THE REPUBLIC OF UGANDA

OFFICE OF THE AUDITOR GENERAL

IMPLEMENTATION OF NATIONAL CONTENT IN THE OIL AND GAS SECTOR

BY

THE MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

VALUE FOR MONEY AUDIT REPORT

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AUDITOR GENERAL'S MESSAGE

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31st March 2015

The Rt. Hon. Speaker of Parliament
Parliament of Uganda
Kampala

REPORT OF THE AUDITOR GENERAL ON IMPLEMENTATION OF NATIONAL CONTENT IN THE OIL AND GAS SECTOR BY MINISTRY OF ENERGY AND MINERAL DEVELOPMENT

In accordance with Article 163 (3) of the Constitution, I hereby submit my report on the audit undertaken on the Implementation of National content in the Oil and Gas Sector by Ministry of Energy and Mineral Development.

My office intends to carry out a follow – up at an appropriate time regarding actions taken in relation to the recommendations in this report.

I would like to thank my staff who undertook this audit, the consultants from the Office of the Auditor General Norway for the technical support provided, the staff of Ministry of Energy and Mineral Development and the Oil Companies for the assistance offered to my staff during the period of the audit.

John F. S. Muwanga
AUDITOR GENERAL

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ABBREVIATIONS

AC	Advisory Committee
AUGOS	Association of Uganda Oil and Gas Service Providers
CAO	Chief Administrative Officer
CNOOC	China National Offshore Oil Corporation
CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
GOU	Government of Uganda
IDI	International Development Initiative
IOC	International Oil Company
JV	Joint Venture
MDG	Millennium Development Goal
MEMD	Ministry of Energy and Mineral Development
MLHUD	Ministry of Lands, Housing and Urban Development
MoES	Ministry of Education and Sports
MoFPED	Ministry of Finance, Planning and Economic Development
MoGLSD	Ministry of Gender, Labour and Social Development
MoIA	Ministry of Internal Affairs
MoTIC	Ministry of Trade, Industry and Cooperatives
NOC	National Oil Company
NOGP	National Oil and Gas Policy
PEPD	Petroleum Exploration and Production Department
POB	Persons on Board
PPDA	Public Procurement and Disposal of Public Assets Authority
PSA	Production Sharing Agreement
TEP	Total E&P Uganda
TUOP	Tullow Uganda Operations Pty Ltd
UIA	Uganda Investment Authority
UNBS	Uganda National Bureau of Standards
UPIK	Uganda Petroleum Institute, Kigumba
URA	Uganda Revenue Authority

EXECUTIVE SUMMARY

To obtain the greatest benefits for the economy from the extraction of its petroleum resources, Uganda has several policies and provisions on national content, which include: requirements to prefer Ugandan goods and services, employment and training of Ugandans and state participation in the production of petroleum resources.

The objective of the audit was to evaluate government efforts in ensuring maximum value-addition from the Oil and Gas sector through implementation of National Content activities. Data for the audit was collected through interaction with Ministry of Energy and Mineral Development (MEMD), relevant government agencies and the oil companies.

State Participation

The Government of Uganda has exercised its right to participate directly in the oil and gas industry by opting for a 15% share in the Production License so far awarded. In future Cabinet will be deciding the levels of participation. However, government has not developed criteria for determining and justifying what levels are optimal. This exposes the process to subjectivity, presenting a risk of inadequate benefits from state participation.

Provision of Goods and Services

The value of procurements from Ugandan service providers in the oil and gas sector for the period 2010-2013 amounted to USD 329.9 million. This represents 28% of the total spend for all the companies (USD 1,171.8 million) yet the Ugandan companies comprised almost 73% of approved suppliers. Hardly any purchases were made from host communities. Without national content targets, standardized procurement procedures and clear definitions of Ugandan companies/goods, such levels of local procurements companies are difficult to monitor and evaluate. There was also inadequate supplier development to enhance the capacity of local service providers to participate in the sector.

Employment and Training by the Oil Companies

Overall, the proportion of Ugandans employed in the oil and gas sector directly by the oil companies rose from 69% in 2012 to 80% in 2014, although absolute numbers dropped over the same period. However, no special consideration is given to host communities or women during the recruitment of skilled personnel. As at December 2014, women accounted for 30%, 37% and 23% of the staff at China National Offshore Oil Corporation (CNOOC) Uganda Ltd., Total E&P (TEP) Uganda and and Tullow Uganda Operations Pty (TUOP) Ltd. respectively.

A wide range in the wage differentials between the nationals and expatriate staff was noted. In some cases expatriates, on average, earned between 5 to 10 times more than nationals (CNOOC & TEP). TUOP had more Ugandan nationals in managerial positions than TEP and CNOOC. For employees in middle management, the average ratio of an expatriate's salary to a national's stood at 3:1, 7:1 and 6:1 for TUOP, TEP and CNOOC, respectively.

Some expatriates were recruited without proper justification, some overstayed past the due date for nationalisation of their positions while others were working without work permits.

Whereas all the oil companies had made efforts to train their Ugandan staff, none had fully utilized its training budgets and they had also deviated from planned trainings. Thus the objective of involving more Ugandan nationals in the oil and gas sector may be delayed as identified training gaps are not addressed.

Training of Government Officials

The contributions of the oil companies towards the training of government officials had not been fully utilized due to delays by MEMD to submit details of proposed trainees thereby denying government staff the much needed training. It was also observed that there was no consolidated plan for training government officials. In addition, although the oil companies had, over the period, deposited USD 4.1m towards the training fund in the Central Bank, these funds had not been utilised for the intended objectives since they were being transferred as Non-tax Revenue (NTR) to the Uganda Consolidated Fund (UCF).

Coordination, Monitoring, Evaluation and Follow-up

Licensees either delayed or did not submit National content reports to MEMD, contrary to the Production Sharing Agreements (PSAs). It was also noted that all oil companies had different formats of reporting, making it difficult to track, analyse and compare performance between the different players. The companies also did not adequately collect, verify and report on the implementation of national content by their sub-contractors. For the reports submitted by the companies, there had not been any systematic evaluation by Petroleum Exploration and Production Department (PEPD) in terms of frequency of submission, response period, or follow-up to ensure that specific issues are addressed.

The coordination efforts by all the institutions charged with promoting national content is not formalized to ensure a holistic intervention by government. Furthermore, the draft national content regulations, policy and plan are yet to be approved. This hinders monitoring and creates room for differences in implementation of national content provisions.

KEY RECOMMENDATIONS

1. MEMD should establish clear and specific guidelines for the determination of the extent of state participation in the oil and gas sector and how this participation should be decided to ensure maximum benefits for Uganda.

2. MEMD, in collaboration with relevant stakeholders, should address gaps in existing legislation, policies, procedures and expedite the finalisation and approval of the draft Upstream Local Content regulations so as to enforce the provisions/targets on the utilisation of Ugandan goods and services, employment and training of Ugandans by oil companies and their sub-contractors.

3. MEMD should work with Ministry of Finance, Planning and Economic Development (MoFPED), Ministry of Trade, Industry and Cooperatives (MoTIC) and other stakeholders to identify, develop and support potential local suppliers of the sector, including those within the host communities.

4. MEMD should spearhead the coordination between educational institutions,

Ministry of Education and Sports (MoES), Ministry of Gender, Labour and Social Development (MoGLSD) and oil companies to ensure timely, relevant and sufficient training of Ugandans for the sector, taking into account gender and host-community considerations.

5. MEMD should ensure that there are uniform succession periods for all companies, and timely replacement of expatriates with qualified nationals as per the succession plans.
6. MEMD and the Ministry of Internal Affairs (MIA) should jointly ensure that the employment of expatriates is adequately justified, and that their qualifications are verified and possession of valid work permits enforced.
7. MEMD should spearhead the development of an overall training policy and plan that captures the training needs for other government ministries, departments and agencies (MDAs).
8. MEMD should ensure that it compiles details of proposed trainees in time and liaises with MoFPED to create a special training fund so that funds set aside by the companies for training of government officials are absorbed.
9. MEMD should ensure that the licensees submit uniform, timely, factual and comprehensive data on the implementation of national content provisions by themselves and their sub-contractors for easier and effective monitoring by government.

OVERALL AUDIT CONCLUSION

Government and the oil companies have made positive efforts to promote national content. However, the overall management of national content by the Ministry of Energy and Mineral Development (MEMD) has not been adequate and as a result, there are challenges in realising the national content objectives of the Oil and Gas Policy (NOGP), 2008. There are still several areas with clear potential for enhancing national content, such as: establishment of a clear regulatory framework, performance targets and indicators for national content; determining the level of state participation; local supplier development; employmentvand training of Nationals by the oil companies and government; ensuring gender parity and involving host communities. As government finalizes the development of the national content policy and regulations, the Ministry should take advantage of this opportunity to address the above challenges.

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CHAPTER ONE

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Uganda discovered commercial reserves of oil and gas in the Albertine rift basin in 2006. Policy makers are anxious to obtain the greatest benefits for the economy from the extraction of these exhaustible resources by designing appropriate policies to achieve desired goals. One important theme of such policies is the local (national) content whose aim is to build the capacity and capability of local people and businesses to support the long-term development of the oil and gas sector and generate further benefits for the economy beyond the direct contribution of its added value, through its links to other sectors.

National content (NC)[1] is the added value brought to a host nation (and regional and local areas in that country) through the activities of the oil and gas industry. This may be measured (by project, affiliate, and/or country aggregate) and undertaken through:

a) Workforce development:

- employment of local workforce; and
- training of local workforce.

b) Investments in supplier development:

- procuring supplies and services locally; and
- developing supplies and services locally.

1.2 MOTIVATION

While National Content Policies have the potential to stimulate broad-based economic development, their application in petroleum-rich countries has achieved mixed results. In Uganda, there is a fear that the rich endowments of natural resources may not necessarily lead to social and economic development. A National Content Study in the Oil and Gas Sector in Uganda commissioned by Government in 2011 put the share of national content during the then on-going exploration phase at around 15%[2] overall and showed that Uganda needs to adopt several measures in order to successfully promote national content. Concerns were also raised that most Ugandans are likely to be employed only for casual jobs due to a lack of necessary qualifications, thus limiting the benefits that can accrue to them from the sector.[3] Furthermore, emerging industry and media reports are calling for the revision of the national content provisions in the Petroleum Act and Production Sharing Agreements (PSAs) citing inadequacies and contradictions relating to procurements of local goods and ownership of local firms.[4]

[1] In Uganda and other countries, it is also referred to as National content
[2] Cf: MEMD (September, 2011); National Content Study in the Oil and Gas Sector in Uganda; page 1; and MEMD (2008) National Oil and Gas Policy of Uganda; page 21.
[3] International Alert (2013): Governance and livelihoods in Uganda's oil-rich Albertine Graben; page 6
[4] See for instance: 'Uganda's national content and the contradiction of self-empowerment'. The Independent October 2013

In light of the above, the Office of the Auditor General (Uganda), undertook a Value for Money (VFM) Audit to evaluate government efforts in ensuring maximum value-addition from the Oil and Gas sector through the implementation of National Content activities. The audit was part of the cooperative audit in extractive industries conducted in conjunction with six (6) African Organization of English speaking Supreme Audit Institutions (AFROSAI-E) from oil and gas producing countries (Ghana, Kenya, Nigeria, Southern Sudan and South Africa) with support from the International Development Initiative (IDI) and the Office of the Auditor General Norway.

1.3 DESCRIPTION OF THE AUDIT AREA

1.3.1 Legal Framework for National Content

Uganda's aspirations regarding NC are embodied in Objectives 7 and 8 of the National Oil and Gas Policy for Uganda, 2008 and these are:

- To ensure optimum national participation in oil and gas activities; and
- To support the development and maintenance of national skills and expertise

This is operationalized by Part VIII, Sections 124,125,126 &127 of the Petroleum (Exploration, Development and Production) Act 2013. The provisions in the Production Sharing Agreements (Art 11, 20 & 21) signed between the Government and the oil companies pertaining to national content are also binding. For details of these provisions, refer to **APPENDIX I.**

1.3.2 Government Responsibilities

It is the role of the Government to maximize national participation in petroleum operations.[5] Currently the Petroleum Exploration Production Department (PEPD) under MEMD oversees the implementation of National content activities in line with the National Oil and Gas policy, 2008.

1.3.3 Key Actions for National Content development

The key policy actions required to realize National Content include the following:[6]

1) Put in place the necessary regulatory framework for state participation and implementation of national content.
2) Identify the opportunities for national content in oil and gas activities and plan for its implementation.
3) Train Government personnel in monitoring oil and gas exploration, development and production.
4) Review and expand the education curricula in the country with a view of producing the workforce required for oil and gas activities nationally.

[5] MEMD (2008) National Oil and Gas Policy of Uganda; page 21; Section 7.1.1 (g)

[6] National Oil and Gas Policy of Uganda 2008; pages 27 and 28

5) Support the development of skills and competitive competencies necessary for the country's entrepreneurs to participate in the delivery of goods and services for the oil and gas sector.

6) Require licensed oil companies and their subcontractors to provide training to Ugandans.

1.3.4 Organization Structure (PEPD)

Figure 1 below shows the delegation and reporting chain for monitoring and enforcing compliance with National Content provisions during the period of review. Before 2012, there was no National Content Unit in place, and this responsibility fell to the Principal Geologist (Compliance). In 2012, a National Content Unit was established and two National Content Officers were recruited. Three (3) more officers were added to the unit in 2014, bringing their number to five (5).

Figure 1: Showing organisation structure for PEPD between 2012 and 2014

Source: PEPD

Note: Effective 2015, a new structure, which raises PEPD to the level of Directorate, has been approved. According to this new structure, the National content unit (currently with five officers) reports directly to the Director PEPD (formerly Commissioner). The new structure is attached as **APPENDIX II.**

1.4 AUDIT OBJECTIVE

The overall objective of the audit was to assess the efforts being undertaken by Government in ensuring maximum value-addition from the Oil and Gas sector through implementation of National Content activities.

1.5 AUDIT QUESTIONS

1. To what extent has Government implemented the National Content provisions for the oil and gas sector in terms of:
   - Direct participation of a National oil company
   - Employment and training of Ugandan nationals
   - Procurement of goods and services from national suppliers
   - Education, training, knowledge and technological transfer
2. To what extent does the regulatory framework facilitate the implementation of National Content?
3. To what extent is there adequate coordination between agencies and the other players to ensure the implementation of National Content?
4. How adequate is the monitoring, evaluation, reporting and follow-up of National Content?

1.6 AUDIT SCOPE

The audit covered three (5) calendar years namely, 2010, 2011, 2012, 2013 and 2014 in order to establish and assess the trend of implementation and enforcement of National Content provisions by the relevant actors. Calendar years were used because the PSAs and the Petroleum (Exploration, Development and Production) Act, 2013 require the oil companies to report on their National Content performance at the end of each calendar year.

The scope covered the implementation of national content by the three currently licenced oil companies, namely: Tullow Uganda operations Pty. (TUOP), Total E&P Uganda (TEP) and China National Offshore Oil Corporation (CNOOC).TUOP was operating for the entire period under review. The two (2) other companies only joined/started operations in Uganda in 2012.

1.7 LIMITATION

Data on employment and training by TUOP prior to 2012 was not readily available and so analysis for these aspects was only done for 2012-2014.

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CHAPTER TWO

CHAPTER TWO

AUDIT METHODOLOGY

The audit was carried out in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) standards and guidelines. The standards require that the audit is planned in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

The study relied upon document review, interviews, questionnaires and surveys to obtain necessary information to answer the audit questions as detailed in the following sections (2.1-2.4). Data was collected from several government agencies based on their role in implementing NC policies: Petroleum Exploration and Production Department (PEPD) of the Ministry of Energy and Mineral Development (MEMD), National Council for Higher Education (NCHE), Makerere University (MUK) and Uganda Petroleum Institute Kigumba (UPIK).

Data was also collected from the Association of Ugandan Oil and Gas Service Providers (AUGOS), the three oil companies TUOP, TEP and CNOOC. As host communities, district leaders and farmers' associations in Hoima, Bullisa, and Masindi were sampled for interviews.

Specific documents reviewed, persons interviewed and Survey administered are detailed in **appendices III, IV** and **V,** respectively.

2.1 METHODOLOGY TO ASSESS THE CURRENT STATUS OF IMPLEMENTATION OF NATIONAL CONTENT PROVISIONS

To determine the level of direct participation by Government in the oil and gas industry the team reviewed correspondences between the oil companies and government. It also conducted interviews with MEMD staff to establish how the extent of participation was decided upon in order to maximize potential value addition.

The team also reviewed the plans and annual performance reports of the oil companies to determine the extent to which they complied with the Petroleum (EDP) Act, 2013, as well as the PSA terms. From the plans, the team was able to ascertain whether the companies planned for procurement of goods and services from local companies; training of nationals; employment of nationals; and transfer of technology to local companies. The annual performance reports were also reviewed for information on actual output in each of the above areas. Representatives from host communities and TUOP scholarship beneficiaries were engaged through interviews and surveys, respectively, to obtain their views on how to make the scheme more effective. Interviews were also held with officials from oil Companies and PEPD to understand hindrances to full compliance with the laid down provisions, and what steps were being taken to ensure eventual compliance in a manner that delivers value for money for Uganda.

