IN THE FOURTH SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC OF GHANA

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

ON THE

COMPREHENSIVE AUDIT REPORT OF THE AUDITOR-GENERAL

ON THE

AUDIT OF UNIFIED PETROLEUM PRICE FUND FOR THE PERIOD 1^{ST} JANUARY TO 31^{ST} DECEMBER 2012

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1.0 INTRODUCTION

The Comprehensive Audit Report of the Auditor-General on the Unified Petroleum Price Fund was presented to Parliament on Wednesday, 12th November, 2014, in accordance with article 187(2) and (5) of the 1992 Constitution of the Republic of Ghana.

Pursuant to Order 165(2) of the Standing Orders of the Parliament of Ghana, the Rt. Hon. Speaker referred the Report to the Public Accounts Committee (PAC) for examination and report.

2.0 PROCEDURE

2.1 To consider the Report, the Hon. Minister for Petroleum, Mr. Emmanuel Armah-Kofi Buah the former Hon. Minister for Transport, Ms. Dzifa Aku Attivor, and officials of the underlisted Ministries and Agencies appeared before the Committee as witnesses to respond to issues raised in the Auditor-General's Report and ancillary matters.

i. Ministry of Petroleum.
ii. Ministry of Transport.
iii. National Petroleum Authority (NPA).
iv. Bulk Oil Storage and Transport Company (BOST).
v. Volta Lake Transport Company (VLTC).
vi. Ghana Chamber of Bulk Oil Distributors.
vii. Oil Marketing Companies (OMCs).

2.2 On appearing before the Committee, the witnesses subscribed to the Oath of a Witness and answered questions relating to issues raised in the Auditor-General's Report, the object and functioning of their respective institutions as well as issues of general public interest.

2.3 The Deputy Auditor-General, Mr. Yaw Agyei Sifah, and a technical team from the Audit Service were also present at the Committee's sitting to assist in its deliberations.

3.0 ACKNOWLEDGMENT

The Committee is grateful to all officials who were present at the Committee's sitting to assist in its deliberations. The Committee also expresses its appreciation to the Deputy Auditor-General and his technical team for their immense assistance to the Committee throughout its deliberations on the Report.

The Committee further extends its appreciation to the German International Cooperation (GIZ) and the United States Agency for International Development (USAID) for supporting the activities of the Committee. Finally, the Committee is grateful to the media (print and electronic) for broadcasting its proceedings.

4.0 REFERENCE DOCUMENTS

The Committee made reference to the following documents during its deliberations:

a. The 1992 Constitution of the Republic of Ghana.
b. The Standing Orders of the Parliament of Ghana.
c. The Financial Administration Act, 2003(Act 654).
d. The Public Procurement Act, 2003(Act 663).
e. The Audit Service Act, 2000 (Act 584).
f. The Internal Audit Agency Act, 2003(658).
g. National Petroleum Authority Act, 2005 (Act 691).
h. The Volta River Development Act, 1961 (Act 46).

5.0 BACKGROUND

The Unified Petroleum Price Fund (UPPF) was established by the National Petroleum Authority Act, 2005 (Act 691) with the responsibility to regulate and oversee the supply and distribution of petroleum products across the country. The main objectives 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.

The main sources of money for the Fund as stated by the NPA Act are as follows:

a. moneys paid by OMCs that operate below the equalisation point (travelling below expected distance);
b. investment income; and
c. any other money that the Ministry responsible for petroleum with the approval of Parliament may determine.

BOST has the mandate to ensure national fuel availability, distribution and transmission of products in a safe, efficient and cost effective manner. BOST achieves this mandate by operating storage depots and transportation/transmission facilities all over the country. The UPPF is only responsible for unified pricing of petroleum products to ensure that prices are even throughout the country.

OMCs, on the other hand, finance the cost of transporting petroleum products to various retail outlets in the country. When OMCs deliver petroleum products below the expected distance, they are required to pay the difference, based on an agreed formula, to the Fund and this becomes what is termed as "Freight Income" to the UPPF. However, if

OMCs deliver products beyond the expected distance, UPPF in the same vein is required to pay the difference to OMCs and this is referred to as "Freight Cost".

