REPUBLIC OF GHANA

Our Vision

To be one of the leading Supreme Audit Institutions in the world, delivering professional, excellent, and cost effective auditing services

COMPREHENSIVE AUDIT REPORT ON THE AUDIT OF UNIFIED PETROLEUM PRICE FUND FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2012

This report has been prepared under Section 11 of the Audit Service Act, 2000 for presentation to Parliament in accordance with Section 20 of the Act.

Richard Quartey
Auditor-General
Ghana Audit Service
21 August 2014

The study team comprised:
Moses Bedi, Julius Akwensie, Emily Bouadoo and Sampson Osei Boadu under the supervision of Yaw Agyei Sifah, Deputy Auditor General

This report can be found on the Ghana Audit Service *website at www.ghaudit.org*

For further information about the Ghana Audit Service on this report, please contact:

The Director, Communication Unit
Ghana Audit Service
Headquarters
Post Office Box MB 96, Accra.
Tel: 0302 664928/29/20
Fax: 0302 662493/675496
E-mail: info@ghaudit.org
Location: Ministries Block 'O'

TRANSMITTAL LETTER

My Ref. No. AG01/109/Vol.2/77

Office of the Auditor
General
Ministries Block O
P.O. Box M96
Accra

Tel. (0302) 662493
Fax (0302) 662493

21 August 2014

Dear Hon. Speaker,

COMPREHENSIVE AUDIT REPORT ON THE AUDIT OF
UNIFIED PETROLEUM PRICE FUND
FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2012

I have the honour to submit to you the sixth of six audit reports on Multi Donor Budgetary Support Programmme (MDBSP) for the period 2010 to 2012. This comprehensive audit report is on the audit of the Unified Petroleum Price Fund and was carried out in accordance with my mandate under Section 187 (2) of the 1992 Constitution of Ghana and Section 13(e) of the Audit Service Act, which requires me to carry out performance audits.

2. The Fund was selected under one of the considerations for the audit of selected flows – *Volume, Budget recording and Expenditure of Internally Generated Funds (IGFs).* The purpose of the audit was to assess how the resources collected are channelled into the Fund and the subsequent disbursements from the Fund.

3. We found that UPPF has the appropriate governance structure in place for its operation, except that it has not provided for inclusion in the structure of Bulk Distribution Companies which are now involved in the supply, storage and distribution chain. We also found that UPPF's operating cost was increasing as a result of the non-operation of BOST's depots and distribution channels, which has resulted in abandoning the zoning system for lifting petroleum products.

4. We have made recommendations to help improve the system to ensure that UPPF achieves value for money in its operations.

5. I trust that this report will meet the approval of parliament.

Yours faithfully,

RICHARD Q. QUARTEY
AUDITOR-GENERAL

THE RIGHT HON. SPEAKER
OFFICE OF PARLIAMENT
PARLIAMENT HOUSE
ACCRA

List of acronyms

Acronym	Description
APD	Accra Plains Depot
ATOU	Association of Tankers Owners Union
BDCs	Bulk Distribution Companies
BNI	Bureau of National Investigations
BOST	Bulk Oil Storage and Transport
BRV	Bulk Road Vehicles
DPs	Development Partners
GAS	Ghana Audit Service
GRA	Ghana Revenue Authority
INTOSAI	International Organisation of Supreme Audit Institutions
MoEP	Ministry of Energy and Petroleum
NPA	National Petroleum Authority
OMCs	Oil Marketing Companies
TOR	Tema Oil Refinery
ToR	Terms of Reference
UPPF	Unified Petroleum Price Fund
VLTC	Volta Lake Transport Company

COMPREHENSIVE AUDIT REPORT ON THE AUDIT OF
UNIFIED PETROLEUM PRICE FUND
FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2012

Introduction

The Unified Petroleum Price Fund (UPPF) was established by the National Petroleum Authority Act 2005, Act 691 which has provided for the object, sources of inflows and utilisation of the Fund, among others.

Objects of the Fund

2. The objects of the Fund are to:

   i. ensure the regular supply of petroleum products to all parts of the country

   ii. ensure that prices of petroleum products include an element that represents the estimated cost of distribution, and

   iii. achieve an efficient petroleum products distribution system.

Sources of money

3. The sources of money for the Fund are stated by the Act as:

   i. moneys paid by Oil Marketing Companies (OMCs) that operated below the equalisation point

   ii. investment income, and

   iii. any other money that the Ministry with the approval of Parliament may determine.

Reasons for the audit

4. The audit of the Unified Petroleum Price Fund (UPPF) for the period 1 January 2010 to 31 December 2012 was carried out in accordance with the statutory mandate of the Auditor-General in Article 187(2) of the 1992

Constitution of Ghana and Section 11(1) of the Audit Service Act, 2000, Act 584. Section 75(6) of the National Petroleum Authority Act, 2005, Act 691 also permits the Auditor-General to carry out such technical audits of the Fund.

5. The audit was also conducted in compliance with the Terms of Reference (ToR) agreed with the Development Partners (DPs) under the Memorandum of Agreement signed with Ghana Audit Service (GAS) and also in accordance with the Performance Framework Agreement signed with Ministry of Finance.