2.2 METHODOLOGY TO ASSESS THE REGULATORY FRAMEWORK

Interviews were conducted with PEPD staff to ascertain the relevant legislations pertaining to National Content in Uganda. The team reviewed the Petroleum Exploration, Production and Development (EDP) Act, 2013, and Production Sharing Agreements to assess their adequacy in light of best practice. Different stakeholders (management of oil companies, AUGOS) in the implementation of national content were then interviewed to establish any gaps in the legislation. Finally, Ministry (PEPD) officials were interviewed on reasons for the gaps and what government was doing to address them.

2.3 METHODOLOGY TO ASSESS COORDINATION

Interviews were carried out with PEPD staff and staff from other agencies, such as: National Council for Higher Education (NCHE), oil companies, training institutions and host district officials to establish the extent of coordination between them.

2.4 METHODOLOGY TO ASSESS THE ADEQUACY OF THE MONITORING, EVALUATION, REPORTING AND FOLLOW-UP OF NATIONAL CONTENT

Through interviews with officers from the National Content unit at PEPD, information was obtained on the existing mechanisms for monitoring, evaluation, reporting and follow-up of National Content. Thereafter, through document review, audit assessed actual performance on this parameter by comparing expected levels of monitoring, evaluation, reporting and follow-up with the actual performance. Interviews were then conducted with ministry (PEPD) officials to establish why the gaps existed and what government was doing to address them.

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CHAPTER THREE

CHAPTER THREE

SYSTEMS AND PROCESS DESCRIPTION

3.1 ROLES AND RESPONSIBILITIES OF KEY PLAYERS

The oil and gas sector is made up of several players, both within and out of government, who are charged with critical roles in ensuring the promotion of national content. These players and their roles are outlined in **Table 1** below.

Table 1: Roles and Responsibilities of Key Players

ENTITY/PLAYER	KEY ROLES AND RESPONSIBILITIES
Petroleum Exploration and Production Department (PEPD)	PEPD should: - Carry out petroleum exploration promotion - Initiate petroleum legislation, Model PSA - Monitor oil companies' compliance with existing laws, regulations and agreements. This includes compliance with national content requirements.
Advisory Committee–under the PSA (consists of venture partners &govt representatives)	- Consists of four members- two (2) appointed by government, and two (2) representing the oil company. The role of secretary of the committee is held by the Oil Company. - The committee is responsible for reviewing and approving the oil companies' annual work programmes and budgets, which include: planned activities relating to procurements, training and employment.
Ministry of Education National Curriculum Development Centre National Council for Higher Education	The MoES is responsible for: - Promoting the development of education and training programmes in order to create requisite national human resource expertise for the oil and gas sector on a sustainable basis; - Reviewing, expanding and approving the education curricula in the country with a view of producing the workforce required for oil and gas activities nationally. - Promoting relevant research and studies in collaboration with the Ministry responsible for oil and gas, and any other relevant institutions.
District Local Governments	- Mobilize and dialogue with communities. - Contribute to holding the different players accountable with regard to oil and gas issues; - Participate in getting the voices of the poor into designing, monitoring and implementation of programmes in the oil and gas sector.
Ministry of Trade, Industry and Cooperatives (MoTIC)	- To formulate and support strategies, plans and programs that promote and ensure the expansion and diversification of trade, sustainable industrialization and preservation of other tradable national products, to generate wealth for poverty eradication and benefit the country socially and economically.
Universities and other educational institutions	- These are required to come up with and offer relevant university programmes/ courses to equip Ugandans with relevant skills to participate in the oil and gas sector.
Ministry of Agriculture and Animal Industry	- Build capacity/train Ugandan farmers to ensure that they meet international standards on the quality of food products required for supply to International Oil Companies (IOCs)

Ministry of Internal Affairs/ Immigration Office	- Clear expatriates to enter the country and issue work permits/special passes
Public Procurement and Disposal Authority (PPDA)	- Carry out procurement audits to ensure that International Oil Companies (IOCs) comply with the procurement requirements agreed upon in the contracts/ stipulated in the law.
Association of Ugandan Oil and Gas Service Providers (AUGOS)	- This brings together interested Ugandan service providers and suppliers of goods to sensitize them on requirements and help lobby for inclusion in the industry.
Oil companies	- These are required to comply with existing laws, regulations and agreements on national content requirements.

Source: NOGP (2008), PSAs and Interviews with respective stakeholders

3.2 PROCESS DESCRIPTION

3.2.1 Procurement

Each Oil Company should establish appropriate procedures, including tender procedures, for the acquisition of goods and services which ensure that the suppliers and sub-contractors in Uganda are given adequate opportunity to compete for the supply of goods and services. Procedures are to be approved by the Advisory Committee.

3.2.2 Recruitment of skilled labour by the oil companies

Oil companies advertise jobs in the print and electronic media. Interested candidates are required to submit their applications within a specified period from the date of the advert. At the close of the application period, the Human Resource department of the oil company (or any outsourced company) shortlists candidates who meet the minimum requirements in terms of training and work experience.

Interviews are then conducted and the best candidate is selected. The oil company then submits a recruitment report to MEMD detailing the entire recruitment process, scores of candidates and interview results. The report also indicates the selected candidate.

Upon MEMD's approval, the candidate is offered the job.

Where there is no suitable candidate for the job, the oil company informs MEMD and hence justifies the need for an expatriate. Once the expatriate is identified, the oil company applies to MEMD for recommendation for the expatriate's work permit/ special pass. The recommendation letter from MEMD accompanies the oil company's application for a work permit/ special pass submitted to the Ministry of Internal Affairs (MoIA) on behalf of the hired consultant.

Once the work permit/ special pass is issued, the expatriate can then commence work. A work permit is renewable after two years, while a special pass is valid for 5 months (issued if the expatriate is on a short term consultancy).

In case a national applicant possesses the requisite qualifications, passed the interview, but lacks experience, he/she may be recruited to work under the supervision and mentorship of the hired expatriate (as an understudy) so that he/she can eventually replace the expatriate as per the approved Nationalization plan.

3.2.3 Training

Training of Staff from the Oil Companies

Skills gaps/ training needs for each employee are identified during the annual appraisal. This appraisal is agreed upon by both the employee and his/her supervisor. The training required to fill the skills gaps is also agreed upon. A consolidated training plan and budget for all staff is then drawn up for incorporation into the company's overall budget for the following year. The overall budget, which indicates training expenditure, is submitted to MEMD and the Advisory Committee for approval. Companies undertake both short (less than 6 months) and long term training (more than 6 months).

Training of Government Employees

Annually, the Permanent Secretary in the Ministry of Energy and Mineral Development (PS/MEMD) is supposed to invite Government Ministries, Departments and Agencies (MDAs) relevant to the Oil and Gas Sector, to submit capacity building training proposals for the officers in their respective institutions.

The institutions include:

- Ministry of Finance, Planning and Economic Development,
- Ministry of Justice and Constitutional Affairs,
- Ministry of Gender, Labour and Social Development,
- Uganda Revenue Authority,
- National Environment Management Authority,
- Uganda National Bureau of Standards,
- Uganda Wildlife Authority, and
- Office of the Auditor General.

Each Ministry, Agent or Department (MDA) is supposed to internally assess its own training needs and nominate staff accordingly. The nominees should also have identified & been admitted to the training institutions. The Permanent Secretary MEMD/PEPD is expected to evaluate the requests which are then forwarded to the respective oil companies for funding depending on the budgeted amounts per company. The companies disburse funds directly to the training institutions. There is constant feedback between the companies and PEPD regarding the amounts remitted and persons sponsored per year. The MDAs are also required to report to PEPD on the progress and successful completion of courses by the respective staff.

3.2.4 Monitoring, Reporting and Evaluation

Licensees are required to submit to government a report on procurements (utilization of Ugandan goods and services) and training and employment of Ugandans within 60 days and 30 days, respectively, after the end of each calendar year.

Oil Exploration and Production (E&P) companies

The Oil Exploration and Production (E&P) Companies are required to keep a record of persons on board (POB) and every day. A POB refers to anyone who enters a field camp operated by the oil companies on a particular day.

PEPD

PEPD has field monitoring officers who are required to look out for and report on national content issues in the field. They are also supposed to submit daily reports on Persons on Board (POB) within the camps to PEPD headquarters.

The National Content Unit in PEPD carries out periodic monitoring visits to the oil companies and field sites and is required to produce a report on compliance with national content provisions.

The National content unit also reviews POB reports, as well as plans and reports from oil companies relating to employment, training and utilization of Ugandan goods and services. They then advise the Director PEPD (formerly Commissioner), on performance regarding national content obligations. The Director then gives the oil companies written feedback, and points out areas of improvement.

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CHAPTER FOUR

CHAPTER FOUR

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

4.1 STATE PARTICIPATION

According to the PEPD Act 2013, Government may participate in petroleum activities through a specified participating interest of a licence, or contract granted under the Act and in the joint venture established.

When announcing areas for granting of petroleum exploration licences, the Minister shall, with the approval of Cabinet, specify the maximum government share which may be exercised by the government. The PSAs provide for a maximum participation of between 15-20% informing the Licensee of the decision within 120 days of receipt of an application for a production license.

By March 2015, one company (CNOOC) had been issued a production licence in Uganda for which the government of Uganda had exercised the option of taking up a participating interest of 15%. There are no criteria set in the law, agreement or regulations on how and when state participation will be decided. It is also not clear how the 15% interest was arrived at and its adequacy in ensuring national participation.

Lack of clear and specific mandatory provisions in the law/agreements creates room for subjectivity and inconsistencies in the implementation of the provisions of NC. This may render the percentage participation in a given license not adequate in enhancing National content given that the majority (85%) is controlled by powerful partners.

Management Response

- The 15% State participation in some of the current PSAs was arrived at through negotiations prior to signing the respective PSAs.
- Under the new law (Petroleum (EDP) Act, 2013), however, the level of State participation will be decided by Cabinet and included in the announcement of areas for licensing, and this will be applicable in the forthcoming licensing round.

Audit Comment

Audit acknowledges Management response but notes that the negotiations referred to were not guided by any formal procedures for determining the level of state participation. Without formulation of guidelines, the process is exposed to subjectivity, presenting a risk of sub-optimal levels of state participation even after Cabinet starts making decisions on the level of state participation.

Recommendation

The Ministry of Energy and Mineral Development should take initiative for establishing clear and specific guidelines on how state participation will be decided to ensure maximum benefit for Uganda.

4.2 UTILISATION OF UGANDAN GOODS & SERVICES

4.2.1 The Ugandan share of procurements by oil companies

According to the Petroleum (EDP) Act, 2013, Section 125(1), the licensee, its contractors and subcontractors shall give preference to goods which are produced or available in Uganda and services which are rendered by Ugandan citizens and companies.

Through a review of reports on procurement submitted by the oil companies to PEPD, it was noted that from 2010-2013, the oil companies spent a total of USD 1,171.8 million on purchase of goods and services. Of this, USD 329.9 million was paid to Ugandan service providers, representing 28% of the total spend for all the companies in the period under review.The percentage of procurements from Ugandan companies peaked in 2012 and all declined in 2013.The oil companies attributed this to reduced activities awaiting the approval of production licenses by government.

The Ugandan service providers comprised about 73% of the approved suppliers[7] which implies that the total value of the procurements from them was less than their relative number. According to PEPD and the oil companies, one explanation for this was that Ugandan companies had not yet developed the capacity to supply high-value goods and services on the terms currently required by the oil companies. Furthermore, the potential of Ugandan firms to supply the sector had not yet been established by government through baseline surveys (see chapter 4.3.1) and to what extent that potential is being utilized. The different types of goods/services available in Uganda had not been established and no targets had been set by government for their utilization. This makes it difficult to evaluate the performance of the oil companies in promoting national content.

The value of the procurements of the different oil companies over the years 2010-13 are shown in **Table 2**.

[7] **NB:** Prior to 2013, TUOP did not sub-divide the international companies into those registered in Uganda, and those which are not.TEP, on the other hand, made this distinction from their first year in the market. CNOOC had, by the time of audit, not adopted this grouping system yet.

Table 2: Showing utilization of Ugandan goods and services by the oil companies

Company	Category of Suppliers	2010 (USD)	2011 (USD)	2012 (USD)	2013 (USD)	TOTAL (USD)
TUOP	Ugandan	32,780,318	62,168,449	67,842,261	23,530,000	186,321,028
	International, registered in Uganda[1]	-	-	-	54,560,000	54,560,000
	International	99,171,458	203,439,576	139,974,188	8,300,000	450,885,222
	Total	131,951,776	265,608,025	207,816,449	86,390,000	691,766,250
	% Ugandan	25%	23%	33%	27%	27%
TEP	Ugandan	N/A	N/A	38,800,000	71,040,000	109,840,000
	International, registered in Uganda	N/A	N/A	61,500,000	182,500,000	244,000,000
	International	N/A	N/A	8,000,000	14,600,000	22,600,000
	Total	N/A	N/A	108,300,000	268,140,000	376,440,000
	% Ugandan	N/A	N/A	36%	26%	29%
CNOOC	Ugandan	N/A	N/A	21,859,831	11,869,118	33,728,949
	International, registered in Uganda	N/A	N/A	7,525,590	-	7,525,590
	International	N/A	N/A	35,870,169	26,494,547	62,364,716
	Total	N/A	N/A	65,255,590	38,363,665	103,619,255
	% Ugandan	N/A	N/A	34%	31%	33%
Total amount spent		**131,951,776**	**265,608,025**	**381,372,039**	**392,893,665**	**1,171,825,505**
Total paid to Ugandan Suppliers		**32,780,318**	**62,168,449**	**128,502,092**	**106,439,118**	**329,889,977**

Source: OAG Analysis of Oil companies' procurement data

Further analysis of the figures in **Table 2** showed that on average, 26% of procurements were from international companies registered in Uganda while 46% were from International companies (not registered in Uganda). Each company had varying degree of procurements from Ugandan companies (TUOP 27%, TEP 29% & CNOOC 33%). However, these proportions would be lower if the scope of the definition of Ugandan Company was limited to companies owned by Ugandan citizens as explained in 4.2b below. For example, in 2012, a sample of CNOOC suppliers reviewed showed that many companies (representing procurements amounting to USD 11,679,665, almost 20% of total procurements) identified as local, were actually International but registered in Uganda **(APPENDIX VI).** This leaves approximately 18% that can be considered as national content by CNOOC for that year.

Since the definition of Ugandan goods/services is not clear in the law, there is also no guarantee that even those companies which are Ugandan actually delivered Ugandan goods.

Management Response

- At the time of audit, a costs National Content data base was being developed and the goods and supplies are classified according to their origin (Albertine region, Ugandan, East African and other countries). Further to the above, the draft National Content policy is anchored on five pillars including monitoring and measuring National Content. The regulations which are being formulated have also ring-fenced a list of goods and services to be exclusively supplied by Ugandan firms.

- In an effort to promote national participation Government undertook a study on Enhancing National Participation for the Oil and Gas Industry in Uganda in 2011. This study highlights the opportunities, gaps, and challenges for Ugandan Companies. The JV Partners (TUOP, TEP, and CNOOC) also carried out an Industrial Baseline Survey (IBS) in 2013 in which the capacity of Ugandan Companies was assessed and key industries that needed support were identified and measures recommended. The National Content Policy and regulations will provide a framework in which to enhance the capabilities of Ugandan companies. Management therefore appreciates the Auditor General's recommendation which is in line with on-going efforts.

- The decline in procurements in 2013 was caused by fall in activities since IOCs were either awaiting approvals of production licenses (TUOP & TEP) or undertaking Front End Engineering design (CNOOC) which don't require high procurements of goods.

Audit Comment

Most of the recommendations in the IBS and the 2011 study commissioned by the government have not been implemented, as detailed in section 4.7. Moreover the IBS only concentrated on the needs of the three (3) partners for the development stage alone.

There are still gaps in the tracking of oil companies' efforts to procure from local firms because the existing potential service providers countrywide have not been enumerated; there are no national content targets in this area; and the definition of Ugandan goods/services is still not clear in the law.

Recommendations

- With the next stage of development and its anticipated increase in procurements, MEMD should expedite completion and approval of the draft National Content policy and the draft Upstream Local Content regulations to promote the utilization of Ugandan goods and services, and monitoring of performance in this area.

- During the development of the National Content database, MEMD should ensure proper classification of procurements by companies according to nationality and disaggregate the different types of goods (locally made vs. imported) to enhance performance measurement and the extent of value addition and transfer of knowledge.

- A comprehensive baseline survey should be conducted to ascertain the capacity of Ugandan firms in providing goods and services in the entire value chain of the oil industry so as to facilitate the development of a supplier development strategy, inform policy and aid evaluation of National content performance.

4.2.2 Ownership of Suppliers

According to the Petroleum (EDP) Act, 2013, Section 125(2), where the goods and services required by the contractor or licensee are not available in Uganda, they shall be provided by a company which has entered into a joint venture with a Ugandan company provided that the Ugandan company has a share capital of at least 48% in the joint venture.

