

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

**REPORT OF THE  
PUBLIC ACCOUNTS COMMITTEE**

*ON THE*

**REPORT OF THE AUDITOR-GENERAL**

*ON THE*

**MANAGEMENT OF PETROLEUM FUNDS  
FOR THE PERIOD MAY 2011 TO  
DECEMBER 2012**

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## 1.0 INTRODUCTION

The Report of the Auditor-General on the Management of Petroleum Funds for the period May 2011 to December 2012 was laid in Parliament on Tuesday, 3<sup>rd</sup> December 2013 in accordance with article 187(2) and (5) of the 1992 Constitution of the Republic of Ghana and section 46 (2) of the Petroleum Revenue Management Act, 2011 (Act 815).

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

## 2.1 PROCEDURE

2.1 To consider the Report, the Committee met with the Hon. Deputy Minister for Power (formerly Deputy Minister for Energy and Petroleum), Mr. John Abdulai Jinapor, the Acting Chief Executive Officer of the Ghana National Petroleum Corporation (GNPC), Mr. Alexander Mould, and officials of the Ministry of Finance, Controller and Accountant-General's Department, Bank of Ghana, Ministry of Power (formerly Ministry of Energy and Petroleum) and GNPC.

2.2 Witnesses who appeared before the Committee subscribed to the Oath of a Witness and answered questions relating to the issues/queries raised by the Auditor-General in his Report and on issues of general public interest.

2.3 The Deputy Auditor-General, Mr. Yaw Sifah and a technical team from the Audit Service were also present at the Committee's

sittings to offer clarifications on the issues raised by the Auditor-General.

### **3.0 ACKNOWLEDGMENT**

The Committee expresses its gratitude to the Hon. Deputy Minister for Power, the Acting Chief Executive Officer of GNPC and all witnesses who appeared before it for their cooperation. The Committee is equally grateful to the Deputy Auditor-General and his team for assisting the Committee in its deliberations.

The Committee further acknowledges the logistical support of STAR-Ghana and the German International Corporation (GIZ) to the Committee.

Finally, the Committee extends its appreciation 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 Parliament of Ghana.
- c. The Audit Service Act, 2000 (Act 584).
- d. The Petroleum Revenue Management Act, 2011(Act 815).

### **5.0 PURPOSE AND SCOPE OF THE AUDIT**

The purpose of the audit was for the Auditor-General to express an opinion on the Annual Financial Statements of the Petroleum

Funds in compliance with the Petroleum Revenue Management Act, 2011 (Act 815). The audit covered a twenty (20) month period from May 2011 to December 2011 and from 1<sup>st</sup> January 2012 to 31<sup>st</sup> December 2012.

## 6.0 **OBSERVATIONS AND RECOMMENDATIONS**

### 6.1 Unavailability of Supporting Documents

The Committee observed that pertinent documents in support of funds received into the Ghana Petroleum Holding Fund (Holding Fund) as well as disbursements made from the Fund for the first four (4) liftings were not readily available for audit. These documents included:

- i. Invoices for crude lifted from the Jubilee Field.
- ii. Correspondence for GNPC's equity financing cost.
- iii. Invoices for other income (surface rentals).

The Committee also observed that computations undertaken to validate amounts on invoices and documents received from third parties were not put on file.

Officials of the Bank of Ghana (BoG) informed the Committee that the above challenges were problems encountered at a time when the Petroleum Fund Secretariat had not been established as per the Operations Management Agreement between the Ministry of Finance and BoG. Various departments of BoG therefore undertook functions which should have been undertaken by the Fund Secretariat. As a result, documentations on the Fund were filed in those departments. They indicated that the situation

rendered it difficult to readily retrieve the documents at the time of the audit. Following the audit, the Fund Secretariat has been operational and the situation has normalised. The documents in question have also been retrieved and made available for audit verification.

The Committee urges the Fund Secretariat to ensure that records are kept on all transactions at all times to ensure accountability and transparency.

#### 6.2 Late Distribution of Other Income paid into the Holding Fund

Contrary to section 3 (2) of the Petroleum Revenue Management Act, 2011 (Act 815) which provides that petroleum revenue assessed as due should be paid into the Holding Fund for distribution during the relevant quarter, the Committee observed that other income (surface rentals and royalties) paid into the Holding Fund from April 2012 to December 2012 were not distributed until the year 2013.

Officials of BoG informed the Committee that distribution of other petroleum receipts paid into the Holding Fund delayed during the above stated period as a result of initial implementation challenges of the Petroleum Revenue Management Act (PRMA). They indicated that the total amount involved was US\$354,149.74 and was accrued from surface rentals and royalties from Saltpond.

