



**THE REPUBLIC OF UGANDA**

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF**  
**PETROLEUM AUTHORITY OF UGANDA**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL**

**UGANDA**

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## **LIST OF ACRONYMS**

CNOOC	China National Offshore Oil Company
F/Y	Financial Year
GOU	Government of Uganda
INTOSAI	International Organization of Supreme Audit Institution
IOC	International Oil Company
ISSAI	International Standards of Supreme Audit Institution
PFMA	Public Finance Management Act.
PSA	Production Sharing Agreement
SOAP	Standard Oil Accounting Procedures
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings

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FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Opinion**

I have audited the accompanying financial statements of the Petroleum Authority of Uganda for the year ended 30<sup>th</sup> June 2018. These financial statements comprise of the statement of financial position, the statement of financial performance, and cash flow statement together with other accompanying statements, notes and accounting policies.

In my opinion, the financial statements of the Petroleum Authority of Uganda for the year ended 30<sup>th</sup> June 2018 are prepared, in all material respects, in accordance with Section 51 of the Public Finance Management Act, 2015, and the Financial Reporting Guide, 2018

**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 Statement's section of my report. I am independent of the Authority 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, were 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 1 in the financial statements.

- **Budget Shortfall.**

I noted that though the Petroleum Authority of Uganda (PAU) budgeted revenue was UGX.20 billion, only UGX.19,002,659,618 (95%) was received resulting into a shortfall of UGX.997,340,382 (5%).

I further noted that out of the released funds, a total of UGX.631,552,896 remained unspent at the year end.

As a result, a number of planned activities such as development of the strategic plan and board manual, maintenance of national suppliers database system, study visit to Nigeria and procurement of Law books were not undertaken.

Management explained that the budget was comprehensively analysed and it was realistic but the challenge was the late and inadequate release of funds to the Authority. As a result of late release of funds some procurements could not be concluded in time.

I advised management to engage the Ministry of Finance, Planning and Economic Development to achieve adequate and timely receipt of funds.

## **Other Matter**

I consider it necessary to communicate the following matter other than those presented or disclosed in the financial statements:

- **Inconsistency in Presentation of Statements of Expenditure by Licensees**

Regulation 37(1) of the Petroleum (Exploration, Development and Production) regulations, 2016 requires licensees to submit to the Authority statements of expenditure that are consistent with the applicable law and the financial and accounting procedures prescribed in a petroleum agreement and the chart of accounts approved or issued by government. Further, SOAP 1 (Standard Oil Accounting Procedures), section 1.1 (i) recommends a consistent budget format between the operators.

Audit however noted that Budgets and expenditure statements of the various licensees revealed inconsistencies in the format of presentation.

This was attributed to the fact that the format of chart of accounts developed for Petroleum Exploration and Production companies was not agreeable to the International Oil companies (IOCs).

The lack of consistence in the format or level of detail leads to delays in the approval of budgets and review of the expenditure.

Management explained that the Accountant General’s office is responsible for developing the chart of accounts, and that the Authority will continue to engage the Accountant General in this regard.

I advised management to liaise with the Accountant General’s office to ensure that a chart of accounts that is agreeable to the IOCs is developed, as this will ensure consistence in the presentation of the budgets and expenditure statements submitted by licensees.

- **Employment of Ugandans by Licensees**

Review of the PAU Annual Report 2017/18, indicated that on average Ugandans employed by IOCs at management level are 36.5%, at technical level 68% and in other staff categories 78%, contrary to section 17 (4) of the Upstream National content Regulations 2016, which requires percentages of 70% at management level, 60% at Technical level and 95% at other levels.

**Table1: Employment of Ugandans in the IOCs for 2017**

<b>Company</b>	<b>%age Management</b>	<b>%age Technical</b>	<b>%age other staff</b>
<b>Tullow</b>	85.7	95.2	100
<b>CNOOC</b>	10	23	52
<b>Total E&amp;P</b>	14	89	82
<b>Sector %age Average</b>	<b>36.5</b>	<b>68</b>	<b>78</b>

From the above analysis it is noted that only Tullow (U) Limited was complaint with the regulations.

Failure by oil companies to recruit Ugandan nationals as prescribed, contravenes the National content policy objectives.

Management explained that communication had been made to IOCs namely; Total and CNOOC directing them to address the issue, and as a result of the non-compliance the Authority declined to approve naturalization plans for positions in the two companies.

Management is advised to ensure that the Oil companies adhere to the National Content Regulations, for the benefit of Ugandan Citizens and achievement of social - economic development.

### **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises the statement of responsibilities of the Accounting Officer and the commentaries by the Head of Accounts and the Accounting Officer, and other supplementary information. The other information does not include the financial statements and my auditors' report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of the Accounting Officer for the Financial Statements**

Under Article 164 of the Constitution of the Republic of Uganda, 1995 (as amended) and Section 45 of the Public Finance Management Act, 2015, the Accounting Officer is accountable to Parliament for the funds and resources of the Petroleum Authority of Uganda.

The Accounting Officer is also responsible for the preparation of financial statements in accordance with the requirements of the Public Finance Management Act 2015, and the Financial Reporting Guide, 2018, 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, the Accounting Officer is responsible for assessing the Authority's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Petroleum Authority of Uganda, and using the

Financial Reporting Guide 2018 unless the Accounting Officer has a realistic alternative to the contrary.

The Accounting Officer is responsible for overseeing the Authority's financial reporting process.

### **Auditor's 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 the 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 judgment and maintain professional skepticism 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 our 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Authority's ability to deliver its mandate. 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 Petroleum Authority of Uganda to fail to deliver its mandate.

- 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 Accounting Officer 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 Accounting Officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with him/her 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 Accounting Officer, 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.

### **Other Reporting Responsibilities**

In accordance with sections 19 (1) of the National Audit Act, 2008, I report to you, based on my work described on the audit of Financial Statements that the activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.



John F.S. Muwanga

**AUDITOR GENERAL**

11<sup>th</sup> December, 2018

