

**IN THE FIRST SESSION OF THE SEVENTH PARLIAMENT OF THE FOURTH  
REPUBLIC OF GHANA**

**REPORT OF THE PUBLIC ACCOUNTS COMMITTEE**

**ON THE**

**PERFORMANCE AUDIT REPORT OF THE AUDITOR-  
GENERAL ON THE IMPLEMENTATION OF LOCAL  
CONTENT IN THE OIL AND GAS SECTOR OF GHANA**

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**REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE PERFORMANCE**  
**AUDIT REPORT OF THE AUDITOR-GENERAL ON THE IMPLEMENTATION OF**  
**LOCAL CONTENT IN THE OIL AND GAS SECTOR OF GHANA**

**1.0 INTRODUCTION**

The Performance Audit Report of the Auditor-General on the Implementation of Local Content in the Oil and Gas Sector of Ghana was presented to the House on **Wednesday 15<sup>th</sup> March, 2017** in accordance with Article 187 of the Constitution and the Standing Orders of the House.

The Report was referred to the Public Accounts Committee for examination and report pursuant to 1992 Constitution and Order 165 of the Standing Orders of Parliament.

To examine the report, the Committee was assisted by officials from Audit Service, Ministry of Energy and the Petroleum Commission.

The Committee expresses its profound gratitude to the officials for the assistance.

**2.0 REFERENCES**

The Committee referred to the following relevant documents:-

1. The 1992 Constitution of the Republic of Ghana
2. The Standing Orders of Parliament of Ghana
3. Ghana National Petroleum Corporation Act, 1983 (PNDCL 64)

4. Petroleum (Exploration and Production) Act, 1984 (PNDCL 84)
5. Petroleum Commission Act, 2011 (Act 821)
6. The Petroleum (Local Content and Local Participation) Regulations (LI 2204)

### **3.0 BACKGROUND**

Following the discovery of oil and gas in Commercial quantiles in Ghana, there was the need to develop local capacity to allow indigenous Ghanaians and Ghanaian businesses participate in the emerging oil and gas industry. In an effort to ensure that the country maximizes its benefits from the oil discovery, the Ghana Local Content and Local Participation Bill 2013 was passed into law. The Act aims at ensuring that Ghanaians are prioritised in terms of employment in the petroleum industry so as to derive the maximum benefit from the country's resources. The law is also to ensure that Ghana's petroleum resources benefit Ghanaians, while allowing foreign oil companies to optimise the returns on their investment. To operationalise the Act, a Legislative Instrument (LI) 2204 was promulgated.

The LI 2204 seeks to promote the maximisation of value-addition and job creation through the use of local expertise, goods and services, business and financing in the petroleum industry value chain and their retention in the country; develop local capacities in the petroleum industry value chain through education, skills transfer and expertise development, transfer of technology and know-how and active research and development programmes; achieve the minimum local employment level and in-country spending for the provision of goods and services in the petroleum industry value chain; increase the capability and international competitiveness of domestic businesses. To further ensure the active participation of local entities in the oil and gas sector, the law also requires a contractor, sub-contractor, licensee, GNPC or other allied entity carrying out a petroleum activity to ensure that local content is a component of the petroleum activities engaged and to ensure that indigenous Ghanaian companies are be given first preference in the grant of a petroleum rights or a licence. The LI further requires all petroleum

agreements reserve at least five percent equity participation to an indigenous Ghanaian company in addition to GNPC's carried and participating interest.

The implementation of the above initiatives has been vested in the State institutions and Agencies responsible for regulation and operation in the oil and Gas Sector namely, the Ministry of Petroleum, the Ghana National Petroleum Corporation and the Petroleum Commission. Three years after implementation, the Auditor-General found it necessary in the interest of the republic to conduct a performance audit to determine the degree of attainment of the objectives of the local content in the Oil and Gas sector.

#### **4.0 AUDIT OBJECTIVE**

The audit was to determine the extent to which the Petroleum Commission has implemented the Local Content and Local Participation Requirements in the upstream Oil and Gas Sector. The focus of the Auditor-General was on the legal framework in place for the development of local content, responsibilities of bodies charged with the implementation of the content, and monitoring and eventuation of the content.

The Audit covered the period of January, 2013 to September, 2014.

