



Petroleum Revenue Management - Uganda

Capacity needs assessment report

November 2011

REVENUE MANAGEMENT INSTITUTIONS:

- Ministry of Justice and Constitutional Affairs
- The Ministry of Finance Planning and Economic Development
- The Central Bank of Uganda
- Uganda Revenue Authority
- Office of the Auditor General

Foreword:

by C.M. Kassami, Permanent Secretary/Secretary to the Treasury. Ministry of Finance, Planning and Economic development

Foreword

Following the discovery of commercial quantities of Oil in 2006, Government embarked on the establishment of an appropriate legal and institutional framework to ensure the proper management of this finite resource.

As a part of the legal and institutional framework building process, the Governments of Uganda and Norway have established a project to support the strengthening of the Management of the Oil and Gas sector in Uganda. The project is built around **three** pillars covering the Management of Revenues, Oil and Gas resources (upstream) and the Environmental aspects of the sector.

The Revenue Management Pillar constitutes of five institutions namely, the Ministry of Finance, Planning and Economic Development, the Ministry of Justice and Constitutional Affairs, the Bank of Uganda, the Uganda Revenue Authority and the Auditor General's office. These institutions are mandated under the Oil and Gas Policy of 2008 to ensure proper management and accountability for the proceeds from the newly discovered oil and gas resource.

A Capacity Needs Assessment was undertaken to form a basis for the human resource and capacity needs development plan for the earlier mentioned stakeholder institutions. The exercise involved several consultative meetings to ensure that the requirements for the beneficiaries' institutions are catered for and addressed. To inform the process, best practices from countries managing natural resources was considered.

The stakeholder institutions under the Oil Revenue Management bracket are urged to make reference to this study and the recommendations therein. Adequate arrangements both financial and structural should be enhanced to ensure that the right systems are in place and technical capacities are developed to allow efficient and effective management of the oil and gas revenues on behalf of the current and future generations of Uganda.

We appreciate the support given by the government of Norway, the expertise and experience provided by the Hartmark Consultancy team and the local staff from the respective institutions who made this exercise possible.



C.M.Kassami

**Permanent Secretary/Secretary to the Treasury.
Ministry of Finance, Planning and Economic development.**

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Method and project approach: Scope of Work

Key stakeholder institutions

The following institutions are included in this report:

- Ministry of Justice and Constitutional Affairs
- The Ministry of Finance Planning and Economic Development
- The Central Bank of Uganda
- Uganda Revenue Authority
- Office of the Auditor General

Overall tasks

- Carry out the first phase of a capacity needs assessment to determine the appropriate capacity development needs for staff who will be directly involved in the oil revenue management sector within the stakeholder institutions.
- Review the adequacy of work processes inside and between the most relevant institutions, information flow and the use of planning tools. The output of this exercise will feed into the institutional development and training program of the Revenue Management Pillar to implement its capacity building plan.