Objectives of the audit

2. The audit involved a comprehensive auditing approach: systems and financial audit and value for money audit. The objectives for the approaches were as follows:

Systems and Financial audit

- Evaluate the internal control systems and structures of the operations of the fund to assess risk, and identify reportable conditions including material internal control weaknesses that impact on the implementation of the objectives
- Provide reasonable assurance that funds have been generated and utilized for planned purposes and that reporting requirements of the Companies Code 1963 (Act 179) and the National Petroleum Authority Act, 2005 Act 691 have been fulfilled
- Express an audit opinion on whether proper books of accounts have been kept and the financial statements of the fund within the period 2010-2012 give a true and fair view of the state of affairs of the Fund.

Value for Money Audit

Assess how the program, function and management systems and procedures of the fund as set out by law has economically, efficiently and effectively performed in the employment of available resources during 2010-2012.

Purpose and scope of audit

6. The Unified Petroleum Price Fund is one of the statutory funds in Ghana and the purpose of the audit was to give Development Partners a better understanding of how resources are collected and channelled into the Fund and from the Fund to the recipient institutions, the basis for making disbursement and how the Fund is to be utilised and how they are actually utilised by the recipient institutions.

7. The audit covered:

   i. an evaluation of the internal control systems and structures of the Fund

   ii. assessment of how the programme, function and management systems and procedures of the Fund as set out by the NPA Act had economically, efficiently and effectively performed in the employment of available resources during the period

   iii. provision of reasonable assurance that funds had been generated and utilised for planned purposes, and

   iv. compliance with the reporting requirements of the NPA Act.

Methodology

8. We used the risk-based audit approach in the execution of the audit. The risk-based approach involved an assessment of risk and their possible

impact on operations and financial statements of the Fund, including management action to mitigate risk.

9. We evaluated the functioning of management systems that had been put in place to ensure the smooth running of operations for the purpose of achieving the objectives of the Fund. We also assessed the controls established by Management to assure the production of financial statements that are free from material misstatements and errors.

Sources of information

10. Information and documents examined during the audit were provided by the secretariat of the Unified Petroleum Price Fund. These included financial and other administrative records like correspondence and minutes of management committee meetings. We interviewed staff, the Coordinator of the Fund and depot managers of Bulk Oil Storage and Transport (BOST) and carried out physical inspection of facilities at these depots.

11. While examining the documents, we further observed related processes and procedures carried out at the depots and retail outlets as far as these related to transportation and delivery of products.

System description

12. BOST has the mandate to ensure national fuel availability, distribution and transmission of products in a safe, efficient and cost effective manner. This is to enable petroleum products to be made available for OMCs to lift to outlets across the country. BOST achieves this mandate by operating storage depots and transportation/transmission facilities all over the country. The UPPF is only responsible for overseeing transportation of products from the storage depots to other depots and retail outlets within the country. The Fund

thus relies heavily on functioning of the storage and transportation facilities to ensure the regular supply of petroleum to all parts of the country.

13. The Fund also relies on the functioning of these facilities to operate its zoning system. The system ensures that the Fund achieves a petroleum products distribution system which is efficient as required by its third mandate.

14. To ensure regular supply of petroleum to all parts of the country, the products must be available at all times especially in storage depots. OMCs finance the cost of transporting petroleum products to various retail outlets in the country. Ten days after the end of the month, OMCs submit returns stating total margins collected less total freight costs for transporting products to outlets as evidenced by the required delivery documentation.

15. The freight costs are computed using pre-determined rates per kilometre multiplied by total volumes lifted. For this purpose, the regions are zoned and outlets within a zone are given number of kilometres depending on how far these zones are from the prescribed loading depot. OMCs are mandated to lift products from the nearest depot to a distribution outlet for the sake of efficiency and economy. The distances were fixed using the odometre of vehicles taking into consideration routes agreed with the Transport Owners Union (TOU).

16. Disbursements from the Fund are made to an OMC if it operated beyond the equalisation point. This is the excess of total freight costs of that OMC over the total UPPF margin collected from petroleum products sold at the end of the period. The margin was calculated based on the capital cost of a vehicle plus fixed and variable costs of operating the vehicle and added to the

ex-pump price of the products. A schedule of margins used currently is attached as Appendix B.

17. The monthly returns submitted by the OMCs show product volumes lifted and transported from the various depots to retail outlets within the country and evidenced by invoices, and in the case of the northern sector, stamped Bureau of National Investigation (BNI) forms.

18. The returns also show volumes sold and the margin thereon and net amount recoverable by the OMC from the UPPF if it operates beyond the equalisation point. The returns are verified by officials of the Fund before they are approved by the Management Committee for payment or recovery. Debit notes or credit notes are sent to the OMCs as the case may be.

19. As required by the Act, the UPPF maintains a fund into which it receives monies from OMCs and disburses monies to them based on the approved returns. To achieve its objects, the Fund has put in place controls to ensure monitoring of distribution activities of OMCs, depot operators including Bulk Distribution Companies (BDCs) and transporters. The controls also cover processing of documents for payment, recording and reporting.