#### **5.0 SUMMARY AUDIT FINDINGS**

The Auditor-General having carefully examined the existing local content regime found out that, the implementation of local content through the legal and institutional framework is on course. The auditors also established that, the existing legal framework is adequate to ensure the participation of Ghanaians in every sector of the upstream oil and gas sector. The Auditor-General was convinced that the existing legal regime made sufficient provision for equity participation of Ghanaian firms, procurement of goods and services, technology transfer, education and social responsibility.

The audit revealed that, responsible Institutions including the Petroleum Commission have been established as part of various working groups with industry players to foster corporation and monitor implementation of the targets in the local content

laws. To this extent, the Petroleum Commission has developed guidelines to enable Ghanaians participate actively in the upstream oil and gas sector. The Audit further identified that, the Commission in implementing its mandate has established Local Content Monitoring Committee to help monitor operators to ensure they adhere to the required local content requirements of the country.

The Auditor-General also established that the Local Content Committee has laid the foundation for the enforcement of LI 2204 by developing reporting templates, guidelines and implementation of strategies.

## **6.0 OBSERATIONS AND RECOMMENDATIONS**

### **6.1 Institutional Framework for Local Content**

The Committee observed from the Auditor-General's Report that, the petroleum Commission is in the process of developing guidelines for use in joint ventures, insurance placement and research and development. The audit established that, some of the guidelines have been developed and are awaiting approval of the Board.

The Ag. Chief Executive Officer of the Commission indicated to the Committee that, the Commission has completed work, obtained Board approval and published the insurance, joint venture and registration components of the local content guidelines in 2014 and 2016.

He further explained that, the insurance Guideline christened "Oil and Insurance Placement for the Upstream Sector" was developed in collaboration with the National Insurance Commission and the Ghana Oil and Gas Insurance Pool to address the insurance requirement in Regulation 27 and 28 of LI 2204 which mandates that all insurable risk relating to petroleum activity should be done through indigenous insurance companies. He indicated that the protocol has helped the growth of the insurance market by providing mechanism for the oil and service companies to retain substantial portion of oil and gas insurance premium

in-country. This has avail the local insurance companies the opportunity for human capital development in the areas of oil and gas underwriting.

Further, the Commission has developed and published the guidelines for the formation of Joint Venture Companies in the upstream industry in Ghana and the Guidelines on company registration and participation in tender were also developed and published in March 2016 in accordance with Regulations 4(6) and 43 of LI2204.

Seven other regulations namely, Research and Development Guidelines, Financial Service Guidelines, Procurement and Bid Evaluation Guidelines, Petroleum Commission Registration Eligibility Guidelines, Technology Transfer Guidelines, Guideline on Training and Skills Development and Local Content Fund Management are at various levels of completion.

The Committee noted that the development of all the relevant guidelines is critical to the attainment of the targets set in the local content regulations LI 2204. The Committee urges the Petroleum Commission to as a matter of urgency expedite action and complete work on the remaining guidelines to further enhance local participation in the oil industry. The Committee further urged the Ministry of Energy to strengthen its oversight on the Commission to ensure timely completion of these guidelines.

## **6.2 Relationship between the Commission and other State Agencies**

The Committee also observed that the Petroleum Commission has established working relationship with other state agencies and industry players to strengthen cooperation in the implementation of local content in the oil and gas sector.

Management of the Commission explained that after the passage of LI2204, the Commission undertakes regular engagement with stakeholders particularly, IOCs, and International Service Providers to educate them on the requirements of the LI and the implementation process. The Commission subsequently identified ways of working with key IOCs and International Service Providers to ensure they align their internal processes to comply with the LI.

The Commission also developed working relationship with the Ghana Immigration Service to play a role in the review and recommend work permit for expatriates working in the upstream oil industry. This is to enable the Commission to ensure that only critical human resources that are not available locally are imported. The Commission informed the Committee that, through these collaborations and initiatives, over 75% of all positions in the upstream industry is occupied by Ghanaians

The Commission also work in close collaboration with National Security, Ghana Navy, Port Health, Ghana Maritime Authority, Registrar General's Department and the Ghana Revenue Authority to facilitate security clearance and to address the problem of fronting, transfer pricing, cost management amongst other things which adversely affect local content efforts.

