----------|-------------------------------------------------------------|---------------------|
| 1         | Lack of guidelines for management of petroleum revenues     | Moderate            |
| 2         | Delays in transferring oil revenue to Uganda Petroleum Fund | Moderate            |

## 8.0 **DETAILED FINDINGS**

### 8.1 **Lack of guidelines for assessment and collection of petroleum revenues**

Although the PFMA 2015 requires Uganda Revenue Authority to be responsible for assessment and collection of all petroleum revenues, at the time of reporting, there were no procedures and guidelines put in place to operationalise that activity. Petroleum revenues such as surface rentals, training and sale of data fees were all still being deposited on the Ministry of Energy NTR account in BOU instead of the Petroleum Fund Account. This is not only against the law but it becomes difficult to keep track of the Petroleum revenues received and collected in any given year.

Management explained that the Ministry of Finance Planning and Economic Development is finalizing the process of developing detailed guidelines that will facilitate petroleum revenue assessment and collection.

I advised management to expedite the process of development of the guidelines for the proper tracking and monitoring of the petroleum revenues

## **8.2 Delays in transferring oil revenue to Uganda Petroleum Fund**

The PFMA 2015 requires prompt remittance of oil revenues to the petroleum Fund account by URA upon collection.

I however noted that although the USD 36,058,501 was collected in June 2015 the remittance to the Petroleum Fund account was done at the end of October 2015 almost 4 months later. Delays in remittance are an indication of inadequate cash management practices which could expose the funds to risks like interest and foreign exchange losses.

Management explained that upon coming into force of the law, many provisions could not be implemented instantly and required agreement on a number of modalities. Upon opening of the Bank Accounts, interpretation had to be sought on what was due to the Petroleum Fund. Once all this was concluded, the money was transferred intact to the Petroleum Fund.

I advised management to ensure prompt transfers in compliance with prescribed procedures in management of the petroleum revenues.

**FINANCIAL STATEMENTS**