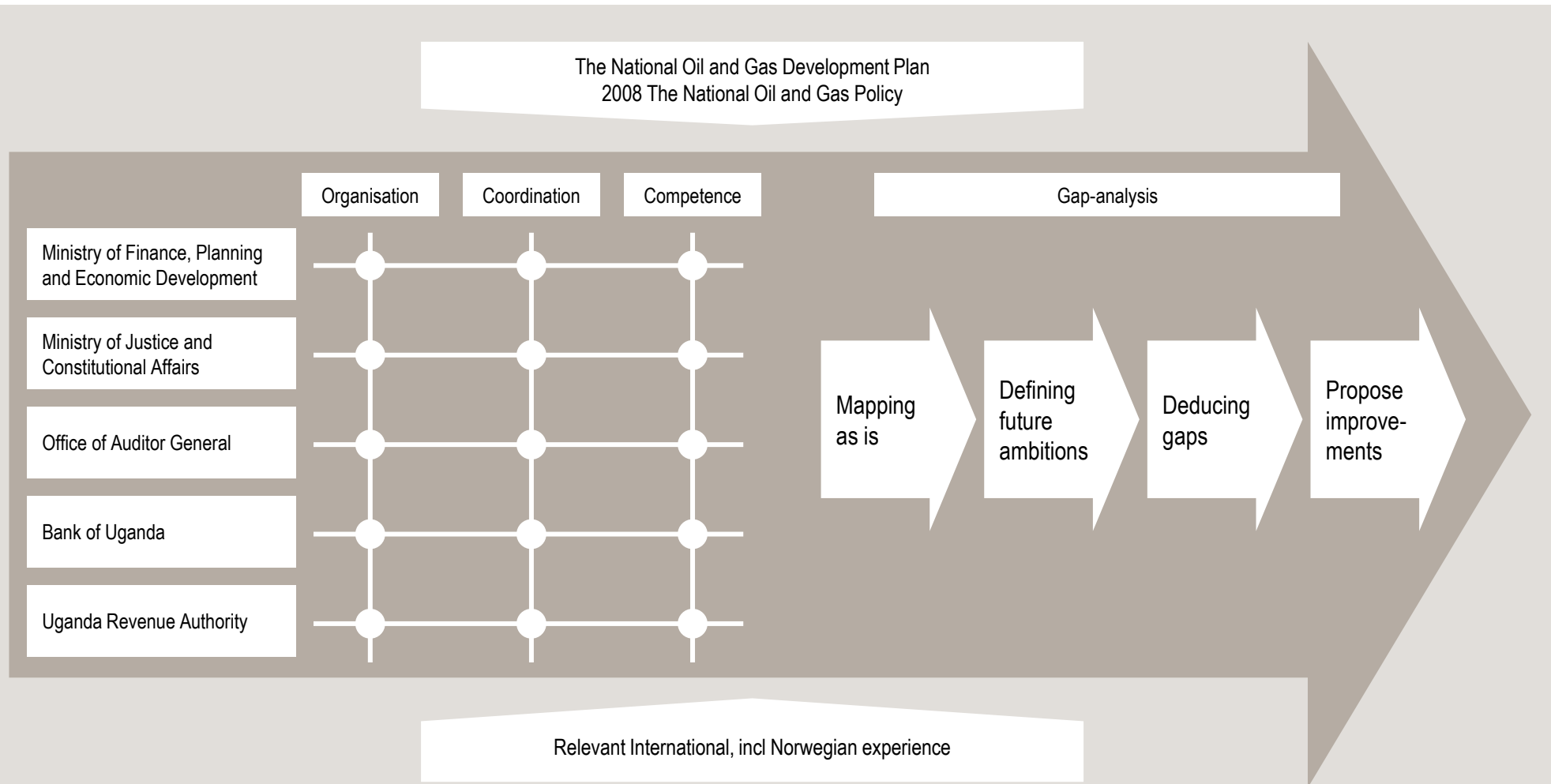
Expected outputs

- Brief overview on the adequacy of work processes, information flow and coordination within and between the relevant departments in institutions which have roles and tasks associated with the collection and management of the petroleum sector revenues.
- Brief overview of the technical human capacities that will be necessary for the departments to implement their roles and tasks associated with the management of oil and gas revenues in an adequate manner in the key stakeholder institutions, compared to the present situation.
- Brief description of priority training and recruitment needs.

- The report is written by Hartmark Consulting AS. A Norwegian based management consulting company in 2011.

Method and project approach: The Overall Approach

- The illustration describes the overall approach to the assignment, where the five institutions are to be analysed with regards to the oil and gas revenue management.
- The outcome of the analysis mentioned above will be modelled in a gap analysis, where the National Oil and Gas Development plan in Uganda and relevant international experience are the framework



Method and project approach: Activity plan and timeline

Activity	may				jun					jul					aug					sep					okt				
	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43			
Oslo: - Preparation and project planning																													
1st Visit Kampala: - Interviews - Data collection - Introduce survey																													
Oslo: - Process data from 1 st visit - Receive and analyse data																													
2nd visit Kampala: - Test main findings - Collect new data																													
Oslo:: - Develop draft report																													
3rd visit Kampala: - Present draft report																													
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2.1 Uganda's Petroleum potential: Lack of prognosis makes planning difficult