Officials of BoG further explained that the amount was not distributed immediately because it was considered not substantial as compared to the amounts usually disbursed from oil liftings into

as compared to the amounts usually disbursed from oil liftings into the various Funds by BoG. Thus, the amount was held up and added to receipts from major liftings of crude oil for distribution. They indicated that for the period that the amount remained in the Holding Fund Account, it earned interest on an overnight basis and the interest earned was also distributed along with the receipts of the main liftings into the Heritage and Stabilisation Funds as well as the Annual Budget Funding Amount (ABFA). Officials of BoG assured the Committee that the distribution of petroleum revenue is now carried out timely and strictly in accordance with the provisions of the PRMA.

The Committee is of the view that failure to include other petroleum income receipts as part of petroleum revenue to be distributed in the relevant quarter, may result in underpayment or shortfalls into the Ghana Petroleum Funds.

The Committee therefore recommends that BoG should put in place a strict petroleum revenue distribution regime to ensure timely distribution of income paid into the Holding Fund Account irrespective of the amount involved, and in accordance with Act 815.

### 6.3 Other Income not paid into the Holding Fund Account nor Recognised as Petroleum Revenue Funds

Section 6 of the PRMA classifies other income from royalties and surface rentals as gross receipts to be paid into the Petroleum Holding Fund. The Committee, however observed that other income

from royalties and surface rentals was neither paid into the Holding Fund Account nor recognised as Petroleum Revenue Funds in the Financial Statement for the period ended 31<sup>st</sup> December 2011.

Officials of GNPC conceded that other income totaling US\$678,998.75 was earned from surface rentals from the operations of the Jubilee Field in the year 2011 but was not captured in the 2011 financial statement. Details of the other income are as follows:

<u>Date of Payment</u>	<u>Company</u>	<u>Amount (US\$)</u>
03/03/2011	Afren Energy Ghana	178,000.00
25/03/2011	Tap Oil Ghana Limited	60,000.00
31/03/2011	Kosmos Energy	29,427.80
18/04/2011	Eni Ghana Exploration and Production Limited	39,000.00
21/04/2011	Vanco Ghana Limited	154,398.60
29/04/2011	Hess Ghana Limited	65,424.66
18/05/2011	Tullow Ghana Limited	63,421.32
29/11/2011	Saltpond Offshore Production Company Limited	605.00
05/12/2011	Hess Ghana Limited	71,630.41
02/12/2011	Eni Ghana Exploration and Production Limited	<u>17,090.96</u>
	<b>T O T A L</b>	<b><u>678,998.75</u></b>



Officials of GNPC explained that at the time the companies were invoiced in January 2011, the Holding Fund Account had not been opened, thus payments were made into GNPC Account and later transferred to a designated Government Account with BoG. They indicated that the amounts were not captured in GNPC's 2011 financial statement because the monies were transferred to the BoG before the end of year 2011.

Officials of BoG also confirmed that monies were paid in the year 2011 by companies that were prospecting for oil on the shores of Ghana. They explained that at the time the companies were invoiced by GNPC in January 2011, the PRMA had not been passed and therefore, the Holding Fund Account had not been opened. Upon the passage of the PRMA and the establishment of the Holding Fund, BoG wrote to the Controller and Accountant-General for authorisation to transfer the monies from the designated Account to the Holding Fund Account. Following that, the monies were transferred into the Holding Fund Account.

The Committee is of the view that GNPC should have notified the companies to pay the monies into the Holding Fund Account when the PRMA came into effect in April 2011 and the Fund became operational thereafter. That notwithstanding, the Committee commends BoG for correcting the anomaly and recommends that BoG should ensure that all petroleum revenue are paid promptly into the Holding Fund Account within the relevant period to ensure that the right distribution is made to the ABFA and the Petroleum Funds.

#### 6.4 Transfers into the Stabilisation and the Heritage Funds

Section 23(1)(a) of the PRMA requires that *“where petroleum revenue collected in each quarter of any financial year exceeds one-quarter of the annual budget funding amount of the financial year, as determined in section 18, the United States Dollar equivalent of the excess revenue collected shall be transferred from the Petroleum Holding Fund into the Ghana Petroleum Funds.”*

The Committee however noted that monies were paid into the Stabilisation and Heritage Funds for the first three quarters of the year 2011, although the total ABFA for the first three quarters of year 2011 were far below the benchmark revenue for the quarter.

The Committee further noted from the audited Statement of Receipts and Transfers of the Holding Fund for the year ended 31<sup>st</sup> December 2012 that transfers into the Stabilisation Fund fell from US\$54,805,351 in the year 2011 to US\$16,883,547 in the year 2012. Similarly, transfers into the Heritage Fund fell from US\$14,400,000 in year 2011 to US\$7,235,806 in the year 2012.

Officials of the Ministry of Finance informed the Committee that initially, transfers into the Stabilisation and Heritage Funds were made based on the interpretation of section 9 of the PRMA. As a result, transfers were made into the two Funds immediately monies were paid into the Holding Fund. In the year 2012 however, government realised that sections 18(1) and 23(1)(a) of the PRMA requires that only the excess funds beyond the ABFA should be transferred into the Stabilisation and Heritage Funds hence the

should be transferred into the Stabilisation and Heritage Funds hence the lower transfers that were made into the two Funds in the year 2012.