20. The control system ensures that products lifted are actually delivered at the designated outlets. It also ensures that UPPF pays to or receives the right freight from the OMCs.

Satellite tracking device

21. At the time of the audit, the Fund was implementing a satellite tracking system to strengthen controls on vehicles conveying products from depots to retail outlets. The objective was to ensure that products were not diverted through unapproved routes.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

i. The performance of the Fund had declined over the three year period 2010-2012. In 2009, the percentage of Freight Costs to Freight Income was 86.13%. The Fund reported a percentage of 110.56% in 2012 meaning freight costs exceeded freight income by 10.56%. Also, revenue from Management and other fees increased from GH¢421,218 in 2010 to GH¢1,995,772 in 2012, which aided performance.

   The Management Committee should ensure that products are not lifted from across zones by OMCs.

ii. The yield on investments by the Fund had improved over the three years from the 2009 figure of 12.78% to 27.48% although actual amounts invested had reduced.

   The Management Committee must ensure that the Fund strives to generate surpluses in order to increase invested funds and expand the investment portfolio.

iii. The Fund's liquidity position worsened from a 5.55 accounts payable cover in 2009 to 1.19 in 2012. This means that accounts receivables plus investments and bank balances could barely pay short-term debts.

   We noted that management action on operating performance would improve the liquidity position of the Fund and urged management to intensify effort.

iv. The pipelines and storage depots of BOST were not in operation at the time of the audit, thereby escalating total transportation costs.

The Fund in collaboration with the Ministry of Energy and Petroleum should engage the NPA, BOST, BDCs, OMCs and other stakeholders such as Volta Lake Transport Corporation to address the storage and distribution challenges. Addressing the distribution bottlenecks would also increase the profitability of the Fund.

v. The NPA Act provided for a five member Management Committee for the Fund when it was established in 2005.

Expand governance structure of the Fund to take account of the introduction of BDCs into the supply storage and distribution chain.

vi. The financing arrangements of the Fund are adequate and the Fund did not require funding from central government to be able to operate.

Ensure that OMCs submit returns on time and that monies due the Fund are collected promptly. Management must be more aggressive in investing surplus funds to ensure that the Fund earns more income in future.

vii. The Fund had put in place a zoning system where products were lifted from the nearest storage depots to retail outlets which ensured efficiency and economy of operations. It relied heavily on BOST's depots and distribution channels to operate the system. We found at the time of the audit that these depots and distribution channels were not in operation.

MoEP and the NPA, BOST, BDCs, OMCs and National Security should engage themselves to address the issues. Additionally, the Ministry of Transport should be consulted to address issues concerning operation of barges on the Volta Lake.

viii. The UPPF failed to recover an amount of GH¢4,720,000 which has been pending since 2008.

The Fund Coordinator must pursue the recovery of the overdue debt from the sector Ministry.

DETAILS OF FINDINGS AND RECOMMENDATIONS

Operating and Financial Performance

22. We noted that performance of the Fund had declined over the three year period (2010-2012). In 2009, the percentage of Freight Costs to Freight Income was 86.13%. In 2010, 2011 and 2012 the percentage deteriorated progressively to 92.79%, 103.24% and 110.56% respectively. This meant that freight costs exceeded freight income in 2011 and 2012. Table 1 shows the situation over the four year period (2009-2012).

Table 1: Operating Performance of the UPPF 2009-2012

	2009		2010		2011		2012	
	GH¢'000	%	GH¢'000	%	GH¢'000	%	GH¢'000	%
Freight Income	109,658	100.00	137,269	100.00	152,510	100.00	180,086	100.00
Freight Costs	94,450	86.13	127,369	92.79	157,447	103.24	199,105	110.56
Net Operating Income	*15,208*	*13.87*	*9,900*	*7.21*	*(4,936)*	*(3.24)*	*(19,018)*	*(10.56)*

Source: UPPF Financial Statements – 2009, 2010 to 2012

23. In reference to Table 2, apart from a surplus of GH¢8,669,124 in 2010, the Fund posted deficits of GH¢9,517,362 and GH¢26,800,420 respectively during 2011 and 2012, mainly due to poor operating performance. In our opinion, the situation is the result of total freight costs exceeding total freight income.

24. The effect of this situation is that the Fund found it difficult to meet its obligations to the OMCs and other creditors. The balance on its Accounts Payable had risen from GH¢8,614,043 in 2011 to GH¢15,231,934 in 2012, an increase of 76.8%. The Fund had as a result, reduced investments to meet creditors' demand for payment.

25. If the current situation continues, the Fund would be unable to meet its obligations when they become due, thereby threatening the sustainability of the Fund. Table 2 shows the overall financial performance of the Fund after management fees, investment income, levies and charges and office administration overheads.

