

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE PETROLEUM FUND
FOR THE SIX MONTH PERIOD ENDING 31ST DECEMBER 2015

OFFICE OF THE AUDITOR GENERAL
UGANDA

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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 HALF YEAR ENDED 31ST DECEMBER 2015**

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Petroleum Fund for the half year ended 31st December, 2015. These financial statements comprise of the Statement of Financial Position as at 31st December, 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

Under section 56 of the Public Finance Management Act (PFMA), 2015 the Minister responsible for finance is responsible for the overall management of the Petroleum Fund. Under Section 60 of the PFMA, the Accountant General is responsible for maintenance of proper books of account and proper records of the Petroleum Fund; and preparation and submission of semi-annual and annual financial statements for the Petroleum Fund that are free from material misstatement whether due to error or fraud.

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 of Supreme Audit Institutions (ISSAIs). 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 31st December 2015 and the results of its operations and cash flows for the half year then ended and comply in all material respects with Public Finance Management Act (PFMA), 2015.



John F.S. Muwanga

AUDITOR GENERAL

15th July, 2016

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PETROLEUM FUND FOR THE SIX MONTHS ENDED 31st DECEMBER 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 requires me to specifically audit the accounts of the Fund. Accordingly, I carried out the audit of the Fund's financial statements 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.

Section 60 (b) of the Public Finance and Management Act, 2015 provides that, the Accountant General shall submit semi-annual and annual financial statements to the Minister, Secretary to the Treasury and the Auditor General by the 15th of February and the 31st of August, respectively.

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 related activities

4.0 FINANCING OF THE FUND

For the six months ending December 31, 2015, the Fund did not receive any revenue.

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:

- 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.
- All funds, if any, were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.
- Goods and services financed, if any, have been procured in accordance with the Government of Uganda procurement regulations.
- 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.
- All necessary supporting documents, records and accounts have been kept in respect of all Fund receipts and transfers are in agreement with the financial statements presented.

6.0 AUDIT PROCEDURES PERFORMED

The following audit procedures were undertaken:

a. Receipts

Obtained Fund's cashbooks and bank statements and confirmed that no revenues were collected during the reporting period.

b. **Expenditure**

From the Fund's cashbooks and bank statements I ascertained that there were no expenses made from the Fund except bank charges.

c. **Internal Control System**

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

d. **Fixed Assets Management**

The Petroleum Fund does not own any property, plant and equipment as at the time of reporting.

e. **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 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</i>

		<i>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 finding according to the above profiling**

No	Title of finding	Significance
1	Late submission of Semi-Annual Reports	Moderate

7.3 **Late submission of Semi-Annual financial statements**

Section 60 (b) of the Public Finance and Management Act, 2015 provides that, the Accountant General shall submit semi-annual and annual financial statements to the Minister, Secretary to the Treasury and the Auditor General by the 15th of February and the 31st of August, respectively. Contrary to this provision, the semi –annual accounts for period ending 31st December 2015 were submitted on 11th May, 2016, almost three Months late. Late submission of the financial statements undermines prompt monitoring, regulation and supervision of the management and performance of the Fund.

Management explained that it was an oversight not to deliver a copy of Accounts to the Auditor General in a timely manner and that accounts for the Petroleum Fund are prepared regularly for management purposes. They also promised to ensure that in future, financial statements are submitted to the Auditor General in a timely manner as required by legal provisions.

I advised management to always comply with the provisions of the law regarding submission of accounts.

8.0 **Prior Year Issues not addressed**

S/No.	Finding	Status
01	Lack of guidelines for management of petroleum revenues	Partially addressed
02	Delays in transferring oil revenue to Uganda Petroleum Fund	Partially addressed

FINANCIAL STATEMENTS

Government of the Republic of Uganda




Financial Statements of the Petroleum Fund
For the Half Year ended 31 December, 2015

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

Statement of Financial Performance
for the year ended 31 December 2015

	Notes	Actual 31 December 2015 Shs	Actual 30 June 2015 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	2,831,313,499	354,028,296
Total Expenses		2,831,313,499	354,094,480
Excess of revenue over expenditure from operating activities		2,831,313,499	118,969,615,274


L Semakula
Accountant General

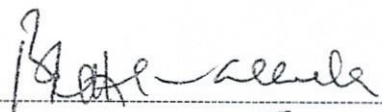
Government of the Republic of Uganda
Financial statements of the Petroleum Fund

Statement of Financial Position as at 31 December 2015.