Through a review of National Content reports, it was established that the oil companies to a large extent procure from companies that are wholly foreign-owned. In 2013, CNOOC, TUOP and TEP had procurements (value) from international companies (wholly/majority foreign owned contractors/suppliers) constituting 70%, 73% and 74%, respectively. The companies were typically registered as Ugandan companies yet they had foreign ownership. A list of several such companies is shown in **Table 3** below.

Table 3: Foreign companies registered in Uganda termed as 'local'

Company	Ownership
Baker Hughes EHO ltd	100% Foreign
Calson Wagonlit travel	100% Foreign
Halliburton International Inc Uganda	100% Foreign
Oil and Gas Exploration Co.	100% Foreign
Schlumberger Oil field Eastern ltd	100% Foreign
Yanjing Uganda Co	100% Foreign
ZTE Uganda	100% Foreign
Total Uganda	100% Foreign
Orange Uganda	100% Foreign
Saracen Uganda ltd	34% Ugandan
CETs Optimus Logistics	40% Ugandan

Source: Review of National Content reports for TEP and CNOOC for 2013

There are several ambiguities of the Petroleum act Section 125(2) which makes it difficult to implement the requirements meant to enhance national content. Firstly, the act does not define what constitutes a "Ugandan company" or "citizen" in terms of national content realisation. Currently, the only definition under the Companies Act is that a Ugandan Company is one registered in Uganda, regardless of its ownership or control. This means that although a Ugandan registered company has foreign ownership, it may still be regarded as a Ugandan supplier in compliance with the requirement of the Petroleum Act[8] to use Ugandan companies, as illustrated in **Table 3** above.

Secondly, the Petroleum (EDP) Act, 2013, contains no provision for definition of Ugandan goods and the degree of in-country value addition. This presents a risk since registration alone may not guarantee national content. Many firms may have both local ownership and registration in Uganda but supply imported goods even when they can be obtained locally. The lack of clarity may hamper the realisation of the intended objectives of the law.

Thirdly, the requirement of at least 48% share capital holding for Ugandans may be unrealistic. Oil and gas business is capital intensive. According to experts in the industry and the Uganda Investment Authority, Uganda has limited local capacity and access to sufficient capital and this may hinder their capacity to undertake joint ventures with foreign global service providers.[9]

[8] Section 125(2) of the Petroleum Act 2013.
[9] PWC Country leader and Patrick Bitature Chairman UIA- New Vision

PEPD in the MEMD were developing new regulations for the Petroleum Act. According to the officials interviewed the details on National Content objectives, required actions, monitoring and evaluation and sanctions in case of non-compliance would be included in the National Content Regulations which were in the process of formulation. The formulation of the regulations was expected to be complete by December 2014. However, by the time of audit (March, 2015), these regulations were not yet in place.

Management Response

- The regulations that are currently under stakeholder consultations provide a definition of a Ugandan company for the purpose of National Content development.
- The draft National Content policy which is now ready for presentation to cabinet, defines National Content as "the value addition to the Ugandan economy through the use by the petroleum industry of materials produced or available in Uganda and services provided by Ugandans and Ugandan firms."
- The draft National Content policy clearly prioritizes enterprise development. In addition GOU with the JV partners are undertaking the establishment of an Industrial Enhancement Centre to nurture and incubate local enterprises to develop their capacities so that they are able to engage competitively in the oil and gas sector. The Association of Oil and Gas Service Providers was formed in line with the recommendation made by the study "enhancing national participation in oil and gas" that was commissioned by the Ministry and concluded in 2011. This association has been key in the supplier development as it has created a platform for engagement with Government, industry and other stakeholders in the oil and gas sector.

Audit Comment

Audit acknowledges MEMD's progress towards the development of national content regulations. However, without concerted efforts to develop the local enterprise, the definitions in the draft regulations may not be easily achievable since they advocate for a Ugandan company to have Ugandan citizens at all managerial levels, uses available local raw materials, employs at least 70% Ugandans and is not registered as a foreign company.

Oil companies to a large extent procure from companies that are wholly foreign-owned. Although the spirit of the law was to target Ugandan citizens owned companies, in its current wording, with lack of clarity in the definitions, Ugandan nationals/firms may not benefit from the sector thus limiting the realization of national content promotion. Companies may be set up just to fulfil legal requirements without effecting local value addition.

Recommendations

The MEMD is urged to make sure Upstream Local Content regulations are established relatively soon, amongst others to clarify the definition of a Ugandan company, Ugandan goods and services, and the conditions for joint ventures, consistent with the law.

4.2.3 Supplier Development

Apart from procuring goods and services locally, the participation of local firms in the supply chain with strengthened capacity to compete is crucial in the promotion of national content[10].

[10] The **International Petroleum Industry Environmental Conservation Association (IPIECA)**-Local content strategy: A guidance document for the oil and gas industry

Audit noted that the National Oil and Gas policy (NOGP) of 2008 and the Petroleum Act do not include any explicit strategies or targets on local supplier development.

According to the National Content Study in the Oil and Gas Sector in Uganda published by MEMD in September 2011[11], supplier development should be done in collaboration/cooperation with the government, oil companies, financial institutions and other key players in the sector.

Interviews with AUGOS and district farmers' associations showed that in the period 2010-15 there had been limited efforts by government (central/local) to develop suppliers for the oil and gas sector. One of the oil companies, TUOP, established a local farmers' development initiative through a local NGO (Traidlinks) (see chapter 4.2.4). Through interviews, audit noted that there was no coordinated plan and framework for supplier development involving setting measurable targets and specifying the roles of the relevant actors.

As Uganda entered the development phase of the oil and gas project, the three oil companies carried out a joint industrial baseline survey (IBS) in 2013 to determine and align the potential demand of the project for goods and services with the capacity of the Ugandan market to deliver them. The survey noted that some industries would be able to absorb the demands of the project while many would need to enhance their capacity in terms of production volumes and standards. It further noted that for the business community to respond effectively to the demands of the oil and gas development project, they would require more visibility and information about business opportunities and investment in technology and capacity. It recommended provision of assistance to Ugandan companies by creating an 'Industry Enhancement Centre' and offering appropriate support to specific sectors as one of the ways of improving national participation.

The study considered the area for which the Joint Venture (JV) partners currently hold a license and is due for development. It does not indicate the capacity gaps that may arise once the other blocks are explored and/or licensed.

Management Response

- Supplier development is one of the legal requirements for the licensees and has been further elaborated in the regulations that are under development. The ministry has engaged and will continue to engage the licensees on this aspect. In addition, the Ministry is engaging with the Association of Ugandan Oil and Gas Service Providers to mobilize other Ugandan companies so that they get set to participate in the oil and gas sector.
- Several private sector engagements have been organized by the Ministry in collaboration with key stakeholders to disseminate the opportunities in the sector and what it takes to win contracts. The draft National Content Policy and Plan is anchored on five pillars including enterprise development. The Ministry together with the Joint Venture (JV) Partners in the sector is establishing the Industrial Enhancement Centre to nurture, and support Ugandans so that they are able to supply the oil and gas sector.
- The draft regulations on procurement have provided for principles to be adopted during the procurement processes and one of such principles is "contract unbundling". Once adopted, this will enable big contracts to be broken down into small and manageable contracts that would enable the participation of the local firms without being encumbered by financial resources.

[11] Section 9.3(13) Pg 56 of the report 'Enhancing National Participation in the Oil and Gas Industry in Uganda'

Recommendations

- MEMD should undertake a holistic survey which encompasses the entire explorable area and the whole value chain (exploration, development, production). This will help to establish any gaps so as to determine the necessary support to local suppliers both in the short and long-term.
- MEMD is encouraged to ensure that the initiatives expressed in the management responses are implemented to promote supplier development.
- MEMD, in collaboration with the MoFPED, is urged to consider providing financial incentives to local companies to increase their ability to raise the required capital and participate in the oil and gas sector.

4.2.4 Procurement from "Host" communities

The term 'host' is used to refer to those communities which are adjacent to, or impacted by, a company's operations. Under this definition, the area covers groups (Business, political, farmers etc.) in the districts of Hoima, Masindi, Buliisa and Nwoya. Leading companies recognise that local economic participation is one of the keys to maintaining their social license to operate and to demonstrating that they are contributing to the long term development of communities and regions in which they operate. Governments should also promote the utilisation of goods and services from host communities because of its potential to cause economic transformation, as well as to stave off social unrest[12].

From field visits and document review, it was established that only one of the three oil companies is procuring food from the host community area. While TUOP found the food from host communities of satisfactory standard, this was not the case with TEP & CNOOC. The catering service provider for TEP (MSL Logistics) indicated that the produce did not meet their quality standards and so they could not consume it. Farmers are required to match up to the required international standards on quality, health and safety. In addition, they are expected to have the capacity to deliver the right quantities of supplies upon demand; and ensure timeliness and consistency in this. Sometimes, the foods required in the camp like broccoli, lettuce are not native to the area. Consequently, many times, farmers in the host communities were not able to meet the service providers' requirements, and so produce was got from other parts of the country, or even abroad.[13]

To address those issues, TUOP partnered with a private firm to develop local farmers' capacity to supply the camps. The firm is assisting farmers through the District Farmers' Associations to ensure they use the right pesticides (if any), observe hygiene in harvesting and packaging of their produce; plant on-demand crops and vegetables, maintain proper financial and agricultural records, among others.

Records (invoices & orders), however, showed that local farmers who were over 1000 on average still only supply food worth UGX 2,000,000 (less than USD 1,000) a month, which is still low compared to the efforts and investments by the licensee (as of September 2014). One of the reasons being that only one licensee (TUOP), out of the three, is procuring food from the local communities. Moreover, TUOP had scaled down its activities in the region (few staff in camps), hence the dwindling food procurements from locals. Through interviews with management of Hoima District Farmers' Association (HODFA), audit established that as a result of minimal demand for produce from the local farmers, some of whom had been engaged in the capacity development (to improve

[12] Cf. CSRM, University of Queensland (2010): Procuring from SMEs in local communities: A Good Practice Guide for the Australian Mining, Oil and Gas Sectors; Page 1

[13] Source: Interviews with officials from TUOP,CNOOC and TEP; HODFA and Traidlinks officials.

their quantities & quality), many farmers are now frustrated and have abandoned production of crops for supply to the oil companies.

Management Response

- Government approved a study (Agricultural development programme) to be undertaken by JV Partners. This study is currently ongoing and is intended to identify priorities for development of agriculture, livestock, fisheries, and other relevant agricultural sectors and aims to establish issues, challenges and opportunities for the future development of agriculture, livestock and fisheries sub-sectors and develop an appropriate model for implementation of such project at a later stage.
- Management will continuously engage the oil companies and their sub-contractors to establish and maintain partnerships with local suppliers. In addition the petroleum regulations and the National Content policy will provide a framework for these partnerships.

Recommendation

In addition to undertaking the Agricultural development study, MEMD in collaboration with Local Governments from the host community and other relevant actors, should undertake an assessment of local community Small & Medium Enterprises (SMEs) participation with the view of identifying capabilities and gaps in other fields like welding. This would guide in the formulation of a comprehensive strategy involving various interventions, such as: agriculture extension services, financial, industry and product standardisation.

4.2.5 Procurement regulations/ procedures

The participation local firms in the supply chain with strengthened capacity to compete is crucial to the promotion of national content. The National Content Study (2011) by MEMD recommended the regulation of procurement procedures.[14] The Petroleum (EDP) Act, 2013, does not explicitly deal with the procurement procedures to be followed by the companies. The Act states that "suppliers/local companies will be approved in accordance with criteria prescribed in the regulations by the Minister". By March 2015 such regulations have not been enacted.

The PSAs, however, give discretion to oil companies to establish appropriate procedures, including tender procedures, for the acquisition of goods and services to ensure that the suppliers and sub-contractors in Uganda are given adequate opportunity to compete for the supply of goods and services. These procedures are to be approved by the Advisory Committee (AC).

Through document review and interviews, it was established that although all the oil companies developed procurement procedures in 2012, none of these had, by March 2015, been approved by their respective ACs. This was attributed to deadlock on some issues, including procurement methods and thresholds, definition of a National Service Provider, code of business conduct and national content provisions. The same documents and interviews showed that no agreement had been reached in spite of several consultations with the oil companies and other relevant government bodies such as PPDA and the Solicitor General's office. In other instances oil companies such as TUOP kept on resubmitting new contract procurement procedure manuals (CPPM) which were inconsistent with what had been agreed upon with the ministry.

[14] Section 9.1(2) Pg 53 of the report onEnhancing National Participation in the Oil and Gas Industry in Uganda

The Petroleum Act[15] and the PSAs allocate the responsibility to approve the procurement process differently. While the Act allocates the responsibility to the Minster, the PSAs allocate the responsibility to the AC. The lack of clarity in the roles of the Minister and the AC in terms of who approves the procurement related process creates confusion amongst stakeholders.

The PSAs do not explicitly provide for sanctions for not complying with the requirement to have tender procedures approved by the AC, that is, how the expenditures incurred through such unapproved tender procedures shall be treated for the purpose of assessing recoverability. Also, there are no guidelines on minimum requirements that should be considered by the ACs before approving the tender procedures.

The extent to which the oil companies ensure competition in the selection of suppliers has not been assessed since the oil companies did not avail copies of procurement files for audit. Through review of correspondences between Oil companies and PEPD, cases of single sourcing from international firms were noted (refer to **APPENDIX VII**). It is not clear whether no Ugandan potential suppliers would undertake such procurements.

Without uniform procurement laws and guidelines tailored to oil and gas, the existing legislation is open to various interpretations, which may not favour local participation hence undermining local content.

[15] Petroleum Act sec 125 4(b)

[16] Part VIII Section 126

Management Response

It was hoped that there would be added benefit from the variety of procedures from the IOCs, however, none was approved. At the time of the audit, the process of formulating the regulations was still on-going. The section in the draft regulations aims at regulation of procurements in the oil and gas sector and sets out the principles and procedures to be followed.

Management will work with relevant government organs to address issues of non-compliance.

Recommendations

- MEMD is urged to expedite the standardization of procurement procedures/ regulations across the sector in order to promote national content.
- MEMD should address the contradiction regarding who is responsible for approving procurement procedures.
- MEMD is advised to consider developing sanctions where there is non-compliance with the approved procurement procedures.

4.3 EMPLOYMENT AND TRAINING BY THE OIL COMPANIES

According to the PEPD Act 2013[16], the licensee shall, within twelve months after the grant of a licence, and on each subsequent anniversary of that grant, submit to the Authority for approval, a detailed programme for recruitment and training of Ugandans in all phases of petroleum activities and shall take into account gender, equity, persons with disabilities and host communities.

Further in Article 21.1 of the Production Sharing Agreements (PSAs) the licensee commits to employ suitably qualified Ugandan citizens in its petroleum operations. The licensee is also required to ensure its sublicenses do the same.

4.3.1 Number of Ugandans recruited in the oil companies

During the period under review, it was observed that although the proportion of Ugandans employed in the oil and gas sector by the oil companies overall rose from 69% in 2012 to 80% in 2014, absolute numbers of employees decreased from 546 to 432 between 2013 and 2014; in particular, the nationals dropped from 370 to 347 over the same period. **Table 4** below refers.

Table 4: Number of nationals and expatriates employed by the oil companies[17]

Oil Company	Total number of employees			Nationals			Expatriates		
	2012	**2013**	**2014**	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**
CNOOC	91	120	123	57	78	87	34	42	36
TEP	195	244	166	98	123	125	97	121	41
TUOP	184	182	143	168	169	135	16	13	8
Total	**470**	**546**	**432**	**323**	**370**	**347**	**147**	**176**	**85**

Source: OAG analysis of National Content Reports from oil companies for 2012-2014

The proportional increase of nationals was also noted in each individual oil company, although with varying degrees of national employment (CNOOC ranged 63% to 71%, TEP-50% to 75% and TUOP-91% to 94%).

Although CNOOC had increased the total number of employees recruited over the years from 91 to 123, TEP and TUOP had reduced their total workforce over the years. The reduction was attributed to reduced levels of activities due to delayed approvals, by government, of their production licenses.

Government has not set targets for the number of Ugandans to be employed by the oil companies over time. Without set measurable targets, it is not clear whether the levels of employment are on course with Government's recruitment programme for Ugandans in the oil and gas sector.

Management Response

Government continually engages oil companies to give priority to Ugandans whenever they are qualified. The draft national content regulations have provided employment targets for the different job categories of the licensees. In addition, the National Content Policy, Strategy and Plans will address the issues of targets once the policy is adopted by government.

Audit Comment

Audit notes the proposed employment targets for the different levels of staff in the draft regulations.

[17] No aggregated data has been got for employees of sub-contractors

Recommendation

MEMD should ensure continuous dialogue with the oil companies and other stakeholders to ensure that the employment targets in the draft regulations are realised.

4.3.2 Ugandans in management positions

While there has been a general increase in the level of employment of Ugandan Nationals, there is still a low concentration of Nationals in senior management and middle management as shown in **Table 5** below.