Table 2: Financial Performance of the UPPF 2010-2012

	2010	2011	2012
	GH¢'000	GH¢'000	GH¢'000
Net operating income	9,900	(4,936)	(19,018)
Management & other fees	421	786	1,996
Investment income	6,144	4,012	2,237
Total income	16,465	(138)	(14,785)
Levies and charges	(7,407)	(8,698)	(10,580)
Administration & general overheads	(389)	(681)	(1,435)
Surplus/(Deficit)	8,669	(9,517)	(26,800)

Source: UPPF Financial Statements 2010/11/12

26. We noted that administration and general overheads were relatively low (less than 1% of Fund Income) over the three years. The 75% increase over the 2010 figure in 2011 was due mainly to an 82.6% rise in expenses on wages and salaries. Similarly, the 111% increase in 2012 over 2011 was the result of a 46.9% increase in expenses on wages and salaries and provision for depreciation of newly acquired vehicles of GH¢98,000.00.

27. We also found that the Management Committee had increased the UPPF margin built into the ex-pump price of white products by 30% from GH¢5.30 to GH¢6.90 per litre in February 2013 to make the Fund self sustaining. According to the Chairman of the Committee, the Fund should return to profitability from 2013 with the increase.

28. Another important measure that the Management Committee should use to reverse the poor performance is ensuring that products are not lifted

from across zones by OMCs; a situation that increases total freight costs to the disadvantage of the Fund and necessitating price increases.

29. Management responded that in 2011 and 2012, it could not increase the UPPF margin to reflect increased transportation costs. This was the result of pressure from stakeholders to freeze increases in the margin to avoid increase in the price of petroleum products. It said surpluses recorded in previous years could absorb the deficits recorded in 2011 and 2012.

Investment performance

30. Section 67(1d) of NPA Act permits the Management Committee to invest, with the approval of the sector minister, monies of the Fund in safe securities that it considered financially beneficial to the UPPF.

31. We noted that the Fund invested in Fixed Deposits over the years. Table 3 shows total monies invested over the three years period by the Committee and the corresponding returns.

Table 3: Total investments 2010-2012

	2010	2011	2012
	GH¢’000	GH¢’000	GH¢’000
Total moneys invested	32,161	28,043	8,140
Annual returns	6,144	4,012	2,237
% Yield	19.1	14.3	27.5

Source: UPPF Financial Statements 2010/11/12

32. The yield on investments made by the Fund had improved over the three years from the 2010 figure of 19.1% to 27.5% although actual amounts invested had reduced. The rate of return on investments was low because the Fund invested in a low risk portfolio.

33. Management stated that due to the recurring nature of its expenditure, it could not invest in long term instruments. It is satisfied with its current

fixed deposit investment policy which is made at rates negotiated at normally 2% above prevailing Treasury Bill rates and less risky.

Liquidity

34. The Fund's liquidity position had decreased from a 5.55 accounts payable cover in 2009 to 1.17 in 2012. This means that accounts receivable plus short-term investments and bank balances could barely pay short-term debts in 2012. Table 4 shows summaries of the position over the three years.

Table 4: Summary of liquidity position of the UPPF

	2009 GH¢	2010 GH¢	2011 GH¢	2012 GH¢
Accounts receivable	20,124	18,408	9,313	8,774
Investments, Cash & Bank balances	23,695	35,357	28,729	9,136
Total	43,819	53,765	38,042	17,910
Accounts payable	7,893	14,514	8,661	15,273
Liquidity ratio	5.55	3.70	4.39	1.17

Source: UPPF Financial Statements 2010/11/12

35. Continuous fall in the liquidity ratio could lead to problems for the Fund, making it difficult for it to meet its obligations to OMCs and other creditors. Management action to reverse distribution challenges would improve operating performance and by extension, the liquidity position of the Fund.

36. Management stated that it did not have outstanding debts which were generally over a month and disagreed that the falling liquidity ratio was the result of distribution challenges.

Ability to deliver on primary mandate

37. The primary mandate of the Fund is to:

i. ensure the regular supply of petroleum to all parts of the country

ii. ensure that prices of petroleum products include an element that represents the estimated cost of distribution, and

iii. achieve a petroleum products distribution system which is efficient.

38. In our view, the Fund did not have the capability of delivering on the third mandate above because of the distribution challenges below:

a. Inspection during the audit in August, 2013 revealed that the Akosombo, Mame Water and Buipe depots were not in operation. Figure 1 shows the loading points at the Mame Water depot standing idle.

b. We also found that the Kumasi depot was not working. The depot manager however explained to the audit team that the depot was not working because it was under maintenance.

Figure 1: Mame Water depot in the Easter Region standing idle.

Source: Audit Team *Date Taken: 08/11/2013*

Figure 2: Kumasi Depot in the Ashanti Region

Source: Audit Team *Date Taken: 13/11/2013*

c. Apart from Kumasi, the other three depots visited were idle because they rely on the Accra Plains Depot (APD) for supply of products.

d. The APD was not fully operational at the time of the audit because BOST was not using the tanks and few BDCs had leased them for their use.

e. Stocks (including strategic stock) held by BOST had been exhausted during the energy crisis experienced by the country in 2006 and were not replaced.

39. The UPPF responded that the BDCs were not using the place because they were unable to reconcile accounts with BOST for payment to be made by BOST to them. They stated that the NPA was assisting the MoEP to reconcile the accounts for an amicable settlement to be reached.