6.0 OBJECTIVES OF THE AUDIT

The audit covered the period 1st January, 2010 to 31st December, 2012, and its objectives are as follows:

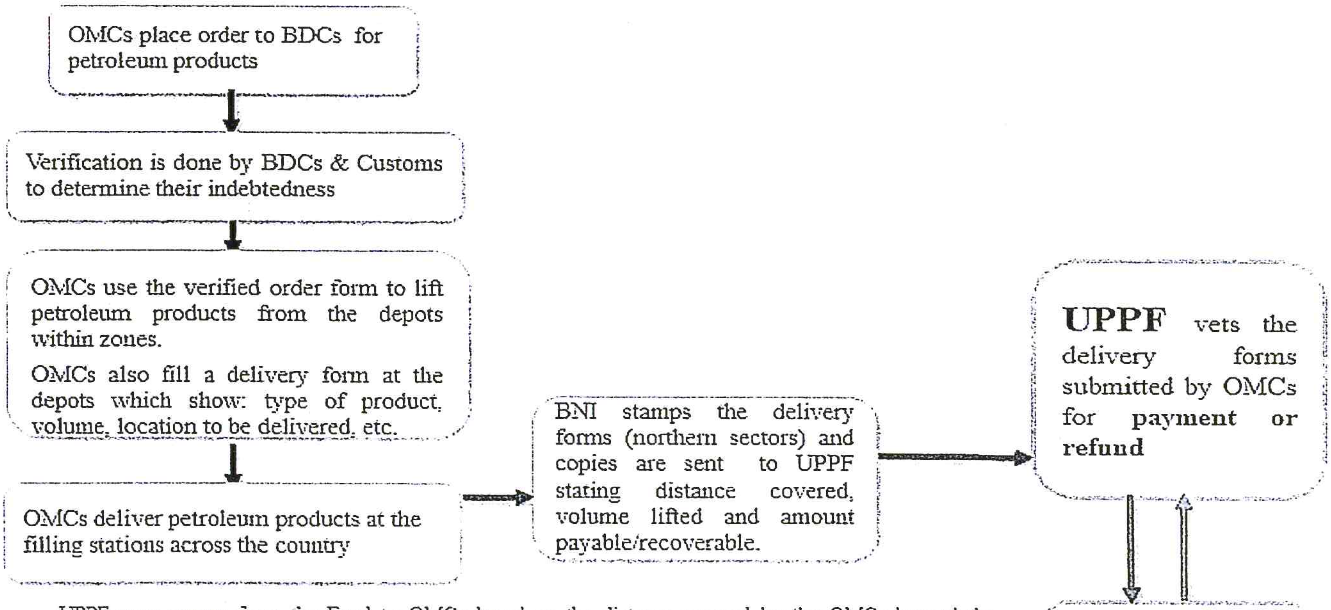
a. evaluate the internal control systems and structures of the Fund;

b. assess whether funds have actually been generated and utilised for planned purposes;

c. ensure that proper books of accounts have been kept and that the financial statements for the three years give a true and fair view of the state of affairs of the Fund; and

d. assess whether the operations and management systems of the Fund have been carried out economically, efficiently and effectively.

7.0 SYSTEM DESCRIPTION



: UPPF pays money from the Fund to OMCs based on the distance covered by the OMCs beyond the minimum point called '**Equalisation Point**'.

: UPPF receives money from the OMCs into the Fund if they cover distance below the '**Equalisation Point**'

8.0 OBSERVATIONS AND RECOMMENDATIONS

8.1 Financial Performance

The Committee observed that apart from a surplus of GH¢8,669,000.00 in year 2010, the Fund recorded deficits of GH¢9,517,000.00 and GH¢26,800,000.00 during the years 2011 and 2012, respectively. The Committee also noted that the deficit made it difficult for the Fund to meet its obligations to OMCs and other creditors. The details are shown in Table 1 below:

Table 1

Financial Performance of UPPF in the Years 2010 to 2012

	2010 GH¢ (000)	**2011** GH¢(000)	**2012** GH¢(000)
Net Operating Income	9,900.00	(4,936.00)	(19,018.00)
Management and Other Fees	421.00	786.00	1,996.00
Investment Income	6,144.00	4,012.00	2,237.00
Total Income	**16,465.00**	**(138.00)**	**(14,785.00)**
Levies and charges	(7,407.00)	(8,698.00)	(10,580.00)
Administration and General Overheads	(389.00)	(681.00)*	(1,435.00)**
Surplus/(Deficit)	**8,669.00**	**(9,517.00)**	**(26,800.00)**

Source: UPPF Financial Statements for 2010/2011/2012

* as a result of a rise in wages and salaries.
** as a result of a rise in wages and salaries and provision for depreciation of newly acquired vehicles of GH¢98,000.