Table 5: Showing placement of Nationals and Expatriates in the oil companies

Company	Senior management			Middle management			Lower management		
	Total	Nationals	Expatriates	Total	Nationals	Expatriates	Total	Nationals	Expatriates
CNOOC	05	00	05	63	06	57	64	64	00
TEP	10	01	09	95	63	32	61	61	00
TUOP	07	05	02	68	62	06	68	68	00

Source: OAG Analysis of staff lists from CNOOC, Total E&P, and TUOP as at December 2014

From the table above it is observed that there were differences among the oil companies regarding hiring Ugandan nationals in senior and middle management positions. While TUOP had more Ugandan nationals in managerial positions by December 2014 (5 in senior management), TEP and CNOOC had only 1 and none in senior management, respectively. In middle management, CNOOC had only 10% compared to 66% and 91% for TEP and TUOP, respectively.

According to PEPD, the variance of Ugandans in management positions could be explained by the fact that TUOP had been in operation for a longer time hence possibility of replacement of expatriates over time as per the approved succession plan. In addition, TUOP's capacity-building policy which involves secondment of its staff to countries at more advanced stages of production enabled their staff to obtain the critical experience needed for execution of tasks at higher levels of management.

However, the differences between CNOOC and TEP, which started business around the same time, could not be explained.

Management Response

Management has noted the Auditor General's concern regarding the limited number of Ugandans in Management positions. However, the department engages and encourages oil companies to give qualified locals/ Ugandans opportunities in management positions. As highlighted in the report, this is expected to change with time as more Ugandans acquire the relevant experience.

4.3.3 Wages and benefits to Ugandans

According to the World Bank guideline on measurement of local content, "an alternative to measuring the headcount of nationals in the workforce or in the execution of a particular contract is to report the salaries or wages paid by the company to national employees and other payrolled staff[18]".

[18] World Bank Study: "Local Content Policies in the Oil and Gas Sector" S. Tordo; Pg. 77

Audit analysed wages paid to nationals and expatriates and noted a wide range in the wage differentials between the nationals and expatriate staff as illustrated in Table 6 below:

Table 6: Showing wages earned by Nationals and Expatriates

Company	Category of employees	December 2012		December 2013		December 2014	
		Number of staff	Amount (UGX)	Number of staff	Amount (UGX)	Number of staff	Amount (UGX)
CNOOC	**Nationals**	**57**	**183,306,451**	**77**	**270,212,000**	**87**	**316,828,672**
	Expatriates	34	1,448,747,277	36	1,505,739,129	36	1,502,862,690
	Total	**91**	**1,632,053,728**	**113**	**1,775,951,129**	**123**	**1,819,691,362**
	% to Nationals	63%	11%	68%	15%	71%	17%
TEP	Nationals	98	397,620,000	124	586,556,093	129	661,151,723
	Expatriates	55	2,790,388,948	92	4,972,070,149	38	2,103,601,187
	Total	**153**	**3,188,008,948**	**216**	**5,558,626,242**	**167**	**2,764,752,910**
	% to Nationals	64%	12%	57%	11%	77%	24%
TUOP	Nationals	168	1,063,494,469	169	1,686,961,848	134	1,557,423,106
	Expatriates	16	1,085,999,938	13	577,821,869	8	304,975,533
	Total	**184**	**2,149,494,407**	**182**	**2,264,783,717**	**142**	**1,862,398,639**
	% to Nationals	91%	49%	93%	74%	94%	84%

Source: OAG analysis of December salary payments from CNOOC, Total E&P and TUOP. Deletions and additions during the year not included

In the months of December 2012-14, as shown in the table above, the salaries of nationals in TUOP ranged between 49% and 84% of the total wage bill over the years, yet they constituted 91-94% of the total staff. For CNOOC and TEP, although nationals averaged 67% and 66% of staff numbers, respectively, their average total salaries were only 14% and 16% of the entire payroll, respectively. In some cases expatriates, on average, earned between 5 to 10 times more than nationals (CNOOC & TEP).

Further analysis also established that there has been a continuous increase in the average salaries earned by Ugandan nationals each year, notably in TUOP. TUOP paid its nationals higher salaries than the two other oil companies and this explains why the proportion of salary going to nationals is higher. In 2014, for example, TUOP paid each national an average of UGX 11,622,560 per month compared to TEP and CNOOC who paid an average of UGX 5,125,207 and UGX 3,641,709, respectively. The variations have not been explained.

There is a risk that nationals are not benefiting proportionately in terms of salaries & wages.

Management Response

Management has noted the Auditor General's concern regarding the differences in wages paid to nationals and expatriates. The Ministry has had engagements with oil companies regarding the matter.

4.3.4 Equal pay for equal work

The Employment Act 2006 of Uganda Sec 6(7) states that "every employer shall pay male and female equal remuneration for work of equal value". Comparative analysis of salaries for staff at the same level of management further confirmed that huge differences still exist between the remuneration of expatriates and nationals within and among the companies. **Table 7** below shows an analysis of the average monthly salaries each oil company paid to expatriates and nationals in middle management.

Table 7: Showing salary differences between Nationals and Expatriates at the same level of management (Middle level management)

Category	Average gross salary in UGX (excluding allowances)		
	CNOOC	Total E&P	TUOP
Nationals	6,980,133	5,528,646	14,176,213
Expatriates	38,675,813	38,840,936	39,535,868
Category	**Average gross salary in UGX (including allowances)**		
	CNOOC	Total E&P	TUOP
Nationals	7,230,133	6,123,156	15,021,065
Expatriates	57,691,213	48,071,379	45,222,767

Source: OAG Analysis of salaries of the oil companies for one month in 2014

From the above, excluding allowances, an expatriate in TUOP earns three (3) times what his/her national counterpart at the same management level earns. The difference is more vividly marked in TEP and CNOOC where the ratio of an expatriate's salary to a national's at the same level stands at 7:1 and 6:1, respectively.

Oil companies explained that expatriates are paid according to the terms set in their countries of origin which are higher than the Nationals. However, Article 33 of the PSA states that the agreement shall be governed by, interpreted and construed in accordance with the laws of Uganda and generally accepted principles of international law. According to a legal opinion by the legal officer PEPD, dated 12/10/12 it was stated that: "whereas it is agreeable that oil companies are free to present favourable and competitive terms to their employees, the basis for those terms should be the laws of the country within which they are carrying out petroleum operations rather than their countries of origin."

Management Response

Management has noted the Auditor General's concern and will continue engaging the oil companies in this regard.

Audit comment

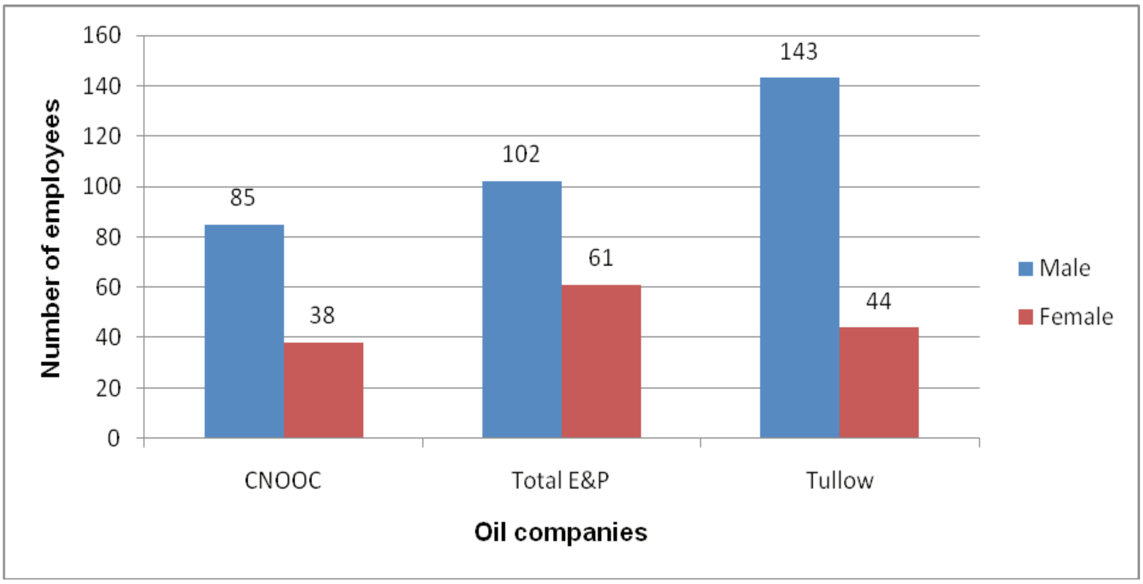
The wide differences in basic salary payments negatively affect the level of benefit by nationals from the petroleum sector. The engagements with the oil companies should ensure that the salary gaps are addressed.

4.3.5 Gender and employment

The Petroleum (EDP) Act Part VIII Section 126(2)[19] states "The programme shall provide for the training and recruitment of Ugandans in all phases of petroleum activities and shall take into account gender, equity, and persons with disabilities"

Using the current number of employees (December 2014), the levels of female to male employed were CNOOC: 30%, TEP 37% and TUOP had 23% as seen in **Figure 2** below.

Figure 2: Graph showing number of employees by sex



Source: OAG Analysis of staff lists from CNOOC, TEP, and TUOP as at December 2014

Without set targets it is difficult to tell whether government and oil companies are comfortable with such levels. Licensees explained that there were very few qualified women who had applied for jobs in the petroleum sector.

Management Response
The draft national content policy recognizes the importance of gender in the development of the oil and gas sector in the country. This is manifestation of recognition of this issue and Management will therefore continue to engage with key stakeholders to ensure that gender is considered in all aspects of oil and gas development. It is proposed to have District Community development officers as part of the PEPD field monitoring teams.

Audit Comment
Through review of the draft National Content policy, audit noted that it makes generalised statements regarding gender, that cannot be enforced to promote the visibility of both men and women in the sector. The draft policy lacks a gender analysis and does not make provisions for quotas and targets for employment of men and women in the sector. There are also no specific interventions to encourage training, recruitment and promotion of more women in the sector.

[19] The employment Act 2006 11(6) also encourages gender equality

Recommendation

- MEMD, in collaboration with the Ministry of Gender, Labour and Social Development (MGLSD), should come up with specific interventions to promote equal representation of men and women in the oil and gas sector.
- MEMD, in collaboration with the Ministry of Education and Sports (MoES), should encourage the training of women in professions relevant to the oil and gas sector to make them available for recruitment.

4.3.6 Employees from host communities

Through interviews, management from oil companies stated that they encouraged subcontractors to ensure that they recruit locals, especially the casual labourers. However, apart from TEP which provided a list of 1382 locals who had been employed by sub-contractors between 2012 and December 2014 (wages USD 4330), the rest did not provide the actual numbers of host community employment.

On the other hand, IOCs did not give any consideration to persons from host communities during the recruitment of their skilled staff. Through review of the current staff lists for each of the oil companies, it was noted that TUOP employed 12, TEP 13 and CNOOC 3 people from the host communities. Without targets set by both government and oil companies, it is difficult to know whether the numbers are adequate. The companies explained that opportunities for employment (national content) were equally open to all Ugandans regardless of the origin.

Without deliberate efforts to increase the recruitment of skilled persons from host communities, some community members expressed scepticism about the benefits that would accrue from oil, because their youth and children are likely to be employed largely for casual jobs.[20] Such sentiments could eventually breed dissatisfaction within host communities.

PEPD also concurred with the oil companies that giving priority to host communities for skilled positions went against the principles of fair competition. They further stated that the disappointment from host communities was due to high expectations, which was being addressed through the Communication Strategy for the Oil and Gas Sector developed by MEMD.

However, no evidence was provided that the strategy was being implemented, and neither were there measurable indicators in its implementation matrix for tracking the extent of its implementation.

Management Response

In all petroleum operations where unskilled labour has been required, particularly during seismic surveys, the locals have been employed. This has been underpinned by the fact that the large numbers of unskilled workers employed in these operations would not require accommodation as they can go back home after work. The large numbers make it impractical to source such a category of workers from far places other than the local area within which the activity is located.

Audit Comment

No evidence has been provided to authenticate the employment of locals.

The failure to attach importance to the need to employ locals from host communities in skilled positions, as well as manage the expectations of the communities, presents a great risk that dissatisfied members of the host communities can frustrate/ distort petroleum interventions, as has happened in other oil producing countries such as Nigeria.

[20] International Alert (2013): Governance and livelihoods in Uganda's oil-rich Albertine Graben; pg. 6

4.3.7 Nationalisation/Succession plans

Under the PSAs, the licensee is permitted to recruit expatriates after satisfying the Advisory Committee that no suitably qualified Ugandan citizens are available for the task. The licensee also undertakes to gradually replace its expatriate staff in key senior management or technical positions with suitably qualified and experienced Ugandan citizens.

Audit acknowledges that all the three (3) oil companies operating in Uganda had approved Nationalisation/ Succession plans on how to replace the expatriates with Ugandan nationals. However, the Nationalisation Plan for CNOOC was only approved in November 2014 while for TEP was approved in June 2013 despite the fact that operations in both companies started in 2012. TUOP's succession plan was approved in 2012. The succession periods start from the date the expatriate is employed. For all the three companies, the plans were approved after expatriates had been employed.

It was also observed that in addition to Oil companies submitting dissimilar succession plans (formats), PEPD approved different (average) succession periods for staff in similar positions/departments in the different oil companies as illustrated in the T**able 8** below. The periods taken for each company to replace the expatriate in a given position varied.

Table 8: Showing nationalisation periods for oil companies

Position/ Department	TUOP (YRS)	TEP (YRS)	CNOOC (YRS)
Manager/President	7	20	15
Health and Safety	3	7.7	5.6
Business and Development	3	10.6	8.5
Finance	3	8.3	5.8
Human Resource	3	5.5	3

Source: OAG analysis of Approved Nationalization plans for TUOP, TEP and CNOOC

TUOP had shorter replacement periods for all the positions compared to the other licensees, with TEP having the longest.

PEPD explained that the delay and differences were due to the fact that there were disagreements over the presented plans and varying needs. Licensees had requested for longer periods for Nationalisation hence the need for protracted/extended negotiations with each oil company.

Extended periods of nationalisation and prolonged approval of the Nationalisation plans means that key nationals take a long time to replace the expatriates thereby affecting the numbers of nationals employed in the sector.

Recommendation

MEMD is called upon to ensure that there are uniform succession periods (with limited room for negotiations) for all companies to avoid bias and enhance transparency and comparability.

Management Response

Management has taken note of the recommendation and action will be taken to harmonise the succession periods.

4.3.8 Overstayed expatriates

The above notwithstanding, all the oil companies had expatriates who had overstayed beyond the approved period in the nationalisation plans. Details are in **APPENDIX VIII.**

Licensees explained that the overstay was due to the fact that no suitable national had been identified to replace them. There was, however, no evidence, such as job advertisements, provided to authenticate the claim. Moreover, in each of the licensed oil companies a number of positions to understudy the expatriates, for which nationalisation is expected, are still vacant: Twenty four (24), twenty six (26), and five (5) vacant positions were noted in CNOOC, TEP and TUOP, respectively.[21] It is not clear how succession and replacement of expatriates with nationals would be effected with such gaps.

The overstay of expatriates is not only against the succession planning but also denies opportunity for locals to undertake jobs in the sector.

Management Response

Management has taken note of the Auditor General's observation and action is being taken. The Ministry works and will continually engage with the Ministry of Internal Affairs (Immigration Department) in addressing the issue of overstay of expatriates.

Recommendations

- In addition to the above commitment by Management, MEMD should enforce sanctions against oil companies whose expatriates stay beyond the agreed nationalisation date without proper justification and authorisation by MEMD.
- MEMD should ensure that the oil companies fill the vacant positions by recruiting nationals to understudy expatriates.

4.3.9 Work Permits

According to the PSA Section 21.4, a licensee shall be free to employ foreign nationals to the extent that suitably qualified and experienced Ugandan nationals cannot be found to fill a position. Government shall expeditiously provide the necessary work permits and other approvals required for the employment and residence of expatriate personnel and their families in Uganda.

The oil company informs MEMD justifying the need for an expatriate. Once the expatriate is identified, the company applies to MEMD for recommendation for the expatriate's work permit/ special pass. The recommendation letter from MEMD accompanies the oil company's application for a work permit/ special pass submitted to the Ministry of Internal Affairs on behalf of the hired consultant. Once the work permit/ special pass is issued, the expatriate can then commence work. A work permit is renewable after two years, while a special pass is valid for 5 months (issued if the expatriate is on a short term consultancy).

Through a review of files from Oil companies' applications for work permits it was observed that:

- Sometimes the licensees applied for and were issued work permits when expatriates were already in the country. For example for CNOOC, adverts were made in July 2012 yet formal requests to approve the expatriates had been submitted in May 2012. Although PEPD requested them to advertise, they only did it reluctantly and out of formality (ref letter from CNOOC) since for the months of May, June and July 2012 (before adverts and even before work permits were approved) these expatriates were working (Ref. CNOOC Payroll data for 2012). For all the 27 jobs advertised in the newspapers, attracting over 700

[21] Analysis of Approved Nationalisation plans for CNOOC, TEP and TUOP

local applicants, none was appointed, citing lack of experience in the oil and gas sector. Instead, the recruitment report submitted by the CNOOC to PEPD recommended recruitment of expatriates.

