



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
UGANDA PETROLEUM INSTITUTE-KIGUMBA (UPIK)
FOR THE YEAR ENDED 30TH JUNE 2018

OFFICE OF THE AUDITOR GENERAL
UGANDA

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LIST OF ACRONYMS

GOU	Government of Uganda
IEC	Information, Education and Communication
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
MoFPED	Ministry of Finance, Planning and Economic Development
MoES	Ministry of Education and Sports
PFMA	Public Finance Management Act, 2015
TAI	Treasury Accounting Instructions
UGX	Uganda Shillings
UPIK	Uganda Petroleum Institute Kigumba
F/Y	Financial Year
MDA	Ministry, Department, and other Agencies

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UGANDA PETEROLEUM INSTITUTE-KIGUMBA (UPIK)
FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the accompanying financial statements of the Uganda Petroleum Institute Kigumba (UPIK) for the year ended 30th 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 Uganda Petroleum Institute-Kigumba (UPIK) for the year ended 30th 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 Institute 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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined the matters described below to be key audit matters communicated in my report.

- **Implementation of Budget approved by Parliament**

Section 45 (3) of the Public Finance Management Act, 2015 states that “ An Accounting Officer shall enter into an annual budget performance contract with the Secretary to the Treasury which shall bind the Accounting Officer to deliver on the activities in the work plan of the vote for a Financial year, submitted under section 13 (15)” of the said Act. It has been observed over years that planned and budgeted for activities of a number of Government entities are not implemented thereby affecting service delivery.

In the overall office wide planning, I assessed risks of inadequate release of funds, and failure to undertake budget monitoring and supervision that are likely to be the causes of failure to implement entity planned activities. The focus was put on the planned major outputs of the entities which greatly impact on the wellbeing of communities.

Consequently, I developed specific audit procedures which included the evaluation of the financial and annual physical performance by analysing government releases, testing consistency of planned outputs with the approved budget and verifying the accuracy and completeness of the reported actual outputs.

- **Revenue shortfall and under absorption of funds**

Based on the procedures performed, I observed that a total of UGX.9,000,000,000 was budgeted to cater for the UPIK activities. However, by the close of the financial year only 89.4% of the approved budget amounting to UGX.8,050,000,000 had been released resulting into a budget shortfall of UGX. 950,000,000 (10.6%). I further noted that out of the UGX.8,050,000,000 released, UGX.6,530,000,000 was meant for residential and non-residential buildings. However, only UGX.1,966,855,837 was spent on the two items, UGX.2,411,086,317 was spent on unrelated activities and the balance of UGX.2,152,057,819 remained unspent at the close of the financial year.

In response, management explained that the recurrent budget of UGX.2 billion is not adequate to meet their recurrent and other development expenditure. Management further stated that they were not involved in the Ministry Budgeting process and faced with the above challenge, they consulted the Institute Council which authorized reallocation of the funds.

As a result of the inadequate release and diversion of the project funds, planned activities such as construction of 2 students’ accommodation blocks, 2 classroom blocks, 2

workshop blocks, 1 library block, one computer laboratory and one dispensary were not undertaken.

I advised Management to liaise with MoES and MoFPED to ensure appropriate budgeting for the Institute. I also advised them to always spend the funds as appropriated by parliament and where necessary seek appropriate authorization for re-allocation.

Other Matter

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

- **Lack of Practical Equipment for Upstream Operations Diploma Programme**

The Uganda Petroleum Institute, Kigumba's (UPIK) five year strategic plan 2014-2019 provides for UGX.10.5 Billion annually to undertake development activities among others to construct and renovate facilities, specify, procure and install equipment in the second year of the plan implementation.

Physical inspection of the institute's facilities and interviews with the lecturers/instructors revealed that essential facilities and equipment for practical and upstream operations training in oil and gas industry such as drilling/rig service and pilot plant/simulator were not available and this renders the course theoretical and therefore the Institute may not be able to produce the skilled manpower as envisioned by government.

In response, management explained that most of the Strategic plan activities were not achieved due to lack of a sustainable funding mechanism, governance and leadership challenges, and delays in the implementation of the Albertine Region Sustainable Development Project (ARSDP) which had been envisaged in the strategic plan to undertake some activities such as provision of physical infrastructure, curricula development, instructor training, construction of the necessary workshops and procurement of equipment .

I advised management to liaise with relevant stakeholders to obtain funding so as to appropriately equip the Institute.

- **Failure to Meet Set Targets of the Strategic Plan**

I noted that the Institute under its 2014-2019 Strategic Plan planned to develop and deliver certificate and diploma courses for skilled technicians in petroleum upstream and downstream operations, mechanical and electrical maintenance, instrument maintenance

and other relevant disciplines. The Petroleum institute had planned to start graduating at least 224 students by 2018/19 annually in the five major disciplines above.

Review of the Institute Student enrolment records however revealed that the Institute currently offers three programs instead of the five with only 34 (15.2%) students in the final year instead of the projected 224.

This implies that the Institute will graduate 190 students less than what it had planned for 2018/2019 academic year and in the circumstances, its strategic objectives may not be achieved.

In response management explained that the student enrolment at the Institute has been intermittent overtime due to challenges like lack of a sustainable funding mechanism, Governance and leadership challenges and delays in the implementation of the Albertine Region Sustainable Development Project (ARSDP).

I advised management to engage with relevant stake holders with a view to redirect the Institute and acquisition of sustainable funding.

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 Uganda Institute of Petroleum.

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 Institute's ability to continue delivering its mandate, disclosing, as applicable, matters related to affecting the delivery of the mandate of the Uganda Petroleum Institute, 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 Institute'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 Institute'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 Institute'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 Uganda Institute of Petroleum 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:

Except for the matters raised in the compliance with legislation section below, and whose effect has been considered in forming my opinion on the financial statements, 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.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

The material findings in respect of the compliance criteria for the applicable subject matters are as follows;

- **Inadequate Funding for the Library Function**

I noted that contrary to regulation 4 of the Universities and Other Tertiary Institutions (institutional standards) regulations requirement of allocating at least 10% of the approved budget to library and research activities, the University allocated only UGX.118,000,000 representing 1.3% of the total budget of UGX.9,000,000,000.

I also carried out physical inspection of the Institute Library and noted that contrary to regulation 11 (1) which requires library premises to provide adequate space and security conducive to study and research with suitable environmental conditions for library staff and users, including persons with disabilities, the Library is located in the basement of the administration block with poor lighting and ventilation and has to be constantly illuminated by electricity and supported by air conditioners, hence unusable in cases of power outage. Further, the Library has only one door without any windows and this puts students' lives to risks in case of fire outbreak or any other emergencies.

Inadequate budget allocation to the library hinders the update and purchase of new information materials for the Institute, limiting the students' opportunity to access up to date quality study and research materials.

In response management explained that the current budgetary provision is not sufficient to meet all the pressing needs of the Institute which include library infrastructure and equipment. Management added that they opted to use the online virtual library as a complementary interim measure and the process of procurement of a contractor for selected infrastructure including a modern library together with the information center had commenced.

I await the outcomes of efforts being undertaken.

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

John F.S. Muwanga

AUDITOR GENERAL

13th December, 2018