Much as the Committee agrees to the explanation by officials of the Ministry of Finance, the Committee is of the opinion that in order not to render the Stabilisation and the Heritage Funds potentially empty, the Ministry of Finance should ensure that the relevant percentages approved by Parliament as specified in sections 10(2)(a) and (3) of the PRMA are always transferred into the two Funds instead of waiting for an “excess” to be realised above the ABFA as per sections 10(2)(b) and 23(1)(a). The Committee also recommends a reconciliation of the interpretation of the various provisions and amendment of the PRMA which deals with the transfer of funds into the Stabilisation and Heritage Funds and its application, by the necessary stakeholders.

#### 6.5 Low Returns on Investments

It was observed by the Committee that investments made with petroleum funds totaling US\$69.2million and US\$69.8million as at December 2011 and December 2012 yielded returns of US\$5,893.70 and US\$274,287.12 respectively during the period ending December 2011 and 2012.

Officials of BoG explained that investments for the year 2011 commenced in November of that year due to delays in opening Accounts for the Petroleum Funds. As a result, there was little prospect of high returns in the year 2011. They further explained that year 2012 was also characterised by uncertainty in the global

financial markets which drove returns on safe assets to record low levels. Thus, it was not prudent to place the funds in higher risk investments which had the potential of eroding the capital.

The Committee expressed grave concern about the low rate of returns on investment of the Petroleum Funds. For instance, the Committee noted that as at the end of June 2014, the balances on the Ghana Stabilisation Fund and the Ghana Heritage Fund stood at US\$264.7million and US\$180.96million respectively. However, total percentage returns was 0.71% for the Stabilisation Fund and 2.44% for the Heritage Fund.

To ensure value for money for investments made with the Petroleum Funds, the Committee recommends that the Investment Advisory Committee which is responsible for monitoring the general investment performance of Petroleum Funds should explore more options for placing the Funds in secure and high yielding investments. The Advisory Committee should also consider diversifying its investment portfolios to ensure adequate returns on investments.

#### 6.6 Metering System on Board the FPSO Kwame Nkrumah

As to how government was ensuring that appropriate meters to check the volume of petroleum production and export have been installed on the FPSO Kwame Nkrumah and are functional, the Committee was informed by officials of GNPC that a Master Meter and an Ancillary Meter have been installed on the facility. They indicated that the Ghana Standards Authority, Petroleum

Commission, Ghana Revenue Authority and the GNPC are collaborating to ensure that the Meters on the FPSO are working according to international standards.

In addition to the Meters, the various tanks on the FPSO Kwame Nkrumah and the tanks of the vessels receiving the oil have all been calibrated by recognised international calibration companies. Thus, all the mechanisms are cross-checked to determine the authenticity of the quantity of oil lifted before shipment. Where there are disparities in the figures, an investigation is conducted to determine the problem. However, differences in figures are allowed but only within the internationally acceptable margin of error of 0.5%. The error of margin is between the readings from the Master and the Ancillary Meters on the FPSO.

The Committee urges the GNPC and all the other national institutions working on the Jubilee Field to ensure that the necessary measures are taken at all times to safeguard the interest of the nation with respect to liftings and export of oil.

## 7.0 CONCLUSION

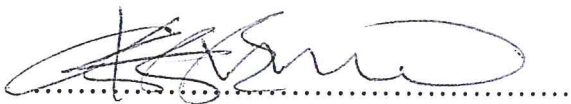
The discovery of oil in commercial quantities in the year 2007 and the production of oil from the Jubilee Field in December 2010 has come with heightened expectations of Ghanaians for accelerated economic growth and development. It is therefore incumbent on all stakeholders, especially those at the forefront of the petroleum resource governance and management to explore available and

effective policy options to ensure that maximum benefits are reaped from the petroleum revenue.

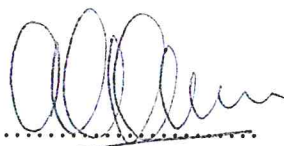
In this regard, there is the need for BoG to put measures in place to ensure that petroleum revenues are paid promptly into the Holding Fund Account and also ensure its timely distribution in accordance with the Petroleum Revenue Management Act, 2011 (Act 815). The Ministry of Finance should also ensure that the relevant percentages approved by Parliament as specified in sections 10(2) (a) and 3 of the PRMA are transferred into the Stabilisation and Heritage Funds instead of waiting for an “excess” to be realised above the ABFA as per sections 10(2) (b) and 23(1) (a).

In the light of the above, the Committee recommends to the House to adopt its Report on the Report of the Auditor-General on the Management of Petroleum Funds for the Period May 2011 to December 2012.

Respectfully submitted.



**HON. KWAKU AGYEMAN-MANU**  
**(CHAIRMAN, PUBLIC ACCOUNTS**  
**COMMITTEE)**



**ABIGAIL ABA ANSO**  
**(CLERK TO THE COMMITTEE)**

**JULY 2015**