- In addition, PEPD did not validate claims of previous working experience of the proposed expatriates, through say, previous appointment or discharge letters. It only relied on submissions in their CVs attached to recommend issuance of work permits. It is not clear whether they possessed the stated experience.
- Furthermore, although PEPD, after reviewing the recruitment report from CNOOC, had recommended appointing some of the interviewed nationals, there was no evidence that this was undertaken.
- Other applications for work permits were approved by MEMD without going through the requirements for advertising locally (Refer to **APPENDIX IX).**

This creates a risk of recruiting expatriates who do not meet the criteria for the jobs, such as, the academic background and experience. For example, through a review of sampled employee personal files, it was revealed that some expatriates did not have the specified academic background as per the job description and some did not have the required experience, as illustrated in **APPENDIX X.**

<u>Expatriates working without Work Permits</u>

During the field visits between 1st-8th September 2014, audit noted there were expatriates who were working in the oil fields without work permits. This was further corroborated with review of PEPD's records of Persons On Board (POBs) which revealed that in the month of September 2014 alone, 11 expatriates from TEP and its sub-contractors were working in the field without work permits. Another 46 and 154 expatriates had been identified from the same company in the months of August 2013 and December 2012, respectively. Further still, between 14th and 21st November 2014, 74 expatriates working in the field for CNOOC and its sub-contractors lacked work permits. Interviews also showed that at the time of audit, work permits for most CNOOC expatriates had since expired though these expatriates were still working.

The above weaknesses in following up expatriates whose permits have expired creates loopholes for companies to continue employing expatriates without exploring the avenues of recruiting nationals. This further affects the prospects for national content growth.

Management Response

- The Ministry has been working with the MoIA on issues of evaluation and recommendations of work permits for expatriates. In a meeting held with MoGLSD to address labour and HR issues it was recommended that a Joint Labour and HR committee comprised of members from MEMD, MoGLSD and MoIA be established.
- Management is in the process of establishing a database to record expatriates working in the oil and gas sector. This will enable management to establish the legal status of expatriates in the sector and accordingly update MoIA.

Recommendations

- MEMD and the MoIA should improve coordination amongst them to ensure the work permit system is streamlined such that expatriates are only recruited after local recruitment has failed to identify suitable nationals and the system ensures thorough check in terms of qualification and experience.
- The MoIA should ensure timely follow-up on expired permits and enforce stringent penalties for any defaults and abuse.

4.3.10 Training by companies for their staff

A licence shall include a clearly defined training programme for the Ugandan employees of the licensee, which may be carried out in or outside Uganda and may include scholarships and other financial support for education. The PSA further obliges the licensee to undertake the training of Ugandan citizens for staff positions, including administrative and executive management positions and also require its sub licensees to do the same.

Through review of the companies' training programmes and reports, it was noted that all the oil companies had made some efforts to train their staff. **Table 9** below shows the planned and actual expenditure on training of staff from the oil companies.

Table 9: Showing planned and actual expenditure on training of oil company staff

		Total cost (USD)			Percentage utilised
Company	Year	Planned	Actual	Variance	
TUOP	2012	2,720,532	1,293,609	1,426,923	48%
	2013	2,069,706	1,095,342	974,364	53%
	2014	1,998,700	1,206,622	792,078	60%
	Total	**6,788,938**	**3,595,573**	**3,193,365**	**53%**
TEP	2012	770,857	195,670	575,187	25%
	2013	1,188,068	1,090,906	97,162	92%
	2014	1,408,400	1,323,273	85,127	94%
	Total	**3,367,325**	**2,609,849**	**757,476**	**78%**
CNOOC	2012	1,100,000	578,320	521,680	53%
	2013	570,200	291,227	278,973	51%
	2014	840,000	654,319	185,681	78%
	Total	**2,510,200**	**1,523,866**	**986,334**	**61%**

Source: Training plans and reports from TUOP, TEP and CUL for 2012-2014

As seen from the table above, in most cases, none of the three oil companies fully utilized its training budgets (ranging between 25% and 94% utilisation). CNOOC claimed unforeseen circumstances for the underutilization of funds. PEPD had also not followed up with the oil companies to ascertain the reasons for not utilizing their training budgets as planned.

Relatedly, actual training figures (Refer to **APPENDIX XI**) were less than the planned, and this has an effect of reduced numbers of nationals undertaking the training in preparation for progression or eventual succession as envisaged by the law.

It was further noted, through comparison of specific courses undertaken, that the oil companies generally deviated from the types of trainings they had planned to undertake and authority was not sought from the Advisory Committee prior to making these changes. In some cases, technical courses were being substituted for soft (non-technical) courses.

Further analysis showed that for all the licensees, the majority of trainings undertaken from 2012 to 2014 were of short term nature (7 days or less) with TUOP 72%, CNOOC 86% and TEP 79%. Details are shown in **Table 10** below. The longer term trainings (6 months and above) have mainly been through international secondment of staff to licensees' overseas operations which are at advanced phases of the industry (TUOP-20%, CNOOC-5%, TEP-1%).

Table 10: Duration of courses organised by oil companies for their staff

Duration	TUOP*	CNOOC	TEP
1-3 days	29	54	49
4-7 days	89	14	73
8-30 days	04	05	14
1-3 months	04	01	14
3-6 months	04	01	03
Over 6 months	33	04	01
TOTAL	**163**	**79**	**154**

Source: Training reports submitted for audit by oil companies.

***The duration of trainings organised by TUOP in 2014 was not submitted to Audit.**

In addition, PEPD did not consistently assess the relevance of such short term trainings in view of the required knowledge for the sector to ensure employee skills are enhanced in preparation for the long term participation of nationals.

Management Response

- The department holds Human Resource workshops to review the personnel budget that includes training before recommending the budget approval to the ACM. The training is reviewed for relevance and value for money.

Audit Comment

PEPD only provided one record (minutes of an HR Workshop) where relevance of courses was discussed before approval of the training budget. In this meeting, PEPD noted that some of the proposed trainings were basic and others too generic.[22] TUOP was advised to submit a revised training plan with more relevant courses, but no follow-up was carried out to ensure that the approved trainings were actually carried out. Also, issues regarding implementation and deviations from planned trainings without justification and authorization by the Advisory Committee are not raised in the minutes.

In addition, PEPD availed to audit a letter to CNOOC in which the department raised the issue of underutilisation of funds by CNOOC for training of its staff in 2013[23]. No other such communication to CNOOC or other oil companies was availed. Furthermore, there was no evidence of a response or action taken by CNOOC following PEPD ´s communication.

Without training as planned, the objective of involving more Ugandan nationals in the oil and gas sector may be delayed. Moreover since training plans are based on identified training needs, deviation from these plans defeats the purpose for which plans were made, since training gaps remain un-addressed.

Recommendation

MEMD should ensure that oil companies explain underutilisation of funds for training their staff, seek approval before deviating from approved training plans and budgets and that courses undertaken are relevant.

[22] PEPD: Minutes of the EA2 HR Meeting Held on 21st November, 2013; pg.8

[23] Ref. PM 396/432/01; dated 18th September 2014

4.3.11 Scholarships – amounts and effectiveness

Companies should strive to connect with the societies in which they operate in a way that ensures maintenance and enforcement of a positive public image since they are dependent on these societies.[24] In this regard, it was noted that the oil companies have continued to provide scholarships to locals for training both abroad and locally. **Table 11** below shows the training interventions provided by the oil companies to nationals as part of their Corporate Social Responsibility (CSR), from 2012-2014.

Table 11:Training-related CSR interventions by the oil companies from 2012-14

TUOP	TEP	CNOOC
Status of the CSR interventions - Sponsored 51 nationals for Masters degrees in the UK between 2012/13 and 2013/14; - A quota is provided for students from the host communities. **Purpose of the interventions** - To build capacity in areas where Uganda experiences significant skills gaps, especially, but not exclusively, relating to the country's oil and gas industry.[25] It is aligned with Tullow's aim of supporting long-term socio-economic development in countries where it operates. **Follow-up after studies** - No follow-up done. TUOP does not offer jobs to the scholarship beneficiaries upon completion.	**Status of the CSR interventions** - Sponsored 9 nationals for Masters degrees; - Best students from the host communities sponsored to study in top schools, such as Namilyango College, St. Mary's College Kisubi, and King's College Buddo. **Purpose of the interventions** - To train nationals in areas where they will have a skills need in the future (Source: interview with TEP officials); **Follow-up after studies** - Signed pre-employment contracts with the students sponsored for Masters degrees. These are to work with TEP upon completion. - Signed contracts with the students being sponsored at secondary level; follow-up is done on their performance; students are advised on university courses to apply for that will eventually lead to the oil and gas sector. TEP intends to follow up with the students who progress and eventually employ them.	**Status of the CSR interventions** - Sponsored 3 students for Masters, and 2 at undergraduate level; - Sponsored 70 students from Hoima and Buliisa districts to undertake vocational training at Nile Vocational Institute, Hoima district. 69 graduated. - Gave prize money to the best students in Hoima District at Primary, O- and A-levels. In 2013, UGX 24 million was awarded to a total of 60 best-performing students. In 2014, UGX 31 million was awarded to a total of 90 best-performing students. - CNOOC tops up the salaries of 9 teachers at Buhuuka Primary School (Bugoma, Hoima District), at a cost of about USD 2,000 per month. **Purpose of the interventions** - Through interviews with CNOOC officials, they stated that the aim of the vocational training scholarships was to equip the beneficiaries with skills, though not necessarily those relevant for the oil and gas sector. - The prize money is meant to motivate students to excel, as well as contribute to enhance education standards. - The intention of the top-up is to encourage teachers to stay in the area and teach the pupils from the host community, since the area is hard to reach and stay in. Follow-up after studies - No deliberate follow-up on students after studies. However, they mentioned that where the skills of the trainees prove relevant for a job/service they require, they give them some consideration. - No follow-up is done to establish whether the prize winners continue to the next level of education.

Source: Interviews with oil companies and review of CSR reports and analysis of survey responses from TUOP scholarship beneficiaries

Although both TUOP and CNOOC provided scholarships, they did not guarantee employment of the beneficiaries upon completion. Both companies undertake CSR to increase the pool of skilled persons in the host country, though not necessarily in areas related to oil and gas.

TEP, on the other hand, preferred to train people with the aim of employing them later on

[24] VAALAND, T.I. and HEIDE, M., 2005.Corporate social responsiveness: exploring the dynamics of 'bad episodes'. European Management Journal, Vol. 23 No. 5, pp. 495-506.

[25] Cf. https://tullowgroupscholarshipscheme.org/; Site visited on 16th January, 2015, at 6:05pm.

and this training was both at secondary and university level. TEP also kept in touch with the beneficiaries to assess their performance, identify challenges, and help them improve where necessary. For students advancing for post-graduate studies, TEP signed pre-employment contracts with them, assuring them of recruitment upon completion of their studies. The status of scholarship beneficiaries from the 3 oil companies is presented in **Table 12** below.

Table 12: Status of employment of oil companies' scholarship beneficiaries

Oil Company	Intervention made	Status
TEP	2 lots of scholarships have been given.	The two lots returned from studies. The first lot is already working with the company, while the second lot will be absorbed once operations pick up again.[26]
CNOOC	Sponsored training at Nile Vocational Institute- 69 students graduated in welding, metal fabrication, plumbing etc.	5 recruited to work as casual labourers with CNOOC, while one is employed by one of the oil companies.
TUOP	51 beneficiaries: 2012/13- 20 2013/14- 20 2014/15- 11	Through a survey administered to 20[27] beneficiaries of the TUOP Group scholarship scheme, the following was noted: • All the respondents felt that the studies undertaken were relevant for the government, oil companies and other employment. • 4 out of 20 beneficiaries were directly employed in the oil and gas sector. • 4 were working indirectly with the oil and gas sector. • 8 were doing work completely unrelated to the oil and gas sector. • 4 were unemployed.

Source: OAG Analysis of Oil company reports and results from a survey administered to TUOP scholarship beneficiaries

To improve effectiveness of the scheme and public image of the oil companies, beneficiaries and representatives from host communities suggested that the oil companies should consider:

- recruiting beneficiaries who have benefitted from the scholarships they have sponsored.
- including internship and placement of the scholarship beneficiaries with oil companies during and after studies to enable them gain hands-on experience.
- developing a strategy for support to local universities to enable them provide world-class training in disciplines related to oil and gas. This would lower the costs of study and make the courses accessible to more Ugandans.

[26] Ref: document review and Interview with TEP personnel.

[27] The first batch of beneficiaries

Management Response

- Management will continually engage and encourage oil companies to employ, train and offer internships whenever possible.
- The ministry has been involved in support of local universities and training institutions to ensure that they meet internationally accepted standards. With support from the Ministry, the department of geology and petroleum studies at Makerere University received software, software license, hardware installation for the geology and petroleum lab from Schlumberger in 2011. The ministry has also supported collaborations between UPIK and Kengiston training institute from Trinidad and Tobago. The workforce skills development plan and strategy that will result from the capacity needs analysis study mentioned earlier is also expected to provide a framework for support to local universities, technical colleges and vocational institutions.

Audit Comment

Audit notes the positive contribution of the oil companies' CSR initiatives towards skilling Ugandans. However, there is potential for improving the effectiveness of some of these initiatives.

Recommendation

MEMD should continuously dialogue with the oil companies to discuss ways of improving the effectiveness of the scholarship schemes.

4.4 TRAINING BY THE GOVERNMENT

4.4.1 Training of government officials funded by the oil companies

The PSAs (Article 20.2) require the oil companies to establish an annual programme, satisfactory to the Government, to train personnel of the Government to undertake skilled and technical jobs in petroleum operations. GoU agreed with the oil companies that the budget for the training of government officials should be equivalent to 40% of the oil companies' annual budget for training of their own staff. Annually, the Accounting Officer in the Ministry of Energy and Mineral Development (MEMD) invites Government Ministries, Departments and Agencies (MDAs) relevant to the Oil and Gas Sector, to submit capacity building training proposals/requests for the officers in their respective institutions. These requests are then forwarded to the respective oil companies for funding depending on the budgeted amounts per company. The companies disburse funds directly to the training institutions. The courses are both short and long term (including Masters Degrees).

From a review of records, it was noted that apart from 2012 when CNOOC and TEP, respectively, provided 0% and 24% of the required budget, licensees have generally been fulfilling their obligations to plan and budget for training of GoU personnel.

i) Underutilisation of funds

In spite of the noted contributions, the actual expenditures by the oil companies for training of government personnel generally fell below the budgeted amounts, as illustrated in **Table 13** below:

Table 13: Budget vs. Actual expenditure

Company	2012		2013		2014	
	Budget (USD)	Actual (USD)	Budget (USD)	Actual (USD)	Budget (USD)	Actual (USD)
TUOP	**1,088,000**	**987,605**	**857,882**	**714,627**	**470,400**	**487,179**
TEP Uganda	277,143	67,740	475,227	414,384	642,179	631,808
CNOOC(U)	238,000	0	394,000	391,844	342,000	303,655
Total	1,603,143	1,055,345	1,727,109	1,520,855	1,454,579	1,422,642
No of Staff Trained	Long Term 11 Short Term 91		Long term 27 Short Term 70		Long term 12 Short Term 86	
Amounts	Long Term: USD 403,009 Short term: USD 652,336		Long Term: USD 1,076,999 Short term: USD 443,856		Long Term: USD 582,696* Short term: USD 792,973*	

Source: PEPD and oil companies' reports on training of government officials
***Difference between the total actual amount spent in 2014 and the sum of Long-term and Short-term training for the same year (USD 46,973) was not explained.**

No trainings had been undertaken prior to 2012 despite the fact that TUOP and other licensees (Neptune and Dominion) were in operation since 2004 and the PSAs provided for such trainings.

Audit noted that the utilisation of training funds from TEP increased consistently over the years, from 24% in 2012 to 98% in 2014. However, the absorption of funds from TUOP and CNOOC fluctuated over the same period. In 2012, utilisation for TUOP was 91%. In 2013, it fell to 83% and shot to 104% in 2014. The excess expenditure by TUOP in 2014 was because some trainings which had been planned for 2013 were postponed to 2014, and so the money allocated was carried over. However a declining trend in actual amounts TUOP spent on training was noted (from USD 987m in 2012 to USD 487m in 2014). For CNOOC, no expenditure was incurred on training of government officials in 2012. It rose to 99% in 2013, only to fall to 89% in 2014.

The oil companies explained that the reduction was due to delayed submission by government of the details of proposed trainees. MEMD Management acknowledged that there had been some delays in the past, and stated that they were working towards improvement. TUOP also cited scaled down activities in 2014 as a reason for reduced expenditure on training of government personnel. This is in contradiction to TEP whose activities had also been scaled down, but still committed more funds to training government employees. No explanation was given for the reduced budget and expenditure by CNOOC for training of government personnel in 2014, yet their activities had increased.