	Notes	31 December 2015 Shs	30 June 2014 Shs
ASSETS			
Cash and Cash equivalents	8	121,800,928,773	118,969,615,274
Receivables	9		
Investments	10		
Total Assets		121,800,928,773	118,969,615,274
REPRESENTED BY;			
Net Worth		121,800,928,773	118,969,615,274

Statement of Changes in Equity (Net Worth) as at 31 December 2015

	31 December 2015 Shs	30 June 2014 Shs
Net worth Last Year (B/F)	118,969,615,274	0
Add: Excess of revenue over expenditure for the Year (See Statement of Financial Performance)	2,831,313,499	118,969,615,274
Closing Net Financial Worth	121,800,928,773	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 31 December 2015 [Direct Method]

	31 December 2015 Shs	30 June 2015 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	2,831,313,499	354,028,296
Total payments for operating activities	2,831,313,499	354,094,480
Net cash inflows/(outflows) from operating activities	2,831,313,499	118,969,615,274
Net increase (decrease) in cash and cash equivalents	2,831,313,499	118,969,615,274

Revenue summary for the year

	31 December 2015 Shs	30 June 2015 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

	31 December 2015 Shs	30 June 2015 Shs
At the beginning of the year	118,969,615,274	
Net increase (decrease) of cash from the <u>Cash flow Statement</u>	2,831,313,499	118,969,615,274
At the end of the year	121,800,928,773	118,969,615,274

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

	31 December 2015 Shs	30 June 2015 Shs
Cash and bank balances	121,800,928,773	118,969,615,274
Less bank overdrafts		
Net cash and bank balances	121,800,928,773	118,969,615,274

Government of the Republic of Uganda

Financial statements of the Petroleum Fund

ACCOUNTING POLICIES

The Treasury is a reporting entity of the Government of the Republic of Uganda for purposes of preparing financial statements of the Petroleum Fund, and is domiciled in Uganda. The principal address of the Treasury is set out below:

The Ministry of Finance, Planning and Economic Development,
Plot 2/12 Apollo Kaggwa Road,
P.O. Box 8147,
Kampala – UGANDA
Tel: +256 (0) 41 707900;
Fax: +256 (0) 41 250005
Website: www.finance.go.ug

1) The Treasury

The Treasury is established by Section 10 of the Public Finance Management Act, 2015 consisting of: (a) the Minister of Finance; (b) the Secretary to the Treasury; (c) the Accountant General; and (d) any other directorates responsible for economic and finance matters of the ministry responsible for finance.

2) The Consolidated Fund

The Consolidated Fund is established by the Article 153 of the Constitution of the Republic of Uganda. As provided by Section 30 of the Public Finance Management Act, 2015 (PFMA), the Consolidated Fund is the Fund into which all revenues or other money raised or received for the purpose of the Government of the Republic of Uganda shall be paid and shall form part of the Consolidated Fund except for receivables into another public fund established for a special purpose (for example the Petroleum Fund) where this is authorized by an Act of Parliament or where a vote, state enterprise or public corporation shall retain revenue collected or received as authorized through an appropriation by Parliament or is a monetary grant exempted under Section 44 of the PFMA.

3) The Petroleum Fund

Is a fund established by Section 56 of the PFMA to which petroleum oil revenues that accrues to the Government shall be paid into and the Minister of Finance shall be responsible for its management in accordance with the Act. Any withdrawals from the Fund shall be made under authority granted by an appropriation Act and a warrant of the Auditor General. The withdrawals are to the Consolidated Fund and to the Petroleum Revenue Investment Reserve. Such withdrawals to the Consolidated Fund will be for financing only infrastructure and development projects, not for recurrent expenditure.

4) Accounting policies

These are the specific principles, bases, conventions, rules and practices adopted by the Government of the Republic of Uganda in preparing and presenting the financial statements. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

5) Basis of preparation of financial statements

The financial statements have been prepared in the manner required by the Public Finance Management Act, and comply with generally accepted accounting principles taking into consideration of the legal and regulatory framework regarding public finances of the Government of Uganda.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. Under the cash basis of accounting, revenue is recognized generally in the period in which it is received and not when earned, while expenditure is recognized in the period in which it is paid not incurred.

6) Going concern consideration

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the reporting period.

7) Presentation currency

Government of the Republic of Uganda

Financial statements of the Petroleum Fund

The reporting and presentation currency is the Uganda Shilling, which is the legal tender of the Republic of Uganda. Items included in the financial statements are measured in the currency of the primary economic environment in which the entity operates. Therefore the Uganda Shilling is both the functional and presentation currency.

8) Reporting Period

The reporting period for these financial statements is the financial year of the Government of Uganda that runs from 1 July to the next 30 June.