Officials of NPA informed the Committee that the Fund recorded deficits in the years 2011 and 2012 due to operational challenges. They indicated that the country has been zoned into five (5) for the distribution of their products. Accra and Tema Depots distribute products to the lower portions of the Volta and Eastern Regions and parts of the Central Region. Kumasi Depot distributes to the Ashanti and Brong-Ahafo Regions, while Buipe Depot distributes to the Northern Region. The Bolgatanga Depot supplies products to the Upper East and Upper West Regions, while the Mame Water Depot supplies products to the upper part of the Volta and Western Regions and parts of the Central Region.

They explained that as a rule, the UPPF discourages cross zonal lifting of petroleum products when all zonal depots have stocks. However, in the years 2011 and 2012, OMCs operated beyond the equalisation point through the lifting of products across zones due to lack of stock in some depots. This resulted in increases in total freight cost to the Fund. The situation also resulted in the Fund's inability to meet its obligations to the OMCs and other creditors. To forestall such situations, the Ministry of Petroleum has instituted a committee to review the zonalisation policy due to several complaints from stakeholders.

To reverse the poor performance of the Fund, the Committee recommends that managers of the Fund should ensure that all zonal depots have stocks. This will help minimise cross zonal lifting of petroleum products with its resultant effect on freight cost. The Committee further urges the Ministry of Petroleum to expedite action on the review of the zoning policy to enhance service delivery.

8.2 Investment Performance

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

The Committee noted that the Fund invested in fixed deposits which were short-term and low risk in nature rather than investing in long term instruments. As a result, the rate of returns on investment was low.

Management of the Fund explained that the Fund could not invest in long-term instruments because of the recurring nature of its expenditure. They indicated that in order to ensure that funds do not lie idle in the UPPF accounts, and given the time lag between collections and payments to OMCs, funds are lodged in short-term investments to enable the UPPF earn some money from time to time to meet its payment obligations. According to the officials, this helps in avoiding situations where margins in the price build-up had to be increased due to lack of funds to meet payment obligations.

They further indicated that to maximise the yield on investments, fixed deposits invested in by UPPF are at negotiated rates, usually two percentage points above the prevailing Treasury Bill rates.

The Committee urges Management of the Fund to ensure that funds invested are easily accessible when the need arises.

8.3 Liquidity

The Committee observed that the Fund's liquidity position decreased from 5.55 accounts payable cover in year 2009 to 1.17 accounts payable cover in year 2012. By implication, UPPF's accounts receivable and short-term investments as well as bank balances could barely settle short-term debts of the Fund in year 2012. The summary of the liquidity position of the Fund from year 2009 to year 2012 is shown in Table 2.

Table 2

Summary of Liquidity Position of UPPF from the Year 2009 to the Year 2012

	2009 GH¢(000)	2010 GH¢(000)	2011 GH¢(000)	2012 GH¢(000)
Accounts Receivable	20,124	18,408	9,313	8,774
Investments, Cash and 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 for years 2010, 2011 and 2012

Officials of NPA explained that the fall in the Fund's liquidity position was mainly as a result of a decision by the Governing Board of NPA to liquidate accrued surpluses to cater for increases in freight rates. They indicated that as at 31st December, 2014, UPPF's liquidity position had improved significantly to 5.3. This was as a result of reimbursement of extra freight cost from the Primary Distribution Margin Fund when zonal depots run out of stock.

The Committee is of the opinion that a fall in UPPF's liquidity position could make it difficult for the Fund to meet its obligations to OMCs and other creditors. The Committee therefore urges Management of the Fund to ensure that challenges associated with distribution of petroleum products across the country are managed in order to improve the operating performance of the Fund and by extension, its liquidity position.

8.4 Impasse between VLTC and BOST

The Committee noted that an important mode for BOST to transport large volume of products over long distances is the use of barges pulled by tugboats along the Volta Lake. The Committee further noted that BOST had invested in the construction of two new barges, in addition to its existing ones, which are capable of moving a total of 3.30 million litres of products at a go on the Volta Lake. According to the Auditor-General, the barges were lying idle at the port because of an impasse between VLTC and BOST over the operation of the barges along the lake.

The Managing Director of VLTC informed the Committee that as provided by the Volta River Development Act, 1961 (Act 46), VLTC is the only entity allowed to commercially traverse the Volta Lake. Thus, 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.