As a result, over the period under review, an amount of USD 785,989 in training funds which had been approved was not utilised by government hence a reduction in the numbers of government staff who would have benefited.

Management Response
Management has taken note of the Auditor General's observation and action will be taken. Management will also ensure staff training approval procedures are expedited.

ii) Training Plan

Through a review of documents, it was noted that for the period under review, there was no consolidated government training plan (long term & short term). This was because no capacity building needs assessment had been conducted to determine the skills gaps and required trainings for government. As such it was difficult to ascertain how government intends to achieve its training needs over time in terms of specific sectors, numbers and qualifications.

From the analysis of trainings so far undertaken by the government officials, audit noted that a broad range of courses had been offered. For instance, in 2012, 9 out of 12 staff (75%) sponsored for long term courses (Masters Degree) studied Petroleum Law, while the remaining 25% did business, economics and accounting courses. In 2013, for the Masters degree, 13 out of 27 (48%) studied business related courses (accounting, tax, economics), while 8 (30%) undertook technical courses (Engineering, Health, Safety and Environment (HSE), Infrastructure) and 6 (22%) pursued law courses. Overall 31 staff (80%) of the beneficiaries pursued business and law courses and only 20% technical.

For short term courses, 80% and 94% of the beneficiaries in 2013 and 2014, respectively, were from MEMD alone, leaving the rest of the government institutions with only 20% and 6% funding. There were no criteria on how these allocations were made.

Without a training plan, it is difficult to aggregate the needs for both short and long term skills of government and assess whether the types and mix of trainings undertaken are relevant and actually address these needs.

Management Response
Training policy and plan are now available for review.

Audit Comment
The training policy and plan provided was for MEMD officials only and does not capture the training needs for other government ministries, departments and agencies (MDAs).

4.4.2 Training of government officials from funds stipulated in the PSAs

According to Article 21.3 of the PSAs, in addition to the funding in 4.4(a) above, the oil companies are further required to deposit with government, or its nominee, on the effective date and each anniversary of the effective date thereafter, money for training of Government personnel selected by the Government and other associated costs for each twelve (12) calendar months period.

Prior to 2012, all licensees were to deposit USD 75,000 every 12 months during the exploration period. This was increased to USD 100,000 every 6 months and USD 150,000 every 12 months during exploration and development periods, respectively.

For the period under review, oil companies had deposited USD 4.1m towards the training fund in the Central Bank. Details are in **APPENDIX XII.**

Audit, however, noted that there was no evidence of formal utilization of such funds by government institutions. All funds accumulated on this account were transferred to the consolidated fund at the end of each financial year as Non-Tax Revenue (NTR) casting doubt as to the effectiveness of this scheme, and whether its intended objectives were being met.

Instead, the MDAs of PEPD, MoFPED, URA, OAG and NEMA have undertaken most of their training through a donor aided project of Strengthening of Management of Oil and Gas in Uganda (SMOGUL), funding which should have been used to supplement government resources and further increase the number of trained government staff.

Management Response
According to the PSA, oil companies are supposed to deposit training funds with government. The funds are paid into the Consolidated Fund which is managed by MFPED. Ministry of Energy and Mineral Development receives part of it in its annual budget.

Audit Comment
The funds received are the normal releases made by MoFPED to any government department and are not in any way comparable to the amounts deposited for the Training Fund. The objectives and effectiveness of such a fund are thus not attained.

4.5 HIGHER EDUCATION AND TRAINING INSTITUTIONS

4.5.1 Universities and Vocational Institutions

The National Oil and Gas Policy (NOGP) 2008[28], requires government to review and expand the education curricula in the country with a view of producing the workforce required for national oil and gas activities. Since the industry requires specific skills set for each stage of the activity, that is: exploration, development and production, it is necessary to have skilled people (workforce) ready when they are needed.

Through document review and interviews with officials from PEPD and Makerere University, it was established that government had made some progress towards producing workforce for the oil and gas sector. In secondary schools, emphasis was being put on science subjects in order to orient students towards science courses at university, since these will be the skills most required by the sector.

Furthermore, government, together with development partners, had come up with courses at university and vocational level to produce skilled personnel for the oil and gas sector. At Makerere University, a Bachelor of Science degree in Petroleum Geosciences and Production was established in 2010 and by March2015, 62 students had graduated in two batches.[29] The University is also developing a four year course in Petroleum Engineering in consultation with a university from Texas, USA, which at the time of the audit was awaiting approval by Senate.

At Uganda Petroleum Institute, Kigumba (UPIK), a government sponsored diploma in Petroleum Studies was started in 2009. By February 2015, a total of 86 had graduated with diplomas in these studies. These graduates were trained as artisans, technicians, welders, metal fabricators. Prior to their graduation, these students undertook a six months practical training at oil sites in Trinidad and Tobago.

Other (private) tertiary institutions have started both short & long term courses aimed at skilling students to work in the oil and gas sector, and these include: Uganda Christian University (UCU) Mukono, Nkumba University, and Uganda Technology and Management University (UTAMU) and Victoria University.

In spite of all the above achievements, concerns remain about the timeliness, relevance and sufficiency of the workforce produced so far.

[28] Objective 8; Action (ii)
[29] The first batch (30 students) in January, 2014, the second in January 2015 (32 students).

i) **Timeliness**

Uganda's first Petroleum Geosciences and Production students graduated in 2014, too late to be absorbed in the first round of exploration which was coming to a close at the time. The Petroleum Engineering course is also yet to start at Makerere University, yet CNOOC is in the Field Development Phase during which some Petroleum Engineers would be required.[30]

ii) **Relevance**

According to the oil companies the course content at UPIK was too generic and did not equip students with the specialized skills that would be needed for the development and production phases of the industry. Review of UPIK's documents indicated that their initial curriculum was designed without involving/consulting the oil companies.[31] At MUK, lecturers interviewed mentioned that the students were short on practical skills, since the university lacked adequate equipment for this purpose. As a result of these shortcomings, the chances of graduates gaining employment given the investments that have been made may be compromised.

iii) **Sufficiency**

The rate at which the technicians are being produced from these institutions means they may not be sufficient to satisfy the demand when the next phases (development and production) come. According to the Industrial baseline survey done by the Joint Venture partners (CNOOC, TEP and TUOP), 60% of the workforce required for the next phases will be technicians and craftsmen, which translates to a demand of 7,800 and 1,800 technicians and craftsmen at the peak and plateau phases, respectively, of development and production[32]. With the current total of only 86 UPIK graduates, there is doubt that the projected demand will be met by the time production starts (2018)[33].

4.5.2 Gender Parity and Host Communities

It was noted that 16% of the graduates from both institutions (UPIK and MUK) were female as detailed in **Table 14** below.

Table 14: Number of male vs. female graduates in oil and gas disciplines at MUK and UPIK

Year of Completion	BSc. Petroleum Geosciences and Production (Makerere University, MUK)			Diploma in Petroleum Studies (Uganda Petroleum Institute Kigumba, UPIK)		
	Male	Female	Total	Male	Female	Total
2012	00	00	00	27	01	28
2013	21	09	30	51	07	58
2014	25	07	32	00	00	00*
TOTAL	**46**	**16**	**62**	**78**	**08**	**86**

Source: MUK and UPIK Graduation lists for 2012, 2013 and 2014.
***UPIK did not admit any students in 2013, hence no graduation in 2014.**

[30] CNOOC, TEP and TUOP (2014):Planning for the Future and Promoting National Content: A survey to foster opportunities for Ugandans in the Oil and Gas sector; pg.3

[31] UPIK (2014): Institutional Review Report

[32] Total workforce demand is 13,000 at the peak, and 3,000 at the plateau. Also, note that these projections only relate to the area operated by the JV partners, which is 40% of the total blocks that may be explored in the Graben. This means that if more blocks are licensed and oil is struck, even more of these will be needed.

[33] Mugerwa, J. (2014): Opportunities in the Oil and Gas Industry in Uganda; A Paper presented during the 19th annual seminar of the Institute of Certified Public Accountants (ICPAU) in Entebbe on September 10.

As shown in the table above, the total number of female students who completed studies from MUK and UPIK stood at 26% and 9% respectively. These numbers are far below the Millennium Development Goals' target to ensure equal numbers of male and female students at all levels of education by 2015.[34]

MUK lecturers interviewed explained that the low numbers of female students arise from the fact that few girls pursue sciences at A-level, and/or apply for the courses offered. There was no indication of any deliberate efforts or targets by MoES, PEPD and other relevant stakeholders to increase the enrolment of female students in oil and gas related fields. Without relevant qualifications, women will continue to be under-represented in the oil and gas workplaces.

No information was availed by the training institutions on the number of graduates from the host communities.

4.5.3 Follow-up on persons trained

Audit further noted that there was no follow-up by government and/or education institutions on persons trained (both government employees and fresh graduates) to establish their placement and whether they utilised their skills for work relating to the petroleum sector upon completion of training. It was not possible to confirm whether these nationals had been employed. The effectiveness of the scheme was therefore difficult to assess.

[34] MDG3; Target 4

Management Response

- The Ministry/department has been encouraging training institutions to work with industry whenever developing curriculum. For example, the design of UPIK current curriculum was developed through wide stakeholder consultation, including industry. In addition, GoU, with support from the World Bank, is undertaking a capacity needs analysis study with the aim of developing a workforce skills development plan and strategy. The strategy, among others, will provide a framework for stakeholder engagement.
- The workforce skills development plan and strategy will further provide a framework for a review mechanism to assess the training trends and relevancy of the training.
- However, it should also be noted that the Oil and Gas industry does not employ many people. Caution should be exercised on the numbers of people undergoing training as this may lead to oversupply of employees.
- Management has taken note of the Auditor General's observation and will continue to work with the relevant stakeholders to address the issue of gender disparities as this is also emphasized in the draft National Content policy.

Audit Comment

The efforts by the training institutions are commendable. However, the challenges relating to timeliness, relevance, sufficiency, gender disparities and follow-up of the interventions need to be addressed.

Management concern that there is a risk of oversupply of employees to the sector is valid. It underlines the need for a comprehensive skills needs assessment for the sector, capturing both demand by government and the private sector.

Recommendations

- MEMD in collaboration with relevant stakeholders should put in place a review mechanism to assess the trends and relevance of trainings. To avoid over training, there is need for the training to be geared towards most needed skills.
- MEMD should ensure that it compiles details of proposed trainees in time to ensure that the funds set aside for training are absorbed.
- The workforce capacity needs assessment and the development plan should also capture the training needs for other government ministries, departments and agencies (MDAs).
- MEMD should liaise with MoFPED to create a special training fund for the oil and gas sector that will ease the administration of the training fees deposited by the oil companies, and ensure that it is used for the intended purpose.
- There is need for formalized stakeholder consultation, especially to make use of the experience from IOCs, as government and private educational Institutions are designing new courses to benefit the industry to ensure that the skills gained are relevant.
- Deliberate efforts should be made to reduce gender disparities in tertiary institutions offering training for the oil and gas sector, and to capture information on the number of persons from host communities receiving training in the same sector.

4.6 REPORTING, MONITORING, EVALUATION AND FOLLOW-UP AND COORDINATION

According to the National Oil and Gas Policy for Uganda,[35] the Commissioner of PEPD together with the PEPD technical staff, are mandated to monitor the compliance of the oil companies with existing laws, regulations and agreements. Specifically, PEPD is required to ensure that the oil companies comply with the provisions of the PSAs, and the Petroleum (EDP) Act, 2013. The oil companies are required to provide PEPD with a report of their achievements and their contractors and subcontractors' achievements in utilizing Ugandan goods and services during that calendar year.[36] They are also required to report on the execution of their approved programmes on training and employment of Ugandans, annually. The reports should detail performance in training and recruitment of Ugandans in all phases of petroleum activities, taking into account gender, equity, persons with disabilities and host communities[37].

The reports on the utilization of Ugandan goods and services should be provided within 60 days of the end of the calendar year[38] (by end of February), while the training and employment reports should be submitted within 30 days of the end of the calendar year[39] (by end of January).

It was noted that PEPD monitors the compliance of oil companies with National content provisions through collection and review of the annual procurement, training and employment reports; stationing monitoring officers in the field; and periodic field inspections/monitoring visits conducted by officers from the National Content Unit.

[35] Section 2.3.1; Page 6
[36] Section 125(5) of the Petroleum (EDP) Act, 2013
[37] Section 126(5) of the Petroleum (EDP) Act, 2013
[38] PSA Article 20.3
[39] PSA Article 21.1

4.6.1 Annual reporting by Oil Companies

Through interviews with PEPD and document review, it was observed that in some instances, licensees either delayed or did not submit returns contrary to the PSAs as shown in **Table 15** below. It was also observed that although TUOP has been in operation since 2004, it did not submit any National Content reports prior to 2012.

Table 15: Delays in submission of reports on utilisation of Ugandan goods and services

Calendar year	Company	Expected reporting	Actual submission	Delays
Reports on utilization of Ugandan goods and services				
2012	TUOP	28/02/13	Not availed	
2012	CNOOC	28/02/13	20/05/13	12 weeks
2012	TEP	28/02/13	18/04/13	6 weeks
2013	TUOP	28/02/14	28/02/14	0
2013	CNOOC	28/02/14	27/02/14	0
2013	TEP	28/02/14	Not indicated	
2014	TUOP	28/02/15	27/02/15	0
2014	CNOOC	28/02/15	Not availed	
2014	TEP	28/02/15	Not availed	
Employment and Training reports				
2012	TUOP	30/01/13	26/04/13	12 weeks
2012	CNOOC	30/01/13	20/05/13	12 weeks
2012	TEP	30/01/13	10/07/13	21 weeks
2013	TUOP	30/01/14	05/02/14	5 days
2013	CNOOC	30/01/14	27/02/14	4 weeks
2013	TEP	30/01/14	Not indicated	
2014	TUOP	30/01/15	30/01/15	0
2014	CNOOC	30/01/15	Not indicated	
2014	TEP	30/01/15	Not indicated	

Source: National Content reports -PEPD

The delays in 2012 were attributed to inadequate staff to closely follow up with the IOCs to ensure compliance with the stipulated timelines. Accordingly, they linked the improvement observed in 2013 and 2014 to the recruitment of five (5) officers specifically dedicated to handling National content issues, thereby increasing efficiency. It should, however, be noted that inadequate staffing at PEPD does not absolve the oil companies from meeting their reporting obligations as per the agreements. Also, the Petroleum (EDP) Act 2013 did not specify sanctions against cases of non-compliance, that is, delays or non- submission of reports.

Delays and/or non-submission of reports is not only against the PSA obligations but also leads to delays in follow up and corrective action, if any.

Management Response

Reporting is a legal requirement and the Act provides for penalties for non-compliance with the provisions of the Act or decisions and directions issued under the Act. The draft regulations have provided details that will help to operationalize the reporting requirements of the Act. Management notes the Auditor General's observation and is certain that the law will be implemented.

Audit comment

Although the Act provides for penalties, these have not been enforced. Absence of sanctions leads to continuous breaches/violations by licensees.

Recommendation

Government should consider imposing such penalties for late or non-submission of reports to encourage adherence to reporting requirements.

4.6.2 Reporting formats

It was also noted that all oil companies had different formats of reporting. Some differences in the reporting are indicated in **Table 16** below.

Table 16: Reporting details for the different oil companies

<table>
<tr><th rowspan="2">Report</th><th colspan="3"></th></tr>
<tr><th>TUOP</th><th>TEP</th><th>CNOOC</th></tr>
<tr><td>Utilization of Ugandan goods and services</td><td>- Groups suppliers as Ugandan; International but registered in Uganda; International and not registered in Uganda;
- Includes summary on employment and training of Ugandans by the sub-contractors;
- No details on payments to individual sub-contractors;
- No details of type of goods supplied & value addition in Uganda;</td><td>- Groups suppliers as Ugandan; International but registered in Uganda; International and not registered in Uganda;
- Includes summary on employment and training of Ugandans by the sub-contractors.
- No details of local companies contracted, or payments to them.
- No details of type of goods supplied & value addition in Uganda</td><td rowspan="2">- Reports combine aspects of procurement, employment and training;
- Groups suppliers as Ugandan or International;
- Includes education/ sponsored staff as procurement from locals- this is double counting since this is also reported on under training of Ugandans. No summary on employment and training of Ugandans by the sub-contractors.
- Employee details i.e. name, position, wages not indicated;
- Provides details on payments to individual sub-contractors.
- No indication of the level of implementation of the succession plan;
- Training duration indicated</td></tr>
<tr><td>Employment and training</td><td>- Employee details e.g. Name, Position, and Wages are indicated;
- Level of implementation of the succession plan indicated;
- Training duration indicated.</td><td>- Employee name and position indicated, but not wages;
- No indication of the level of implementation of the succession plan;
- Training duration not indicated.</td></tr>
</table>

Source: OAG Analysis of National Content reports from TUOP, TEP and CNOOC

The differences in reporting formats arose because PEPD has not come up with a standardized format for reporting. This is left to the discretion of the individual oil companies. Through interactions with MEMD officials and review of the draft Upstream Local Content Regulations, it was noted that government was in the process of formulation of uniform reporting parameters for all licensees.

