

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 30TH JUNE 2015

OFFICE OF THE AUDITOR GENERAL
UGANDA

45

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

H4

LIST OF ACRONYMS

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 30th June, 2015. These financial statements comprise of the Statement of Financial Position as at 30th 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 30th 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.



John F.S. Muwanga

AUDITOR GENERAL

21th 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.

	<i>Category</i>	<i>Description</i>
1	<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>

38

		<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**

No	Title of finding	Significance
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

Government of the Republic of Uganda



Financial Statements of the Petroleum Fund For the year ended 30 June 2015

Government of the Republic of Uganda

Financial statements of the Petroleum Fund

Commentary to the Accounts

The Petroleum Fund is established by section 56 of the Public Finance Management (PFM) Act, 2015 that came into law effective March 2015. The Fund serves as a depository for all revenues accruing to government from petroleum and related activities, and disbursement either to the consolidated fund or to the Petroleum Revenue Investment reserve Account in Bank of Uganda.

These financial statements are prepared in compliance with Generally Accepted Accounting Principles and the provisions of the PFM Act, 2015. The financial statements cover only transactions effected after March 6, 2015 when the Petroleum Fund was established.

During the period under review, the fund received \$36,058,521 (thirty six million fifty eight thousand, five hundred twenty one dollars) being a deposit on tax settlement between Uganda Revenue Authority and Tullow Plc. Uganda Revenue Authority reported translated amounts of UGX 118,668,526,791 using the URA rate at the date of collection (22nd June, 2015). Due to the differences in the foreign exchange rates used between URA and BOU, this amount was reflected in Treasury books as UGX 119,323,709,754 (One hundred nineteen thousand billion, three hundred twenty three thousand million, seven hundred nine thousand, seven hundred fifty four shillings) using the BOU rate on the same date. Owing to the appreciation of the shilling against the US dollar at the close of the financial year, a translation foreign exchange loss of UGX 354,028,296 (Three hundred fifty four million, twenty eight thousand, two hundred ninety six) was recognized leading to a closing balance of UGX 118,969,615,274. This translation loss is not realized but recognized because UGX is the reporting currency for the Government of Uganda.

The Petroleum Fund account is maintained in USD, no withdrawal was made from the Fund during the financial year and its balance still stands at USD 36,058,521.


L Semakula
ACCOUNTANT GENERAL

Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Statement of Financial Performance for the year ended 30th June 2015

	Notes	Actual 30th June 2015 Shs	Actual 30th June 2014 Shs
Operating revenue			
Sale of Petroleum	2		
Other revenue	3	119,323,709,754	
Total revenue		119,323,709,754	
Expenses			
Transfers to the Consolidated Fund	4	-	
Transfers to Petroleum Revenue Investment reserve	5	-	
Bank Charges	6	66,184	
Foreign exchange losses (gains)	7	354,028,296	
Total Expenses		354,094,480	
Excess of revenue over expenditure from operating activities		118,969,615,274	

L Semakula

L Semakula
Accountant General

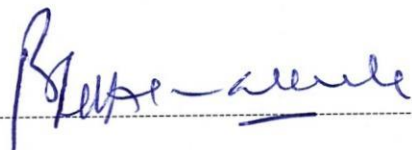
Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Statement of Financial Position as at 30th June 2015.

	Notes	30th June 2015 Shs	30 June 2014 Shs
ASSETS			
Cash and Cash equivalents	8	118,969,615,274	
Receivables	9		
Investments	10		
Total Assets		118,969,615,274	
REPRESENTED BY;			
Net Worth		118,969,615,274	

Statement of Changes in Equity (Net Worth) as at 30th June 2015

		30th June 2015 Shs	30 June 2014 Shs
Net worth Last Year (B/F)		0	
Add: Excess of revenue over expenditure for the Year (See Statement of Financial Performance)		118,969,615,274	
Closing Net Financial Worth		118,969,615,274	



L. Semakula
Accountant General

Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Cash Flow Statement for the year ended 30th June 2015 [Direct Method]

	30th June 2015 Shs	30th June 2014 Shs
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Total receipts from Operating Revenues were (see below):</i>	119,323,709,754	
PAYMENTS FOR OPERATING EXPENSES:		
Transfers to the Consolidated Fund		
Transfers to Petroleum Revenue Investment reserve		
Bank Charges	66,184	
Foreign exchange losses (gains)	354,028,296	
Total payments for operating activities	354,094,480	
Net cash inflows/(outflows) from operating activities	118,969,615,274	
Net increase (decrease) in cash and cash equivalents	118,969,615,274	

Revenue summary for the year

	30th June 2015 Shs	30th June 2014 Shs
For cash flow purposes receipts from operating revenue comprise:		
Operating Revenue		
Sale of Petroleum		
Other revenue	119,323,709,754	
Total receipts from operating activities	119,323,709,754	

Reconciliation of movement of cash during the year

	30th June 2015 Shs	30 June 2014 Shs
At the beginning of the year		
Net increase (decrease) of cash from the <i>Cash flow Statement</i>	118,969,615,274	
At the end of the year	118,969,615,274	

For purposes of the cash flow statement, cash and cash equivalents comprise

	30th June 2015 Shs	30th June 2014 Shs
Cash and bank balances	118,969,615,274	
Less bank overdrafts		
Net cash and bank balances	118,969,615,274	

30

Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Note 1 Exchange rates

	Actual 30 June 2015 Shs	Actual 30 June 2014 Shs
United States Dollar	3299.25	
Japanese Yen	26.96	
British Pound	5206.18	
Euro	3687.38	
SDR/AFU/IDI	4640.16	

Note 2 Sale of Petroleum

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Sale of Crude oil			
Sale of Gas			
Total Revenue			

Note 3 Other revenue

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Gains/loss on Property sales and Trading			
Interest earned			
Tarriff			
Fees on Gathering stations			
Proceeds from Insurance			
Rental income			
Refunds or other credits			
Foreign exchange gain			
Miscellaneous Revenue	119,323,709,754**	36,058,521.00	
Total other revenue	119,323,709,754	36,058,521.00	

** Arising from the settlement of tax dispute between Uganda Revenue Authority and Tullow.

Note 4 Transfers to the Consolidated Fund

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Transfer to UCF			
Total transfer to UCF			

Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Note 5 Transfers to Petroleum Revenue Investment Reserve

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Transfer to Petroleum Revenue Investment Reserve			
Total Transfers			

Note 6 Bank Charges

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Bank Charges	66,184	20.00	
Total	66,184	20.00	

Note 7 Foreign Exchange losses

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Foreign exchange losses	354,028,296		
Total	354,028,296		

Note 8 Cash and Cash Equivalents

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Petroleum Fund Account	118,969,615,274	36,058,501.00	
Petroleum Revenue Investment Reserve a			
Other			
Total	118,969,615,274	36,058,501.00	

Note 9 Receivables

	Actual 30 June 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Crude oil and gas in kind			
Investment income			
Others			
Total			

Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Note 10 **Investments**

	Actual 30 June 2015 Sh	Actual 30 June 2015 USD	Actual 30 June 2014 Shs
Petroleum Revenue Investment Reserve			
Other			
Total			