Officials of BOST conceded to the impasse between VLTC and BOST on the operation of the barges and informed the Committee that the impasse has been resolved through a Memorandum of Understanding (MoU) between the two institutions. Per the MoU, BOST is the owner of the barges and VLTC operates the barges on behalf of BOST. BOST gets revenue for its capital expenditure and VLTC earns revenue for operating the asset.

Although the impasse has been resolved, the Committee is of the opinion that the country lost some revenue during the period that the barges were lying idle due to the fact that BOST could not transport petroleum products to the Buipe Depot in the northern part of the country. This situation rendered the UPPF's zoning system impracticable, resulting in products being lifted mostly by road from the Tema Zone to retail outlets in other parts of the country, thereby leading to increases in freight cost.

The Managing Director of BOST informed the Committee that until the barges were completed, BOST was unaware that VLTC was the sole operator on the Volta Lake. He explained that per the mandate of BOST and the name of the institution (Bulk Oil Storage and Transportation Company), BOST had the implicit understanding that it had the mandate to operate the barges on the Volta Lake. However, upon resistance by VLTC, BOST noted that it had to operate the barges in partnership with VLTC.

The Hon. Minister for Petroleum admitted that the country lost some revenue because of the impasse. He indicated that the problem was due to the fact that some of the functions of BOST and VLTC are overlapping. Thus, there is the need for a clear distinction of functions between the two institutions to avoid future occurrence of such situations.

The Committee therefore recommends that the Ministries of Petroleum and Transport should dialogue and come out with clear and distinct guidelines on the operation of barges and landing facilities along the Volta Lake.

8.5 Failure by UPPF to Collect Debts owed it

The Committee noted that in year 2008, the Fund paid an amount of GH¢4,720,000 to the Ministry of Petroleum (formerly Ministry of Energy and Petroleum) to subsidise consumption, following an increment in the ex-pump price of petroleum products. The Committee noted that up to date, the Ministry of Petroleum has not paid the debt owed the UPPF.

Management of the Fund informed the Committee that the Fund has consistently pursued the debt from the Ministry of Finance through the Ministry of Petroleum. They further indicated that they are in the process of conducting a full reconciliation of BDC's sales volumes against their outstanding under-recoveries and over-recoveries to ascertain whether all under-recoveries have been settled. After the reconciliation exercise, the excess amount available, if any, would be used to offset the debt the Ministry of Petroleum owed the Fund.

The Committee is of the view that the amount owed the Fund by the Ministry of Petroleum also contributed to the decline in the liquidity position of the Fund. The Committee therefore urges Management of the Fund to ensure that the amount is recovered and paid into the Fund's account.

8.6 Disclosure of Related Party Interests, Relationships and Transactions

Section 74 (4) (b) of the NPA Ac (Act 691) states among other things that the Coordinator of the Fund shall not perform any function related to the distribution of petroleum products in the petroleum downstream industry. Section 7 of the same Act also makes reference to Board Members with respect to disclosure of related party interests.

The Committee however noted that Act 691 is silent on disclosure of interest by staff of the Fund, neither is there a policy for UPPF staff with regard to disclosure of interest in the distribution of petroleum products and relationship with OMCs, BDCs and other stakeholders with which the Fund conducts business.

Management of the Fund informed the Committee that the NPA is in the process of drafting a Code of Conduct to guide staff of UPPF and NPA in their operations. They explained that the Code of Conduct would address issues of disclosure of related party interests, relationships and transactions between members of staff and OMCs, BDCs and other stakeholders in the petroleum industry.

The Hon. Minister for Petroleum assured the Committee that the Ministry of Petroleum would ensure the early completion of the drafting of the Code of Conduct. A follow-up conducted by the Committee revealed that the drafting of the Code of Conduct had been completed and it is being implemented.

8.7 Operation of Pipelines and Storage Depots of BOST

The Committee noted that the Kumasi Depot in the Ashanti Region and the Mame Water Depot in the Volta Region were not operational at the time of the audit. The Kumasi Depot was under maintenance while the Mame Water Depot was not functioning because the pipelines between Tema and the Mame Water Depot had been damaged by people who siphoned fuel. The depot at Akosombo was also not functional because of damaged pipelines.

The Managing Director of BOST informed the Committee that, currently, all storage depots of BOST are functioning with the exception of the Mame Water and Bolgatanga Depots. Again, the depots are not working at full capacity because of the suspension of the Zonalisation Policy which is being reviewed by the Ministry of Petroleum.