Submitting non-uniform reports not only results in omission of some useful information but also makes it difficult to track and analyse performance and compare National Content performance between the different players.

Management response

Action is already being taken in this regard. The petroleum regulations and guidelines will address the above recommendation.

Recommendation

- MEMD should expedite the approval of the Upstream Local Content Regulations and ensure uniformity in reporting by all licensees to enhance comparability and relative performance measurement.
- Pending approval of the above regulations, PEPD should develop a template for reporting performance to be followed by the oil companies.

4.6.3 Monitoring National Content for Sub contractors

According to the PEPD Act and PSA, the licensee is supposed to ensure that contractors and subcontractors enhance National content in terms of procurement of local goods and services, training and employment of nationals.

The licensees stated that they enforce this at pre-qualification and evaluation stages. However, since procurement files were not submitted, as the licensees claimed confidentiality, audit could not confirm whether the actual evaluations undertaken by the Licensees actually emphasized national content. The procurement file would show the entire process of selection of a service provider/ supplier from bidding, evaluation to award of the contract. Audit, however, was able to review a sample of contracts submitted to PEPD, and noted that, apart from TUOP, whose terms included sections of National content requirements, TEP and CNOOC's did not. There was also no evidence that these subcontractors/contractors are monitored during contract execution to ensure actual national participation. Instead, the licensees sent out questionnaires to the contractors and sub-contractors at the end of the year to indicate how their firms had performed in terms of national content. Audit noted that these questionnaires were optional and on average less than 50% of the contractors/subcontractors responded.

Moreover, there was no evidence to show that the licensees validated the information provided in the questionnaires to ascertain its authenticity.

Furthermore, the contracts were only submitted to the department (PEPD) for review when already operational and this did not provide any opportunity for PEPD to make its inputs/ comments on adequacy of National Content provisions in the contracts.

Lack of monitoring and enforcement at the licensee level denies government the chance to obtain accurate data on the actual performance of national content by sub-contractors.

Management Response

This is already a requirement by the law. The petroleum regulations have further elaborated on this by including the "see-to-it" principle which ensures that the licensee is ultimately responsible for the activities of its contractors and sub-contractors.

Audit Comment

Although it is a requirement by the law, there is lack of enforcement.

Recommendation

MEMD should ensure that the licensees submit timely, factual and comprehensive data on the implementation of national content provisions by the sub-contractors for easier and effective monitoring by government.

4.6.4 Measurable indicators

It is necessary to have a national content strategic plan with appropriate indicators that allow the measurement of progress against objectives through monitoring and evaluation. Collecting suitable data also helps to meet compliance and reporting requirements (IPEICA). In addition, the National Content study, 2011, recommended formulation of specific realistic targets to measure national value added by oil companies.[40] Targets included numbers, values and measurable indicators.

In spite of the above requirements, there was no National Content strategic plan in place at the time of audit. Furthermore, although the Study recommended a holistic approach to the monitoring of National content, the Petroleum (EDP) Act 2013 only provided reporting requirements for the oil companies in relation to employment, training and procurement of local goods leaving out areas like supplier development, technological transfer, among others. Besides, neither the Act nor the PSAs provided for a system for evaluating national content performance as they did not come up with specific targets to measure the achievement of National content by the oil companies.

Without plans and measurable targets/ achievement, government has no basis for following up on national content. As a result, government may not know if the country is on the right track regarding employment, training and utilisation of Ugandan goods and services. Lack of targets also implies treating the oil companies differently as there is no common measurement standard.

Management Response
Measurable indicators have been proposed in the draft regulations on levels of procurements which require Authority approval, employment thresholds for each level of management and the number of years taken to ensure IOCs have a given percentage of Ugandan employees.

Audit Comment
Audit awaits the approval and implementations of these regulations.

[40] Section 9.5(20); Pg. 58.

Recommendation
The indicators should be approved after undertaking a cost benefit analysis taking into consideration their feasibility and capacity of the national/ local skills and supply industries.

4.6.5 Evaluation and follow -up

For the reports submitted, there has not been any systematic evaluation by the ministry's department (PEPD), in terms of frequency (response period), or follow-up to ensure specific issues are addressed.

In addition, although companies have prepared and submitted national content reports to government, the agreements and existing legislation are silent on whether there should be any response within a certain time or action to be taken by government. During the period under review, it was noted that of the 9 reports submitted by the companies, only 3 had been responded to, albeit, belatedly- almost 3 months after submission by oil companies. The department explained that this was due to limited staff to undertake the reviews.

Management Response
Draft National Content Strategy and Plan have addressed the above concerns.

Audit Comment
The plan does not stipulate a time-frame for responding to national content reports from oil companies, or following up to ensure that issues identified are addressed.

4.6.6 Coordination

i) Designated authority to enforce National Content

The National Content Policies aimed at promoting economic diversification and growth from the oil and gas sector are inherently cross-cutting, and thus require balancing and careful arbitrage among different, sometimes conflicting, priorities.

Apart from national and local governments, there are a range of organizations that have a direct impact on national content development. These include the Ministry of Education and Sports, Ministry of Trade, Industry and Cooperatives, Ministry of Internal Affairs, Ministry of Gender, Labour and Social Development, tertiary institutions and the private sector.

The 2011 National Content study, recommends the establishment of an inter-ministerial body to coordinate NC issues.[41]This has not been formed. There are no formalized coordinated efforts by all these institutions to ensure a holistic intervention by government in sectors like:

- Education- setting up curriculum for both tertiary and vocational institutions
- Trade and Industry – coming up with a policy on capacity-building for Small and Medium Enterprises (SMEs), product standardization (Uganda National Bureau of Standards- UNBS) and financial incentives/ credit facilitation to improve the competitiveness of local suppliers, formation of suppliers' associations.
- Agricultural – policy on farmers training, improvement of productivity and market linkage
- Gender- Equal participation of males and females in the sector.

The Petroleum (EDP) Act, 2013, also establishes two bodies:

- National Oil Company (NOC) to ensure government participation in the Oil and gas sector thereby increasing its ability to enhance National content; and
- The Petroleum Authority of Uganda (PAU) which will ensure compliance by the licensees with the Act and Regulations made under the Act.

By March 2015, these institutions had not been operationalized yet. Besides, the provisions of coordination and enhancement of national content by those institutions appear general/broad (PEPD Act sec 10 and 43 (e)). Furthermore, the new structure at PEPD created a National Content Office under direct supervision of the Director Petroleum. It is not clear what the difference in roles will be between the National Content Office and the one in the Petroleum Authority of Uganda (PAU).

Lack of coordination among different government entities and level of governments may result in conflicting intervention, duplication, increased administrative costs and delays in decision making.

ii) **Establishment of national content unit, regulations, plans and strategies**

In 2012, the Ministry set up a National content office with two members of staff recruited to coordinate the National Content issues in the Ministry. In 2013, an additional three (3) members of staff were recruited to this unit. The unit is supposed to ensure compliance by the oil companies in promoting National Content. The staffs also provide information to the Advisory Committees during meetings to approve the budgets of the oil companies.

By the time of reporting (March 2015), there was no approved strategic plan on how to ensure that national content is enforced through measurable targets, internal processes and guidelines on review, reporting and follow up. However, a draft strategy was being developed.

The Petroleum Act states under section 8(d) that the Minister shall be responsible for issuing Petroleum regulations. By the time of reporting (March 2015), almost two years after the Act had been inaugurated[42], the Regulations had not been issued.

[41] Ibid Pg 53

[42] 1 year and 11 months (from 5th April 2013, to March, 2015)

Lack of regulations, a strategic framework, an operational plan for coordination, regulations and guidelines for enhancing National Content creates a high risk for differences in implementation and reporting, et cetera.

Management Response
Draft National Content Policy, Strategy and Plan and regulations have been formulated and under various stages of discussion and approval.

Audit Comment

Coordination among different government entities is hindered by absence of a clear coordination framework and broad provisions for coordination under the act and policy. This may result in haphazard implementation and coordination of national content provisions.

Recommendation

- MEMD should expedite the formulation of the National Content Policy, Strategy and Plan and regulations, and put in place a clear framework for coordination between stakeholders to promote, regulate and monitor the implementation of national content.

4.7 PROGRESS OF THE IMPLEMENTATION OF RECOMMENDATIONS OF THE NATIONAL CONTENT STUDY OF 2011

With the assistance from the Oil for Development (OfD) project, MEMD undertook a study to examine how Uganda may benefit from the participation of Ugandans and Ugandan firms in the petroleum activities. The focus of the study was to identify the opportunities, gaps and challenges posed by the petroleum industry and to recommend necessary measures to maximize the benefits of national content otherwise defined as national. The final report, dated September 2011, recommended various measures for the enhancement of National content. **Table 17** below states the extent of the implementation of those recommendations by the government by the end of 2014 and the comments of MEMD on the status.

Table 17: Level of implementation of National Content Study recommendations

	Activity	Status by the end of 2014	Management Comments
A	Institutional frame work		
1	Establish government body for National content enhancement	Only a small unit of 5 staff under PEPD (See section. 4.6f(ii))	Office established in 2012 with initial staffing of 2 officers gradually increased to five.
2	Regulate Procedures for procurement	Not Implemented (See section 4.2e)	Draft regulations are currently under stakeholder review
3	Define and operationalize how national content will be measured	Not implemented (See section. 4.6d)	Being addressed in the National Content Policy and Plan.
4	Have the Oil companies commit to National content development	IBS Undertaken (But Limited scope) - See section. 4.2c	Not only a policy but a legal requirement and Regulations are addressing it.
5	Have an Oil and gas industry suppliers association established	Implemented (not representative)	Management has taken note of this concern for action.
6	The national content policy should be an integrated part of the national Development plan	Ongoing for the NDP(paper submitted to NPA-no evidence)	Management to avail supporting document. **Audit comment: Document not availed.**

7	The corruption perception should be reduced	Not assessed	Being addressed in Public Finance Bill under review
B	Capacity building in people		
1	Capacity of vocational training has to be strengthened	Partially implemented (See section. 4.5a)	Various GoU initiatives in place: • Uganda Petroleum Institute Kigumba (UPIK) established, • Skilling Uganda programme • Capacity needs analysis study for the oil and gas sector being undertaken.
2	Training centres should be established by the international oil companies	Not implemented	Some international oil companies have established training centres: • Ogas Uganda Ltd providing HSE Training programs • Inspecta International providing trainings in technical oil and gas aspects. **Audit comment: No evidence that these were established by the JV Partners.**
3	Uganda should establish institutions of excellence for higher level of education	Partially implemented (See section. 4.5a)	• UPIK established and proposed to be Centre of excellence • Ministry of Education taking lead in this exercise.
C	Enterprise development		
1	An adequate capacity building programme for the industry should be developed	Partially implemented	• National Content Policy and Plan is addressing this issue • Capacity Needs Analysis for the oil and gas sector skills undertaken.
2	Teaming between Ugandan and foreign firms should be encouraged	Legislated but no significant implementation	Partnerships already exist • AH Consulting Ltd and International Human Resources Development Corporation • MSL
3	An SME program for the petroleum sector should be established	Not Implemented	National Content Policy and Plan is addressing this issue
4	Industry Projects with a large market potential should be identified	Not implemented	Industrial Base line Study by JV partners identified 25 industries with potential to supply the oil and gas sector
5	Restructuring of the industry should be encouraged	Not implemented	This is noted by Management for action
D	Facilitating National Participation		
1	Contracts should be structured to align with local capacity	Not implemented	The Draft procurement procedures for oil companies took this into consideration.
2	A central information office for national content should be established	Not implemented (Information, Education & Communication working group in initial stage)	Pending Regulations
3	A National Register for prequalified companies should be established	Not implemented	Pending Regulations
E	Monitoring National Content Achievements		
1	Apply a holistic approach to measure and monitor national content	Not implemented	National Content Policy and Plan is addressing this issue
2	Establish a system on how to evaluate national content performance	Not implemented	An M&E framework is addressed in the National Content Policy and Plan

The effects of delayed implementation is that many activities, guidelines and regulations are not in place and this leads to non-uniform implementation by various players, duplications and inactivity thus affecting the levels of national content achieved. As mentioned earlier, without a holistic approach to measurement and evaluation of achievements in national content it is difficult to assess the performance of such a policy.

Implementation of these recommendations will go a long way in enhancing and promoting the national content in the country.

5

CHAPTER FIVE

CHAPTER FIVE

OVERALL AUDIT CONCLUSION

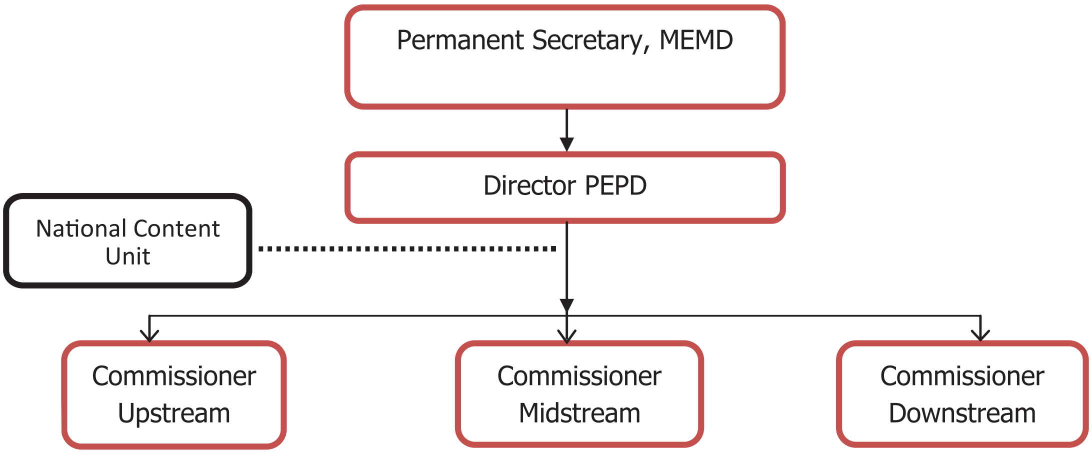
Government and the oil companies have made positive efforts to promote national content. However, the overall management of national content by the Ministry of Energy and Mineral Development (MEMD) has not been adequate and as a result, there are challenges in realising the national content objectives of the Oil and Gas Policy (NOGP), 2008. There are still several areas with clear potential for enhancing national content, such as: establishment of a clear regulatory framework, performance targets and indicators for national content; determining the level of state participation; local supplier development; employmentand training of Nationals by the oil companies and government; ensuring gender parity and involving host communities. As the government finalizes development of the national content policy and regulations, the Ministry should take advantage of this opportunity to address the above challenges.

APPENDIX I: National Content Provisions in the Petroleum Act and PSAs

Items provided for	Sec No	Petroleum (EDP) Act, 2013	Art.	PSAs
State Participation	124 (1)&(2)	(1) Government may participate in petroleum activities under this Act through a specified participating interest of a licence, or contract granted under this Act and in the joint venture established. (2) When announcing areas for granting of petroleum exploration licences according to this Act, the Minister shall, with the approval of Cabinet, specify the maximum Government share which may be exercised by the Government under subsection (1).	11.1	Government or its Nominee may elect to enter into a Joint Venture Agreement with Licensee thereby allowing for State Participation for no more than (20%, 15%).
Provisions of goods & services	125(1) 125(2) 125(3)	The licensee, its contractors and subcontractors shall give preference to goods which are produced or available in Uganda and services which are rendered by Ugandan citizens and companies. Where the goods and services required by the contactor or licensee are not available in Uganda, they shall be provided by a company which has entered into a joint venture with a Ugandan company provided that the Ugandan company has a share capital of at least forty eight percent (48%) in the joint venture Companies to be approved in accordance with criteria prescribed by the Minister by regulations.	20.1 20.2	In procurement, Licensee shall give preference to goods which are produced or available in Uganda and services which are rendered by Ugandan citizens and companies unless such goods and services are offered on terms which are not equal to or not better than imported goods and services with regard to quality, price and availability at the time and in the quantities required. The licensee shall establish appropriate procedures, including tender procedures, for the acquisition of goods and services which shall ensure that the suppliers and Sub-Contractors in Uganda are given adequate opportunity to compete for the supply of goods and services. Procedures to be approved by the Advisory Committee.