Through these collaborations, the Commission has been successful in reserving the procurement of some goods and services to indigenous Ghanaian companies.

The Committee commends the Commission for the healthy relationship it has developed with other state agencies for the smooth running of the industry. The Committee again encourages the Commission to extend its relationship building to cover civil society organisations and communities affected by petroleum exploration and exploitation in order to engender trust and confidence of the communities as important stake holders.

### **6.3 Skills and Capacity of Local Companies**

The Committee further observed from the Report of the Auditor-General that, many contracts which should have been reserved to local companies have been awarded to foreign companies due to low skills levels and capacity of local companies.

The Chief Executive of the Commission explained that, the Commission conducted a value chain analysis to identify job areas where local firms can effectively compete. Based on the outcome of the analysis, the Commission reserved goods and services for indigenous companies as the areas they have the capacity to

compete. The Commission accordingly took steps to ensure that tenders for such goods and services are participated by only Ghanaians.

To further improve capacity of local enterprises the Commission organizes workshops and seminars to educate companies on the rudiments and requirements in the industry and assist in building capacities and capabilities in the industry to enable them compete globally.

The Chief Executive of the Commission also indicated that the proposed Local Content Fund will also ensure access to finance by indigenous companies. The commission is in the process of developing the modalities for the establishment and implementation of the Fund.

The Chief Executive lamented on the current practice where most indigenous companies prefer to import items when contracts are awarded to them instead of establishing facilities to undertake production in-country. Furthermore, unlike IOC's, taxes on importation of petroleum equipment are not waived for indigenous companies as such increasing the cost of production and eventually making them uncompetitive.

The Committee is of the view that, reliance on importation by local firms as against in-country production and fabrication could derail the laudable objectives of the local content policy by shifting most of the profits in the industry to foreign entities operating outside the shores of Ghana. Further, the restriction of tax waivers on the importation of petroleum equipment to only IOCs is discriminatory and does not promote the competitiveness of local firms to bid for the supply of such equipment. The Committee therefore recommends to the Minister for Energy to initiate steps to ensure that the tax incentives granted to IOCs on the importation of petroleum equipment is extended to all local firms operating in the sector. This will further boost the local content drive and make indigenous firms more competitive in the oil and gas sector.

#### **6.4 Ensuring Ghanaians Acquire Skills in Demand in the Oil and Gas Industry**

The Auditor-General established in his audit that there is currently shortage of relevant skills in the industry although there is high rate unemployment among



graduate engineers and technicians due to lack of practical experience in the Oil and Gas sector (upstream) operations.

The Commission admitted the problem but indicated that based on the outcome of a human resource analysis carried out in 2014, the Commission introduced the Ghana Internship Upstream Programme to address the skills shortage in the industry. The aim of the programme is to second graduates to IOCs and service companies for a period of 6-24 months to enable them gain industry experience. Espousing the successes of the program, the Commission stated that it seconded 10 graduates to Tullow for a period of 1 year to work on the TEN project. After completion, some of the graduates were retained by Tullow and the rest employed in other Institutions.

Further, the Committee was informed that the Commission in 2016 undertook a nation-wide exercise to select an additional 150 graduates for the internship programme. Forty-one (41) graduates have so far been placed. Arrangements are also been made to place the other successful graduates. The programme has however been hampered by the current market conditions in the industry (low oil price) thereby slowing down the placement of other successful applicants.

To further integrate practical training in oil and gas into the educational system, the Commission has also begun a vocational programme named GUSVAP where artisans and technicians trained in Technical Institutions would be seconded to service companies to gain industry experience. The Commission together with Ministry of Education and COTVET is collaborating with Technical Institutions such as Kikam, KNUST, RMU and Takoradi Technical University to build their capacities and align their curriculum to the requirement of the industry. The Commission through this partnership would also ensure the harmonization and standardization of certifications issued in the industry. The Commission is also collaborating with the local universities and the IOCs to build capacity of the faculty members, re-equip selected departments of the universities and refocus their programme contents to make them more relevant to the industry.

The Committee recommends to the Commission to expedite action on developing the required local technical skills that will enable Ghana to take total control of the production and management of its petroleum resources. The Commission should also support indigenous firms to raise capital to enable them increase their shareholding in future oil blocks to increase local participation in the sector.