40. Apart from the APD not functioning, we also found that part of the pipelines that transport petroleum products to Mame Water and Akosombo had been damaged by people who siphon petroleum products for personal gain.

41. Another important mode for BOST to move large volumes of products over long distances is the use of barges pulled by tugboats along the Volta Lake. We noted that BOST had invested in the construction of two new barges, in addition to the old one, all capable of moving a total of 3.30 million litres of products at a go on the Volta Lake.

42. We however found that the barges were lying idle at the Akosombo port which is owned by the Volta Lake Transport Company Limited (VLTC). Our enquiries at VLTC revealed that the barges were lying idle at the port because of an impasse between the VLTC and BOST over operation of the barges along the lake. The Management of VLTC insisted that as owners of the port, the barges and landing facilities built by the NPA on the Lake should be handed over to them to operate.

43. The situation accounted partially for the inability of BOST to transport petroleum products to the Buipe depot in the northern part of the country. The effect of these distribution challenges was that the zoning system instituted by the UPPF was rendered inoperable resulting in products being lifted mostly from the Tema zone to retail outlets in other parts of the country.

44. We also found that the country had no strategic stocks to shore up supply in difficult times. The BDCs which are private entities could not be

relied upon to hold strategic stocks because this might not be in their best interests financially.

45. The overall effect was that the operations were not efficient and economical because it led to payment of higher freight to OMCs as a result of the longer journeys undertaken. In our opinion, it would be unfair to pass on the cost of distribution inefficiencies to consumers by increasing the UPPF margin to offset increases in freight costs resulting from a breakdown in the zoning system.

46. We made the following recommendations:

a) The Ministry, NPA, BOST and UPPF should ensure that the Mame Water, Akosombo and Buipe depots and the oil pipeline between Tema and Akosombo becomes operational to reduce the high cost of transporting products to retail outlets. MoEP and Ministry of Transport should dialogue to resolve the issue of the idle barges and landing facility along the Volta Lake as soon as possible, and

b) the Ministry should liaise with the BDCs and make it possible for BOST to hold some minimum amount of strategic stock which could be used during periods when importation of petroleum products is disrupted.

47. Management responded that the responsibility of moving products from one depot to the other is that of BOST and that it had no control in the resolution of the challenges including the impasse with the VLTC. It further stated that in the absence of sufficient products at APD and Akosombo, BOST was unable to move products to Buipe resulting in products being lifted from Tema.

48. It added that there is regular supply of petroleum products throughout the country in spite of the numerous distribution bottlenecks and that the private sector is investing in Tank Farms across the country to help address some of the challenges.

Adequacy of controls

49. Our review of documents of the UPPF, BDCs and OMCs and inspection of depots revealed that the Fund had reliable control systems that monitor delivery of products lifted from depots and vetting of returns submitted by OMCs. For instance the UPPF representatives at the depots certify and endorse the delivery forms after checking the waybills presented by the OMC. This agrees with the order placed with the BDCs and certified by officials of the GRA (Customs Division).

50. We noticed that generally, products lifted from depots arrived at the designated outlets with a few exceptions for which the Coordinator raised the prescribed penalties against the OMCs for diversion.

51. To ascertain how widespread the practice of diversion was, the audit team traced a number of invoices from depots and BDCs to retail outlets within the country. Out of 46 outlets visited nationwide, we found that all of them had their products delivered. The list of outlets visited is shown as Appendix C.

52. We also found that the outlets had records to confirm the receipt and sale of products. Good record-keeping enables UPPF and OMCs to effectively monitor products delivered within a particular period and helps ensure accurate claim computation.

Efficiency and effectiveness of governance structure

53. Section 66 (1) of the NPA Act, 2005 provided for the establishment of a five member Management Committee for the Fund made up of:

i. a chairperson who is also the Chief Executive of the NPA
ii. the industry coordinator of OMCs
iii. a representative of the Association of Tanker Owners Union (ATOU)
iv. a representative of the BOST, and
v. the Fund Coordinator.

54. We noted that the Committee had been established and constituted by the Fund to govern its affairs as required by the Act. Section 74 (1) of the Act also required the Board to appoint a person with managerial experience in the petroleum downstream industry as the Fund Coordinator. Again, we noted that the person appointed met this requirement, having previously worked in the industry for 12 years.

55. In our opinion, the Act established the above management structure when the Tema Oil Refinery (TOR) was solely responsible for importing both processed and unprocessed petroleum products into the country and when BOST was fully in operation. It is our view that the Act sought to include relevant stakeholders in the industry as members of the Committee to enable the Fund achieve its primary mandate.

56. We found that the industry has now expanded to include BDCs which now import finished products into the country. These are private entities licensed to operate which, in most cases, have their own storage and loading facilities. A full list of those currently operating is attached as Appendix C.

57. They are part of the supply, storage and delivery chain and ought to have representation on the Committee. Their presence on it would incorporate

their concerns in decision-making and assist the Management Committee to deal with supply, storage and distribution challenges. We thus recommended their inclusion on the Board.