That notwithstanding, BOST has put measures in place to ensure that the Bolgatanga Depot starts functioning as soon as possible. BOST is also ensuring that the pipeline (Tema–Akosombo pipeline) connecting the Mame Water Depot to its network is repaired. In the interim, BOST sends petroleum products by tankers to Akosombo for the VLTC barges to transport to Buipe.

The Committee noted that the overall effect of the non-functional storage depots and damaged pipelines is the payment of higher freight to OMCs as a result of the longer journeys undertaken. In order not to pass on the cost of distribution inefficiencies to consumers by increasing the UPPF margin to offset increases in freight costs, the Committee recommends that:

a. BOST should ensure that the Bolgatanga and Mame Water Depots as well as the Tema–Akosombo pipelines are operational as early as possible to reduce the high cost of transporting products by road to retail outlets.

b. BOST should also put measures in place for effective monitoring of oil pipelines to prevent people from siphoning the fuel.

8.8 Absence of Strategic Stock

The Committee observed that the country has no strategic stocks to shore up supplies in times of shortages.

The Managing Director of BOST informed the Committee that the National Strategic Stock is owned and managed by BOST. However, the operation of terminals (basic inventory management and putting in place a financial guarantee to protect the country from losses in terms of what comes to the facility as well as the running of the gantries) is being done by a private entity - Transport Services Limited (TSL) Ghana. TSL is a wholly owned foreign company but incorporated in Ghana.

The Managing Director further informed the Committee that to ensure the security and safety of the country's strategic reserves, BOST oversees, supervises and has operational control over the facilities of the strategic stock. Again, BOST has put measures in place to ensure that TSL Ghana engages 99% Ghanaian staff and 1% foreign and expatriate staff for its operations.

The Committee took cognisance of the capacity of indigenous entrepreneurs in the management of depots, and recommends that the Ministry of Petroleum should consider engaging local BDCs in the management of the country's strategic stock.

8.9 Efficiency and Effectiveness of the Governance Structure

Section 66 (1) of the NPA Act, 2005 provides 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 BOST; and
v. the Fund Coordinator.

The Committee noted that BDCs are not represented on the Management Committee.

It came to the fore that the management structure put in place per section 66 (1) of Act 691 only sought to include stakeholders with a direct role in the distribution of petroleum products from depots to retail outlets.

Management of the Fund informed the Committee that BDCs are required to own or lease dedicated in-tank storage space. Thus, BDCs are part of the supply chain and are not directly involved in the distribution of petroleum products from depots to retail outlets. That notwithstanding, the UPPF is not against the representation of BDCs on its Management Committee. They indicated that, currently, BDCs are a part of the management of the Fund that controls the inter-depot transfer of products and they play a direct role in the implementation of that policy.

The Committee is of the opinion that the petroleum industry has expanded to include BDCs, thus there is the need for BDCs to be represented on the Management Committee. The Committee therefore recommends that the Ministry of Petroleum should ensure that section 66 (1) of the NPA Act (Act 691) is amended to include BDCs on the Management Committee.

9.0 CONCLUSION

The UPPF is responsible for unified pricing of petroleum products to ensure that prices are even throughout the country. The Fund thus relies heavily on the functioning of the storage and transportation facilities of BOST to operate its zoning system to ensure regular supply of petroleum to all parts of the country.

UPPF's operating cost was found to be increasing as a result of the non-operation of BOST's depots and distribution channels, which has resulted in the abandonment of the zoning system for lifting petroleum products.

It was established that although UPPF has a Management Committee which oversees its operations, BDCs are not represented on the Committee.

Again, the National Petroleum Authority Act, 2005 (Act 691) is silent on disclosure of interest by staff of the Fund. There is no policy for UPPF staff with regard to disclosure of interest in the distribution of petroleum products and relationship with OMCs, BDCs and other stakeholders with which the Fund conducts business.

To this end, the Committee recommends that the Ministry of Petroleum should ensure that the Management Committee of the Fund is expanded to include BDCs to enhance the operations of UPPF. The Ministry of Petroleum should collaborate with NPA, BOST, BDCs, and

OMCs to address the storage and distribution challenges so as to increase the profitability of the Fund.

The Committee recommends to the House to adopt its Report on the Report of the Auditor-General on the Unified Petroleum Price Fund for the period January 2010 to December 2012.

Respectfully submitted.

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HON. KWAKU AGYEMAN-MANU	**ABIGAIL ABA ANSO**
(CHAIRMAN, PUBLIC ACCOUNTS COMMITTEE)	***(CLERK TO THE COMMITTEE)***

MARCH 2016