



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL

**ON THE FINANCIAL STATEMENTS OF UGANDA NATIONAL OIL COMPANY FOR
THE YEAR ENDED 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL

UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS
OF UGANDA NATIONAL OIL COMPANY LIMITED
FOR THE YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of Uganda National Oil Company for the year ending 30th June 2017. These financial statements comprise the Balance sheet as at 30th June 2017, the Statement of Profit and Loss, Statement of Changes in Equity and Cash Flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 22.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Uganda National Oil Company as at 30th June 2017 and its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards(IFRS) and the requirements of the Companies Act, 2012 of Uganda.

Basis of Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code), the International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current period.

I have determined that there are no key audit matters to communicate in my report.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to Note 9 of the financial statements;

- **Unpaid Up Share capital**

Note 9 of the financial statements shows that the authorized share capital of the company is 10,000 ordinary shares each with a share value of UGX.1,000,000. However, paid up share capital was noted as Nil.

The failure to pay up the share capital greatly impedes the company's operations.

Management explained that the Board and Management of UNOC were engaging the shareholders regarding their obligation to capitalize UNOC as per the requirements of the Companies Act (2012).

I await the results of management's action in this regard.

Other Matter

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

- **Challenges in disposing of the test crude**

Upon transfer of the test crude oil (approximately 40,000 barrels) in the Albertine graben, from the Ministry to UNOC, the company management resolved to dispose it off in line with its mandate of managing the commercial interests of the country in the oil sector.

However 9 months later the disposal had not taken place. There is risk of loss of the test crude value due to the delayed disposal.

Management explained that the Board had evaluated several alternative options of valuing the test crude and established the market price at \$41 per barrel. It was further agreed that the sales process should be competitive and the buyer should be able to meet the health, environmental and safety criteria without asking government to incur more costs. The process of identifying a suitable buyer is ongoing.

I wait for results of management's actions in this regard.

- **Under funding**

Review of the entity's approved budget for the financial year revealed budgeted expenditure of UGX.6,173,000,000 for the financial year. However, the company only received UGX.4,903,713,500 in form of releases from the Ministry of Energy, resulting into a shortfall of UGX.1,269,286,500 (21%).

As a result some planned activities, such as the quarterly conferences for joint venture activities for midstream and upstream projects, were not undertaken.

Management explained that UNOC is in constant dialogue with MEMD and MoFPED to resolve the funding challenge.

I await the results of, management's actions in this regard.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Uganda Companies Act, 2012, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Company's management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:-

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up

to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2012, I report to you, based on my audit, that:

- I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit;
- In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and

- The Company's statement of financial position and statement of financial performance are in agreement with the books of account.

A handwritten signature in black ink, appearing to read 'J.F.S. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga

AUDITOR GENERAL

30th November 2017