Relevant policies and legislation

Petroleum Production

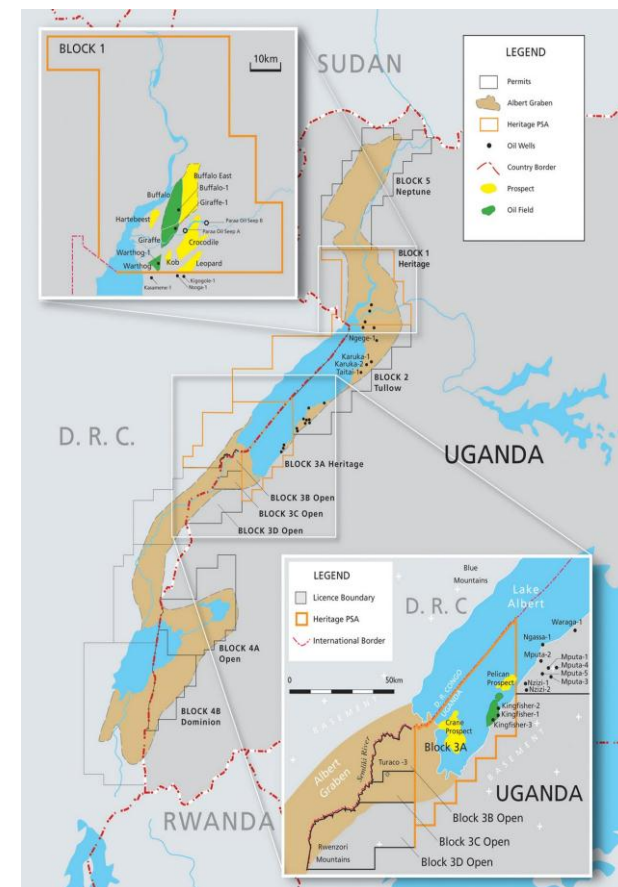
- First discovery of oil in commercial quantities in 2006
- Tullow Oil reports discoveries of accessible oil in 90 % of wells drilled in Uganda (one of the biggest success rates in the world)
- Proven reserves of 1 billion boe, but some estimates indicate up to 3 billion boe in national reserves
- Tullow says: Early production to begin in 2012, but full operation will take at least 3 years to scale up
- "Government is considering setting up a refinery, which, according to plans, will start in 2015 with a production capacity of 20,000 barrels of oil per day and will progress to 60,000 barrels and subsequently go up to 150,000 and 200,000 barrels per day" (Quoted from a report from Center for Global Development, Washington)
- Uganda's estimated max production based on existing discoveries seems to be 10 % of 2010 production on Norwegian shelf (appr 2,1 mill boe/day, ref NPD Facts 2011)

Petroleum Revenues

- From Center for Global Development, Washington in July 2011: "While future revenue estimates are highly uncertain, it is likely that the known fields alone could provide rents of up to 15 % of GDP at peak and some 10 % of GDP for a period of 20 years" (GDP US\$ 17 billion)

Comments on the Ugandan situation

- The BOE/day vs the future share of GDP indicates on one hand a need to be realistic in building public petroleum administration, but on the other hand a need to supervise a significant new revenue stream (the Ugandan National Budget in 2010/11 was expected to be around US\$ 3.5 billion, and if petroleum rents should be around 10 % of GDP, it will amount to around 50 % of the Fiscal Budget at existing level)
- The volume indicates a need to have a realistic view using Norway as benchmark
- All volume and revenue estimates made so far, are highly uncertain. Our recommendation is to develop a Petroleum Scenario White Paper where volumes and revenue forecasts are addressed and presented to the Parliament



Principles and Objectives defining the background of the project (outlined in italic)

The National Oil and Gas Policy identifies the following Issues for the Country with regard to the Petroleum sub-sector :

1. Development of institutions, including legislation and manpower, necessary for effective management and regulation of the sub-sector.
2. Establishment of the country's oil and gas resource base so as to facilitate short, medium and long term planning for the sub-sector.
3. ***Management of the country's oil and gas resources together with the revenues accruing therefrom, in a manner that facilitates sustainable development and avoids distortion and destruction of the nation's economy.***
4. ***Managing the impact of an emerging oil and gas sub-sector on, among others, the country's governance system, the economy, the environment and subsequently human development.***
5. Contribution of oil and gas resources to the country's energy mix.
6. Ensuring that the country provides a conducive environment for attracting the levels of investment required to establish the country's resource potential and facilitate its development.
7. Participation of the country's private sector and its entrepreneurs in the oil and gas activities.
8. Management of expectations, arising out of the perceived benefits of oil and gas activities, together with the anxiety arising from expectations of poor management of this sub-sector in other parts of the world.