58. Management said it was not against the recommendation but stated that the Tema Oil Refinery (TOR) which the BDCs have replaced was not a member of the committee. It is prudent to amend section 66 of the NPA Act to include the BDCs on the Management Committee.

Adequacy of financing structures

59. The sources of money for the Fund are:

i. moneys paid by Oil Marketing Companies (OMC) which is the difference between the UPPF margin in the price build-up and the actual freight cost of each OMC, if that OMC operates below the equalization point

ii. investment income, and

iii. any other money that the Ministry with the approval of Parliament may determine.

60. By the UPPF arrangements, the OMCs collect the transporters margin which is built into the ex-pump price at the point of sale to customers. The total margins collected are based on total products lifted and sold during the month. The difference between aggregate margins collected less aggregate freight costs is net revenue to the UPPF.

61. Apart from the net revenues that were generated from operations, management invested surplus funds in Fixed Deposits. Table 3 provides details of monies invested with returns earned on these investments during the three years.

62. Overall, we found that these financing arrangements are adequate and the Fund does not require funding from central government. However, management must continue to ensure that OMCs submit returns on time and that monies due the Fund are paid promptly.

Documentation of system, procedures and policies

63. We found that reasonable documentation of the system, procedures and policies of the Fund exist although these are not harmonized into a single document. For example, the document: "Guidelines for the Management of the UPPF" provides information on the Operating Procedures of the Fund detailing its aims, how it operates, the vetting process and procedures. Another document provides penalties for the infringement of these operating rules.

64. We noted that the Fund prepares annual budgets and operates a budgetary control system through which actual performance was reported and compared to budget. Variances were computed in monetary and percentage terms, investigated and corrective action initiated.

Reporting requirements

65. Section 72(1) of the Act requires the Management Committee to submit quarterly reports to the Board. Subsection 2 requires the Board to submit the report to the Minister within 14 days after receipt.

66. We found that the Management Committee submitted quarterly reports to the Board for submission to the Minister of Energy and Petroleum. The Board in turn complied with the requirement in the Act to submit these reports to the Minister.

67. Section 71(1) also requires OMCs to submit to the Coordinator a detailed report on monthly sales analysis based on locations supported by delivery notes not later than the tenth day following the month to which a report relates.

68. We noted that the OMCs generally complied with the Act. The Fund enforced the requirement strictly by imposing penalties for delayed returns in addition to delaying payments due to OMCs as stipulated by section 78(2) of the Act.

69. The Financial Administration Act 2003 (Act 654) section 41 (1) requires the Fund to submit accounts for audit to the Auditor-General after the end of the financial year. Section 76(2) of the NPA Act also requires the Management Committee to submit the accounts of the Fund to the Auditor-General for audit within three months after the end of the financial year.

70. The Management Committee had submitted accounts to the Auditor-General for the past three years although the Committee did not meet the requirement to submit the accounts three month after the end of the year. The financial statements for 2010 and 2011 were signed by the directors on 26/4/2012 and 14/11/2012 respectively. As at the time of the special audit, the draft financial statements for 2012 were yet to be submitted to the Auditor-General for audit.

71. Section 77(1) requires the Management Committee to submit within one month after receipt of an audit report, an annual report to the Minister covering the activities and operations of the Fund for the year to which it relates. The annual report thus includes the report of the Auditor-General.

72. We noted delays in submitting the annual report to the Minister of Energy as a result of the Management Committee having to wait for the audited accounts and the report of the Auditor-General to be included in the annual reports. The effect of this delay was that action by the Minister on pertinent issues was delayed until all three reports were received.

73. We recommended as follows:

a) the Committee should endeavour to meet the three months deadline stipulated by the Act.

b) annual financial statements should be completed and submitted to the Auditor-General by 31 March to enable it to be audited for inclusion in the annual report.

74. Management of the fund took note of our recommendations and said it would bring it to the attention of the Committee for consideration.

Auditors' comments

75. Future amendments of the law should exclude the requirement to include audited accounts in the annual report to the Minister. The audited accounts and the report of the Auditor-General could be submitted separately.

Disclosure of related party interests, relationships and transactions

76. Section 74 (b) of the Act states among other things that the Coordinator shall not perform any function related to the distribution of petroleum products in the petroleum downstream industry.

77. We did not find any infraction of the Act by the Coordinator. However, there was no policy for staff of the Fund not to do same or at least to disclose their interest in and relationship with OMCs, BDCs and other stakeholders with which the Fund does business.

78. We recommended that Management should introduce a policy for staff of the Fund to disclose any interest or working relationship with entities with which the Fund transacts business to avoid conflict of interest situations.

79. Management said the NPA is in the process of drafting a code of conduct for all staff including those of the UPPF which will address the issues.

Indebtedness of the Fund

80. Table 5 provides a summary of the indebtedness of the Fund for the three years 2010-2012.

Table 5: Indebtedness of the Fund

	2012	2011	2010
	GH¢	GH¢	GH¢
Accounts Payable	15,231,934	8,614,043	14,464,712
Sundry Accruals	31,234	47,325	49,699
Total	15,263,168	8,661,368	14,514,411

Source: UPPF Financial Statements 2010/11/12

81. We noted that the Fund's indebtedness had increased by 76% from GH¢8,661,368 in 2011to GH¢15,263,168 in 2012. In 2010 the indebtedness of the Fund was however, GH¢14,514,411. Our analysis of these figures indicated that average age of the debt owed OMCs is two months which is within processing cycle for claims from the OMCs.