## **6.5 Monitoring and Evaluating Local Content**

The Committee observed from the Report that at the time of the audit the Commission had not undertaken any inspection or audit of upstream companies. The Auditor further indicated that the Commission had no monitoring unit for local content and mentioned lack of logistics as a cause of the Commission's inability to undertake monitoring exercises.

Officials from the Commission indicated that, a multi-disciplinary Inspection Committee has now been established to undertake periodic audits and inspections. The Inspection Committee carried out inspections of six (6) companies in 2015 and five (5) companies in 2016. The Commission also inspected twenty-six (26) companies in Q1 2017. Issues raised after the inspection were communicated to companies to ensure they were addressed. The Compliance Department of the Commission also perform ad-hoc visits to companies to ascertain information provided in registration documents.

The Committee noted that Section (e) and (d) of the petroleum Commission's Act and Regulation 44 of LI2204 mandates the Commission to monitor petroleum activities, undertake audits & inspections and ensure compliance with all applicable laws governing the industry including compliance to local content requirements.

The Committee urges the Commission to comply with the recommendation of the Auditor-General to establish a dedicated department within the Commission to be responsible for Monitoring and Evaluation of local content in the oil and gas industry.

## **6.6 Improving Local Participation**

The Committee was informed by the Ag. Chief Executive of the Petroleum Commission that, in addition to the measures outlined in LI 2204, the Commission has put in place many other measures to ensure the full participation of Ghanaians in the industry.

The Commission is unbundling contracts to make it possible for local companies to participate and bid for such contracts. Also, all foreign companies participating in the upstream industry must do so in partnership with local companies. The Commission stated that, since the inception of this policy, all petroleum agreements granted to multinational oil companies, there is an equity holding for a local company.

On the development of Human resource capacity in the oil and gas sector, the Ag. CEO explained to the Committee that, upon the discovery of oil and gas in Commercial quantities, efforts were put in place by government to develop human capacity to allow Ghanaians participate fully in the oil field. Regrettably however, most of the skills were developed in the areas such as oil and gas management which are not useful to the industry. Technical skills in areas such as drilling were not developed. This has led to the oil companies engaging expatriate staff to handle these critical areas of the sector. To address the shortcoming and to develop required skills among Ghanaians the Commission had undertaken a comprehensive audit to determine the skills available in the country and requirement of the industry.

The outcome of the audit indicate that, many trained graduates and professionals could not be employed because they lack practical skills. To address the situation, the Commission has developed the Ghana Upstream Internship Program (GUIP) to give practical upstream training and experience to young graduates. He indicated that, the petroleum sector is highly technical and a little mistake or negligence could have severe devastating consequences. Hence the need to give extensive practical training to young professionals to make them employable in the sector.

The Committee was further informed that talk is on-going with selected technical universities and polytechnics to create centres of excellence for training of technical skills required for the oil and gas sector.

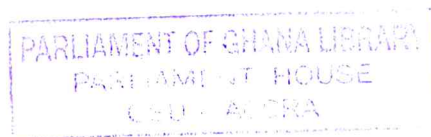
**8.0 CONCLUSION**

The Auditor General was generally satisfied with the legal and regulatory regimes in place to ensure the full implementation of local content in the oil and gas sector. The Auditor-General also expressed satisfaction about the establishment of the required Institutions and the monitoring and evaluation mechanism in place to ensure that IOCs comply with the local content rules and regulations in the country.

The Committee having carefully examined the report is satisfied with the planned activities and the regulatory framework in place to improve Ghana's Local Content and local participation in the oil and gas sector. The Committee noted that the agencies tasked to implement the program are also on course. Program outline of the Commission when properly implemented will further contribute to an improved local content regime and local participation in the sector.

The Committee therefore recommends to the House to adopt its report on the Performance Audit Report of the Auditor-General on the Implementation of Local Content in the Oil and Gas Sector of Ghana in accordance with Standing Order 165 of the Parliament of Ghana.

Respectfully submitted.



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**HON. JAMES KLUTSE AVEDZI  
CHAIRMAN, PUBLIC ACCOUNTS COMMITTEE**

*[Handwritten signature of Inusah Mohammed]*  
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**MR. INUSAH MOHAMMED  
CLERK PUBLIC ACCOUNTS COMMITTEE**