Training and employment	126(1)	The licensee shall, within twelve months after the grant of a licence, and on each subsequent anniversary of that grant, submit to the Petroleum Authority of Uganda for approval, a detailed programme for recruitment and training of Ugandans in all phases of petroleum activities and shall take into account gender, equity, persons with disabilities and host communities.	21.1 21.2 21.4	Licensee agrees to train and employ suitably qualified Ugandan citizens in its Petroleum Operations and, following the effective date, to undertake the schooling and training of Ugandan citizens for staff positions, including administrative and executive management positions. Licensee will also require its sub-licensees to do the same. Licensee shall also be required to establish an annual programme, satisfactory to the Government, to train personnel of the Government to undertake skilled and technical jobs in petroleum operation. Subject to the provisions of paragraph 21.1, licensee shall be free to employ foreign nationals to the extent that suitably qualified and experienced Ugandan nationals cannot be found to fill a position. Government shall expeditiously provide the necessary work permits and other approvals required for the employment and residence of expatriate personnel and their families in Uganda.
Training and technology transfer	127	A licence shall include a clearly defined training programme for the Ugandan employees of the licensee, which may be carried out in or outside Uganda and may include scholarships and other financial support for education.		
The designated authority to enforce NC	Part III Art 9 &10 (2i,s,t) Art 42	The Act establishes the Petroleum Authority of Uganda which is supposed toensure compliance by the licensees 'with this Act and regulations made under the Act;' Establishes a National Oil Company(NOC) to manage Uganda's commercial aspects of petroleum activities & state participation		
Monitoring and evaluation	125(5) & 126(5)	Provides for self-monitoring by the companies through reports submitted within 60 days (for goods/ services) after the end of each calendar year and monitoring of compliance by the Authority.	20.3	Requires the companies to annually report on procurement, and training and employment of Ugandans within 60 days and 30 days respectively.
Sanctions in case of non-compliance	165.	A person who without reasonable excuse contravenes any directive issued under this Act commits an offence and is liable on conviction.		

APPENDIX II: Organisation structure for PEPD effective January, 2015



Source: PEPD

In the new structure above, the National content unit reports directly to the Director PEPD. This unit is charged with Policy formulation and review. At the operational level, according to the Petroleum (EDP) Act 2013, the functions of budget approvals, work permits issuance, monitoring compliance; enforcement will be undertaken by the Petroleum Authority of Uganda (PAU) when formed.[43]

APPENDIX III: Documents reviewed

S/N	Document reviewed	Purpose/ Information obtained
1.	The National Oil and Gas Policy	National Content objectives
2.	The Petroleum (EDP) Act, 2013	National Content requirements relating to State participation, utilization of Ugandan goods and services, formulation training and employment.
3.	The PSAs for Tullow, TEP and CNOOC	Assessment criteria and assess adequacy of the legal framework and provisions relating to utilization of Ugandan goods and services, formulation and approval of procurement procedures, training, employment, reporting, and required deposits to the training fund.
4.	Governance and livelihoods in Uganda's oil-rich Albertine Graben March 2013	Challenges faced by people in the Albertine Graben
5.	Final report National Content 2013 by PEPD	Issues highlighted and how far the ministry has implemented them
6.	Training plans and Training/HR Performance reports for Tullow, CNOOC and TEP for 2012, 2013 and 2014.	Information on planned and actual trainings for oil company staff and government staff
7.	Staff lists for TEP, Tullow and CNOOC	Information on local and expatriate staff employed over the years, positions, sex, and those from host communities.
8.	National Content reports for Tullow, CNOOC and TEP on utilization of Ugandan Goods and services for 2010, 2011, 2012 and 2013.	Number of local vs. international service providers and value of procurements from each group.
9.	Nationalization plans from Tullow, CNOOC and TEP	Expected nationalization dates for selected positions;

[43] Currently these are being undertaken by PEDP department

10.	Recruitment Reports for TUOP, TEP and CNOOC for 2012 to 2014	Information on recruitment process, persons recruited, and whether they satisfy the advertised Job Descriptions.
11.	National Content Study in the Oil and Gas Sector in Uganda, 2011	Recommendations for National content promotion
12.	Procurement procedures for Total E&P Uganda and CNOOC	Procurement process followed by TEP and CNOOC and thresholds requiring consent of the JV Partners; provisions for National Content in the procedures
13.	TUOP generic contract (Section 7)	Requirements for National Content that suppliers and service providers must satisfy.
14.	UPIK institutional Review report	Number of nationals who graduated in 2013 and 2014; stakeholders interviewed in formulation of the first curriculum
15.	Makerere University Graduation Lists for 2014 and 2015	Number and sex of students who graduated in Petroleum Geosciences
16.	Planning for the Future and Promoting National Content: A survey to foster opportunities for Ugandans in the Oil and Gas sector (Industrial Baseline Survey, 2014)	Projected manpower requirements (skills and numbers) for the development and production phases.
17.	Correspondences between PEPD, PPDA and the Solicitor General's office	Advice on development of procurement procedures by the oil companies
18.	Correspondences between PEPD and the oil companies	- Points of contention in development of procurement procedures - Instances of persons on board without work permits - Action taken by PEPD on observed non-compliances
19.	Procurement files for TUOP, TEP and CNOOC at PEPD offices	Instances of sole/single sourcing by the oil companies
20	Invoices & orders for purchases from local farmers in Hoima	Average value of purchases from the farmers (HODFA)
21.	Procuring from SMEs in local communities: A Good Practice Guide for the Australian Mining, Oil and Gas Sectors, 2010	Best practice on procurement from host communities
22.	Opportunities in the Oil and Gas Industry in Uganda; A Paper presented during the 19th annual seminar of the Institute of Certified Public Accountants (ICPAU) in Entebbe on September 10, 2014 by Mr. Jimmy Mugerwa, Tullow	Projected start date for production of oil
23.	VAALAND, T.I. and HEIDE, M., 2005. Corporate social responsiveness: exploring the dynamics of 'bad episodes'. European Management Journal, Vol. 23 No. 5, pp. 495-506.	Best practice for Corporate Social Responsibility
24.	Tullow Group Scholarships website: https://tullowgroupscholarshipscheme.org/	Purpose of scholarships
25.	TEP concept note for schools program	Information on purpose of secondary school scholarships, areas from which beneficiaries should hail, and schools partnering with TEP.
26.	Local Content Policies in the Oil and Gas Sector by the World Bank, 2013	Alternative measure for national content value added by employment of nationals
27.	The Employment Act, 2006	The principle/ requirement for equal remuneration for work of equal value

28.	PEPD internal correspondence	Legal opinion on the differences in salaries paid to local staff vs. expatriates
29.	Work permit application files	Evidence of permit application for expatriates
30.	Local content strategy: A guidance document for the oil and gas industry, IPIECA	Recommendations for national content enhancement

APPENDIX IV: Interviews Conducted

S/N	Interviewed	No. of interviews	Purpose of the interview(s)
1.	Commissioner, PEPD	01	To obtain an overview of National Content status and achievements, key policy actions and plans
2.	National Content Development Officers	02	To obtain information on progress/ status on National content implementation; level of compliance by the oil and gas companies; relationship with service providers; etc.
3.	PEPD monitors in kingfisher area, Bugungu and kaiso Tonya	01	To obtain information on progress/ status on National content implementation; level of compliance by the oil and gas companies; relationship with service providers; etc.
4.	TEP management and officers in charge of NC	02	To obtain information on progress/ status on National content implementation.
5.	TEP field officer	02	To obtain information on progress/ status on National content implementation and how Total E&P is relating to the community
6.	CNOOC U Ltd	01	To obtain information on progress/ status on National content implementation.
7.	CNOOC U Ltd field Officers	01	To obtain information on progress/ status on National content implementation and how CUL is relating to the community
8.	Tullow Uganda Operation Pty. Ltd Officers in charge of NC.	01	To obtain information on progress/ status on National content implementation.
9.	Tullow Uganda Operation Pty Ltd field Officers	01	To obtain information on progress/ status on National content implementation and how TUOP is relating to the community
10.	CEO, AUGOS	01	To understand the history of formation of AUGOS; key objectives and members; interaction with PEPD, other government agencies and Oil Companies; to learn of their experiences with service provision in the oil and gas sector, and challenges encountered; plus suggestions for better involvement of local players.
11.	LC5 chairperson Hoima District	01	To gain an understanding of how the district is collaborating with MEMD and Oil companies.
12.	Hoima District Farmers' Association	01	To understanding how they are prepared in the provision of agriculture products in the oil and gas sector, their collaboration with ministry of Agriculture and MEMD
13.	Kitara Heritage Development Agency	01	To understand the role of KHEDA in the petroleum sector
14.	Traid links Officials	01	To understand how they are engaging Bunyoro people to participate in the oil and gas sector particularly in the provision of good.
15.	CAO Bullisa	01	To gain an understanding of how the district is collaborating with MEMD and Oil companies.

16.	Uganda Petroleum Institute-Kigumba	01	To understand the role UPIK is playing in preparing their students to get involved in the petroleum activities.
17.	CAO and CDO Masindi	01	To gain an understanding of how the district is collaborating with MEMD and Oil companies.
19.	Masindi District Farmers' Association	01	To understanding how they are prepared in the provision of agriculture products in the oil and gas sector, their collaboration with ministry of Agriculture and MEMD.
20.	Head of Department Of Mechanical Engineering	01	To gain an understanding of their input in the oil and gas sector and their collaboration with MEMD and the oil companies.
21.	Head of Department of Geology and Petroleum	01	To gain an understanding of their input in the oil and gas sector and their collaboration with MEMD and the oil companies.
22.	Officials from National Council for Higher Education (NCHE)	01	To understand the role NCHE is playing in the accreditation of oil and gas courses and their collaboration with MEMD and the oil companies.

APPENDIX V: Survey administered to Scholarship beneficiaries

VFM AUDIT SURVEY WITH SCHOLARSHIP BENEFICIARIES	
Full Name (optional):	
Mobile Phone No (optional):	
E-mail (optional):	

Introduction

Dear Sir/ Madam,

Thank you for sparing time to fill in this s urvey. The survey is administered as part of an on -going Value for Money Audit to assess implementation of National Content activities in the oil and gas sector.

The purpose of the Audit is to assess the value addition realized from the scholarships admi **nistered to date.**

Your responses will greatly enrich the Audit findings. However, the Office commits to keep your identity and personal details strictly confidential.

The Survey

Note: The responses relate to the status as at 30th September, 2014.

1. Which course(s) did you attend? Type: basic, masters, etc.
   Ph.D ☐ **Master's** ☐ **Bachelor's** ☐ **Diploma** ☐ **Certificate** ☐ **Others** ☐

2. Kindly state the name(s) of the course(s) you attended *e.g. Master's in Oil and Gas Economics* and briefly describe the course content

   ....

....

....

....

3. Please name the institution where you studied from

....

4. What was the intended duration of the course?

0-3 months	☐	**1-2 years**	☐
3-6 month s	☐	**2-5 years**	☐
6-12 months	☐	**Over 5 years**	☐

5. Have you completed the course?
YES ☐ **NO** ☐

If YES, please indicate below when you completed. If NO, please share with us why you haven't completed.

....

....

....

6. What was the source of funding for your studies?

Tullow Uganda Operations Pty. ☐
Total E&P Uganda ☐
CNOOC Uganda Limited ☐

10. What would be your recommendations to Government and/or the Oil Companies as regards the scholarships?

....

....

....

....

This was our last question. We highly appreciate the time and effort you have contributed to filling in this mini questionnaire. Thank you!

Date: ....

APPENDIX VI: Sampled value of Procurements termed as local

Company	Value(USD)
Baker Hughes EHO ltd	2,350,000
Calson Wagonlit travel	243,248
Halliburton International Inc Uganda	554,309
Oil and Gas Exploration Co. Krakow Ltd	3,516,228
Saracen Uganda ltd	245,820
Schlumberger Oil field Eastern ltd Co	1,293,232
Yanjing Uganda ZTE Uganda	412,968
TUOP	2,612,176
Strategic Logistics	112,090
ZTE	339,106
Total value	11,679,177

APPENDIX VII: Procurement issues and examples of single sourcing (coloured Orange)

S/N	Company	Registration status	Contract value (USD)	Issue(s) raised by PEPD
CNOOC				
1.	MBW	74% Ugandan	270,951	Single sourcing. Details of procurement process not indicated.
2.	CCCC		140,300	Procurement process and evidence of competitive bidding not given.
3.	Survesis	100% Ugandan	40,000	Procurement process and evidence of competitive bidding not given.
TUOP				
4.	Equator Catering Ltd			Single sourcing
5.	Let's Go Travel			Procurement process and method of procurement not indicated.
6.	Simba Travel Care Ltd.			Procurement process and method of procurement not indicated; their costs were deemed high compared to Let's go Travel
7.	North Sea Lifting Ltd.			Single sourcing
8.	Glenevin Uganda Limited			Sole sourcing; no evidence that the company had the required experience to handle the work.
TEP				
9.	Schlumberger oilfield eastern ltd			Single sourcing. The work involved doing a baseline survey of readiness of Ugandans to supply requisite skills, goods and services for the development and production stages of the oil and gas sector. Some of this work could be done by a Ugandan company; but no local partner was proposed to work with Schlumberger.

APPENDIX VIII: Over stayed expatriates

Employee*/ Company	Position	Replacement date	Departure date (head count)	Extra months
TUOP				
TUOP 01	EHS superintendent (North)	01/01/2014	May 2014	5 months
TUOP 02	EHS superintendent (south)	01/01/2014	June 2014	6 months
TUOP 03	EHS Superintendent	24/01/2012	31/05/2013	15 months
TUOP 04	Drilling EHS advisor	24/01/2012	24/04/2012	2 months
TUOP 05	Logistics Supervisor	09/01/2012	15/01/2013	12 months
TUOP 06	Land Transport Safety Lead	08/01/2011	01/08/2012	16 months
TUOP 07	Deputy Finance Manager	01/05/2010	01.09.2012	27 months
CNOOC				
CNOOC 01	Head of HR department	21/03/2014	Still around	11 months
CNOOC 02	Procurement manager	21/03/2014	Still around	11 months
CNOOC 03	Administrative Manager	21/03/2014	Still around	11 months
CNOOC 04	IT manager	21/03/2014	Still around	11 months
CNOOC 05	Environment protection manager	01/11/2014	Still around	4 months
CNOOC 06	Head of Corporate Affairs department	21/03/2014	Still around	11 months
CNOOC 07	Road construction manager	21/03/2014	Still around	11 months
CNOOC 08	Camp supervisor	21/03/2014	Still around	11 months
CNOOC 09	Warehouse supervisor	05/05/2014	Still around	9 months
CNOOC 10	Medical officer	03/11/2014	Still around	4 months

*Employee names have been coded for confidentiality

APPENDIX IX: Expatriate recruitments approved without local advertisements

Name*	Job/ Position	Comment
TEP A	Logistics manager	Not advertised
TEP B	Head of planning	Not advertised
TEP C	Reservoir test supervisor	Not advertised
TEP D	Petro physicist coordinator	Not advertised
TEP E	Senior data management	Not advertised

*Employee names have been coded for confidentiality

APPENDIX X: Expatriates who did not meet the required qualifications

Name of expatriate*	Job opportunity/ Position advertised	Required experience (yrs.)	Required qualification	Comment
CNOOC 001	Compensation and Benefit Manager	10	Bachelor degree/ diploma in human resource	He possessed a diploma in Education
CNOOC 002	Environment and protection Manager	10		6 years' experience
TEP 001	Operations Geologist	8	Bachelor of earth sciences	He had 2 years of experience
TEP 002	Contracts team leader	5	Bachelor degree in related field or engineering	Had no experience in oil and gas contracts and procurement.
TEP 003	Human resource and administration manager		HR qualifications	Did not have the qualifications for the post- had bachelor in sciences
TEP 004	Logistics manager			There was no job description/ advert on file. 3yrs in oil and gas, previously in the French navy for 16yrs. No evidence of logistics experience on file.
TEP 005	Senior data management			The job was not advertised. Has a degree in engineering of chemical- not related to data management.
TEP 006	Fluid cement supervisor	4	Bachelor of engineering	He has 1 year experience
TEP 007	Fluid cement supervisor	4	Bachelor of engineering or university degree	Had experience of 1 month
TEP 008	Civil works specialist	10	Technical degree/ certificate related to civil works	Has a Certificate in project management, course completion and business administration
TEP 009	Competent person for lifting operations	5	Bachelor degree in Mechanical or Civil Engineering	He has certificate in offshore crane lifting
TUOP 001	Senior Drilling Engineer		University degree	He has a Diploma in mechanical Engineering
TUOP 002	Senior well services Engineer		Degree or a higher National diploma in mechanical, electrical or related fields	He has Certificates in computer course, Basic ELS course.

*Employee names have been coded for confidentiality

APPENDIX XI: Showing comparison of planned trainings with actual trainings

Company	Year	No. of planned trainings	No. of actual trainings	No. of planned trainings undertaken	No. of unplanned trainings
TUOP	2012	49	46	-	
	2013	56	62		
	2014	62	93		
	Total	**167**			
TEP	2012				
	2013	59	53	23	30
	2014	108	87	62	25
	Total	**167**	**140**		
CNOOC	2012	65	28	21	07
	2013	43	37	14	23
	2014				

APPENDIX XII: Expected deposits from the oil companies to the Training Fund from 2004 to 2014

Company	2004-2011	2012	2013	2014	TOTAL
TUOP	600,000	200,000	200,000	200,000	1,200,000
TEP	-	200,000	200,000	200,000	600,000
CUL	-	200,000	150,000	150,000	500,000
Heritage	600,000	-	-	-	600,000
Neptune	600,000	-	-	-	600,000
Dominion	600,000	-	-	-	600,000
TOTAL	**2,400,000**	**600,000**	**550,000**	**550,000**	**4,100,000**

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