Failure by UPPF to collect indebtedness

82. We noted that the Fund paid GH¢4,720,000 to the Ministry of Energy and Petroleum in 2008. The payment, we understand, was made to subsidise consumption following an increment in the ex-pump price of petroleum products. The Ministry has not made an attempt to settle the amount

outstanding at 31 December 2012 while no demand has also been made on it for settlement.

83. The reason for the delay in payment, in our opinion, is due to failure of the Fund to demand payment from the Ministry. The Fund had been denied use of the money for the past four years and might lose the amount if the Ministry makes no attempt to pay. The debt could therefore become bad and irrecoverable. The Fund had also lost the opportunity to earn interest it could have gained if the money had been invested in a financial instrument.

84. We recommended that the Coordinator makes efforts to recover the overdue debt from the Ministry.

85. The Chairman of the Committee responded that efforts were being made to recover the amount due from the Ministry. He said the Fund, through the NPA, has constantly pursued the MoEP and MoFEP to pay and hope it could be paid when government begins to pay outstanding under-recoveries.

Outstanding commitments

86. The only commitment outstanding at the end of the year 2012 was a legal claim initiated on 27 January 2012 against the Fund at the Fast Track High Court by a transporter for GH¢15,521.42. The claim is in respect of freight costs on products which the plaintiff claimed to have delivered to a retail outlet in Tepa Abotoase in the Jasikan District of the Volta Region. The UPPF is contesting the case in court.

87. No provision had been made in the financial statements for the amount being claimed by the transporter.

Follow up on previous audit recommendations

88. The Management Letters issued for 2010 and 2011 by Kwame Asante and Associates (Auditors of the Fund appointed by the Auditor-General) contained some outstanding issues and recommendations for the two year period. The status of implementation of the recommendations as per our follow up is shown in Tables 6 and 7 respectively.

Table 6: Follow-up on audit findings – 2010

Audit Findings	Recommendations	Action taken	Update
The Accounting Software was duplicating entries.	Change of software	Software has been changed from Dataflow to SAP Business One.	No duplicated entries seen, however 2013 audit will provide a better assessment of entries for a full year.
Short-term investments with Access Bank wrongly classified as cash and bank balance	Correction of wrong entry.	Correction effected. Short-term investments corrected	No further action required
Monies for Kero Fund were being deposited into the GT Bank account.	Monies for Kero Fund should be separated and deposited in a separate account.	Action has not been taken.	A separate account is considered unnecessary because monies are not paid separately by the OMCs. These monies are collected and paid to the Ministry. Operation of the account will result in bank charges being charged by the bank.
Debit and credit notes were not pre-numbered making referencing difficult.	Pre-numbering of the debit and credit notes	Debit and credit notes are now pre-numbered.	No further action required
Wrongful transfer of GH¢63,137.65 from the GT Bank Account in March	Ensure that the money was transferred back to account	Transfer corrected on 15/6/2010	
Failure by GT Bank to credit 2 cheques amounting to GH¢55,278.71 to account since August 2010	Ensure that amount involved was credited to the account	Credited on 20/4/11	No further action required

Source: Management letter of Kwame Asante & Associates 2010

Table 7: Follow-up on audit findings - 2011

Audit Findings	Recommendations	Action taken	Update
Expenditure of GH¢49,062 on BRV satellite tracking system written off	Expenditure should be capitalised as an asset and depreciated	No action taken	The UPPF does not intend to capitalise
4 cheques amounting to GH¢72,686.38 were wrongly deposited to Provident Fund account instead of current account	Transfer of amount to GT Bank	Amount transferred on 8/10/12	

Source: Management letter of Kwame Asante & Associates 2011

ASSUMPTIONS

Volume of Tanker	36,000 Lts		ExCh Rate Eu/$	ExCh Rate Eu/¢
Cost of Long Haul Tractor Head +Duty	$161,160.00	€ 118,500.00	1.3600	2.25
Cost of Tanker Trailer + Duty&Charges	$123,760.00	€ 91,000.00	1.3600	2.25
Total Vehicle Costs 36000 Litres	**$284,920.00** US$		€ 209,500.00	GH¢ 471,375.00
Loan: 70% Total Vehicle Cost	**$199,444.00**	70%		
Equity: 30% Total Vehicle Cost	**$85,476.00**	30%		
Exchange Rate	1.680 GH¢/$			
Round Trips per Month	14 Round Trips			
Operational Months	11 Mths			
Weighted Average Distance per Trip	156 km			
Distance per Round Trip	312 km			
Distance Covered per Annum	48,048 km			
Volume lifted per Annum	5,544,000 Lts			
Spare Parts (% of Depreciation)	2.5% of Depreciation			
Transit Insurance (% Cost of 36000LtsPMS)	0.67% of 36000Lts PMS			
Proposed Cost of 36000LtsPMS /Trip	61,488.00 GH Cedis			
Proposed Cost of 36000LtsAGO /Trip	62,049.60 GH Cedis			
Avge Cost of 36000LtsPMS-AGO /Trip	**61,768.80** GH Cedis			
Cost of One litre PMS	1.7080 GH Cedis/Lt			
Cost of One litre AGO	1.7236 GH Cedis/Lt			
Lubes: Cost per Litre	**5.00** GH Cedis/Lt			
Tyres: Cost of one Tyre	1,500.00 GH Cedis			
No. of Tyres per set	22 Tyres			
No. of sets of Tyre per annum	1 sets			
Driver Employment & Associated Costs p.a.	30,000.00 GH Cedis			
Mate Employment & Associated Costs p.a.	8,400.00 GH Cedis			
Gross Profit Margin on Equity Portion	20%			