9) Approved budget/appropriation

The Budget forecast is the original forecast as amended by subsequent supplementary budgets for the year as presented appropriated by Parliament.

10) Revenue

Revenue represents cash received (or earned for the purposes of preparing Statement of Financial Performance) by the Petroleum Fund during the financial year.

(i) Revenue from non-exchange transactions

These comprise oil royalties due to the Petroleum Fund and any other investment income declared by the Bank of Uganda from Petroleum Revenue Investment Reserve. So all revenues to the Petroleum Fund is from non- exchange transactions.

(ii) Revenue from exchange transactions

Are revenues that arise from sale of item of economic value, often an asset, a right, etc. The Petroleum Fund does not have revenues from exchange transactions.

(iii) Transfers to the Consolidated Fund

Transfers to the Consolidated Fund are recognized when disbursement is made from the Petroleum Fund for amount appropriated in accordance with Sections 58 & 59 of the Act.

(iv) Transfers to the Petroleum Revenue Investment Reserve

Transfers to the Petroleum Revenue Investment Reserve are recognized when disbursement is made from the Petroleum Fund for amount appropriated in accordance with Sections 58 & 59 of the Act.

(v) Grants

Grants are recognized when received. Similarly, grants/transfers to other entities of Government are recognized when disbursement is made. The Petroleum Fund does not get any grants

11) Translation of transactions in foreign currency

Foreign currency transactions are translated into Uganda Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

12) Gains

Unrealized foreign exchange gains/(losses) on monetary assets and liabilities including those on marketable securities held for trading purposes are not recognized in the Statement of Financial Performance.

Unrealized gains or losses, excluding foreign exchange gains/(losses), arising from changes in the value of investments and marketable securities held for investment purposes are also not recognized in the financial statements.

13) Expenses

In general, withdrawals are recognized at the time of disbursement.

The Petroleum Fund does not own any property, plant and equipment in its books of accounts.

15) Receivables

Government of the Republic of Uganda

Financial statements of the Petroleum Fund

(i) Advances and other receivables

Receivables are carried at original historical cost. Bad debts when identified are written –off in accordance with procedure outlined in the financial regulations..

(ii) Inventories

The Petroleum Fund does not own any inventories in its books of accounts. Any inventories are held through the National Oil Company and the Petroleum Revenue Investment Reserve for which separate financial statements are prepared by Bank of Uganda

14) Investments

Transfers to Bank of Uganda for Petroleum Revenue Investment Reserve are treated as Investments (Non- current assets) in the Statement of Financial Position of the Petroleum Fund. Any incomes from these investments are shown as increases in the Investments in the books of Petroleum Fund. Amounts released to the Treasury are to the Petroleum Fund and are shown both in the Statement of Cash Receipts and Cash Withdrawals, and in the Statement of Financial Performance.

15) Investment properties

The Petroleum Fund does not own any investment properties in its books of accounts.

16) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts. In the statement of financial position bank overdrafts are included in borrowings.

17) Unspent or restricted cash balances

The Petroleum Fund does not hold any unspent or restricted cash balances in its books of accounts.

18) Borrowings

The Petroleum Fund does not hold any borrowings at all in its books of accounts.

19) Employee benefits

The Petroleum Fund does not have paid employees in its books of accounts.

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

Note 1 **Exchange rates**

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

Note 2 **Royalties**

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Royalties			
Total Revenue			

Note 3 **Other revenue**

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Penalty income for late remittance			
Income from the temporary investment of the Fund for UCF by BoU.			
Investment income from PRIR			
Income in respect of oil stocks with NOC			
Realized Foreign exchange gain	2,831,313,499		
Miscellaneous Revenue			119,323,709,754**
Total other revenue	2,831,313,499		119,323,709,754

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

Note 4 **Transfers to the Consolidated Fund**

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 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 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Transfer to Petroleum Revenue Investment Reserve			
Total Transfers			

Note 6 Bank Charges

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Bank Charges		20.00	66,184
Total		20.00	66,184

Note 7 Foreign Exchange losses

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Foreign exchange losses			354,028,296
Total			354,028,296

Note 8 Cash and Cash Equivalents

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Petroleum Fund Account	121,800,928,773	36,058,501.00	118,969,615,274
Petroleum Revenue Investment Reserve a			
Other			
Total	121,800,928,773	36,058,501.00	118,969,615,274

Note 9 Receivables

	Actual 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 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 31 December 2015 Shs	Actual 30 June 2015 USD	Actual 30 June 2015 Shs
Petroleum Revenue Investment Reserve			
Other			
Total			