FINANCING COSTS CALCULATIONS - January 2012

(Interest calculated on Average cost per year)

Parameters

Cost of new BRV			476,100.53
Financing Plan			
Loan	70%	333,270.37	
Equity	30%	142,830.16	
Total Cost			476,100.53
Depreciation Cost	6yrs	Straight line	
Interest Rate (Base Rate)	19.825%	>>Avg Base Rate of Top Ten Banks	

Financing Cost Breakdown:

Year	Cost @ Start of Year	Cost @ End of Year	Average Cost per Year	Interest @ 19.825% pa
1	333,270.37	277,725.31	305,497.84	60,564.95
2	277,725.31	222,180.25	249,952.78	49,553.14
3	222,180.25	166,635.19	194,407.72	38,541.33
4	166,635.19	111,090.12	138,862.66	27,529.52
5	111,090.12	55,545.06	83,317.59	16,517.71
6	55,545.06	-	27,772.53	5,505.90
Average				33,035.43

Cost of new BRV		476,100.53
Interest Cost		198,212.55
Cost of new BRV (Capitalized)		**674,313.09**
Depreciation (Straight line)	6yrs	112,385.51
Total Interest Paid		198,212.55

4. List of retail outlets visited

No.	Name of outlet	Destination	Region	Remarks (Record keeping)
1.	Dukes No 1.	Apam	Central	Good record keeping
2.	Dukes No. 2	‘’		Good record keeping
3.	Star	Apam	‘’	Could not meet the manager
4.	Petrobay	Mankesim	‘’	No remark
5.	Superior	Elmina	‘’	No remark
6.	Oando	Elmina	‘’	No good records
7.	Venus	Fante-Nyankumase		No remark
9.	Wapco	Inchaban	Western	No good records
10.	Agapet	‘’	‘’	No remark
11.	Agapet	Techiman Tanoso	Brong Ahafo	‘’
12.	Grace Petroleum	Techiman Chasua	‘’	‘’
13.	Kings	‘’	‘’	‘’
14.	Jusbro Petroleum	‘’	‘’	‘’
15.	Excel	Techiman	‘’	‘’
16.	Quantum	Nkankenso	‘’	‘’
17.	Strategic	Chiraa	Brong Ahafo	‘’
18.	Benab	Chiraa	‘’	‘’
19.	Havilah	Chirra	‘’	‘’
20	UBI	Penkwase	‘’	‘’
21.	Crown	Nkawkaw	Eastern	‘’
22.	Champion Oil	‘’	‘’	‘’
23.	Unique Oil	Akyem-Sekyere	‘’	‘’
24.	Ready Oil	Ayinam	‘’	‘’

25.	AP	Ayinam	‘’	‘’
26.	Nasona	Ankaase	‘’	‘’
27.	Naagamni	Apedwa	‘’	‘’
28.	Unity Oil	Apedwa	‘’	‘’
29.	Union Oil	Suhum	‘’	Manager not available
30.	Sky Petroleum No. 2	Temale	Northern	No remark
31.	Petrobay	‘’		‘’
32.	Frimps No.2	‘’		‘’
33.	Dukes (PMS and LPG)	‘’		‘’
34.	Quantum	‘’		‘’
35.	Total	‘’		‘’
36.	GOIL	‘’		‘’
37.	Star	‘’	‘’	We could not check the invoices because they had been taken to the head office
38.	AI	‘’	G/ Accra	Good record keeping
39.	Spirits	‘’	‘’	Under renovation
40.	Universal Oil	Tefle Motorway	Volta	Good record keeping
41.	Lucky Oil	Helevi	‘’	‘’
42.	Naagamni	Dabala Junction	‘’	‘’
43.	Sephem Oil	Nogokpo	‘’	New outlet
44	Glory Oil	Viefe	‘’	Good record keeping
45.	Runel	‘’	‘’	‘’
46.	Allied Oil	Ada Junction	Greater Accra	Good Record keeping

Mission Statement

The Ghana Audit Service exists

To promote

- good governance in the areas of transparency, accountability and probity in the public financial management system of Ghana

By auditing

- to recognized international auditing standards the management of public resources

And

- reporting to Parliament