The Policy is based on the following Principles:

- ***i) Using finite resources to create lasting benefits to society,*** ii) Efficient Resource Management, ***iii) Transparency and Accountability,*** iv) Protection of the Environment and Biodiversity, v) Spirit of Cooperation, vi) Capacity and Institutional Building

The Objectives of the Policy are:

1. To ensure efficiency in licensing areas with the potential for oil and gas production in the country.
2. To establish and efficiently manage the country's oil and gas resource potential.
3. To efficiently produce the country's oil and gas resources.
4. To promote valuable utilization of the country's oil and gas resources.
5. To promote the development of suitable transport solutions which give good value to the country's oil and gas resources.
6. ***To ensure collection of the right revenues and use them to create lasting value for the entire nation.***
7. To ensure optimum national participation in oil and gas activities.
8. To support the development and maintenance of national skills and expertise.
9. To ensure that oil and gas activities are undertaken in a manner that conserves the environment and biodiversity.
10. To ensure mutually beneficial relationships between stakeholders in the development of a desirable oil and gas sub-sector for the country.

2.2 Policy framework:

To ensure collection of the right revenues and use them to create lasting values for the entire nation, National Oil and Gas Objective no 6:

The Strategies and Actions to achieve the Objectives

Strategies:

- Identify and document the different sources of revenue in oil and gas activities
- Ensure collection of the right revenues due to Government taking into consideration that these revenues include both tax and non-tax components
- Publish the revenues received from oil and gas activities regularly
- Ensure equity, fairness and transparency in the use of oil and gas revenues
- Utilise petroleum revenues for supporting strategic areas of the national economy like education and research, development of infrastructure and other activities which contribute to lowering the cost of doing business in the country
- Put in place a sustainable asset in form of a petroleum fund to store revenues not used in the national economy and creation of a permanent source of wealth as a provision for intergenerational equity
- Evaluate spending criteria for the revenue used to support the national economy based on absorptive capacity and forecast rates of return
- Take into account the interests of local government and stakeholders during the development of oil and gas resources and sharing of royalties in accordance with the Constitution

Actions

- Put in place a law to regulate the payment, sharing, use and management of revenues accruing from oil and gas activities
- Put in place the necessary institutional framework for collection and management of oil and gas revenues
- Participate in the process of the Extractive Industries and Transparency Initiative (EITI)

Comments and Recommendations

- Subscribing and implementing the EITI requirements is considered an important step in order to ensure Transparency and Accountability as defined in the Guiding Principle 5.1.3 of the National Oil and Gas Policy from 2008

Key recommendations yet to be decided

- **Assessment and Collection of Government Take:** Assessment of the government take from oil activities (royalty, profit oil and state participation) will be done by the regulator (Petroleum Regulatory Authority) and URA, for the purposes of assessment and collection of taxes due from the oil companies.
- **Administration of Oil Revenues:** In line with Oil and Gas Policy, this role will be a responsibility of URA under the relevant tax laws including Government's share of profit oil. On the other hand, any revenues received in kind will be taken up by the National Oil Company, which will be responsible for its marketing.
- **Oil Revenue and Inter Governmental Fiscal Transfers:** Article 244(1) of the 1995 Constitution provides that the Parliament shall make laws relating to the sharing of royalties between Government and Local Communities.
- **Establishment of Petroleum Fund:** In line with the National Oil and Gas Policy, a Petroleum Fund will be established in the Central Bank to create a permanent source of wealth as a provision for intergenerational equity and financing the budget.
- **Non-Oil Tax Revenues:** The Government should ensure that tax policy and administration remains focused improving the non oil tax revenue effort, in addition to ensuring that oil revenues do not undermine the current tax system.
- **Fiscal Rule for managing Oil Revenue:** A fiscal rule/anchor to manage oil revenues will be put in place in order to mitigate the risks to the economy associated with natural resource wealth. The anchor sets out the level and process of integrating oil revenues within the overall fiscal framework in a manner that limits the impact on the non oil sectors. As part of the rule, there will be a percentage deducted from the oil revenues which will be set aside for future generations use. As variations in volumes and prices are likely to affect revenue flows into the budget, a mechanism will be established to mitigate against revenue volatilities associated with the volume and price changes. Oil revenues drawn from the Petroleum Fund in the initial years, will be used to finance the non oil budget deficit.

Comments and Recommendations

- How the marketing role of the National Oil Company is to be defined for the revenues received by the Government in kind must be decided based on the future role decided for the refinery: either being the sole buyer of the crude, or, maybe more likely, acting as supplier of refinery services to the concessionaires (see page 13)
- A Policy for Oil and Gas Revenue Management should also include policies for Information and Reporting about the revenues and the handling of the revenues in the Petroleum Fund

2.3 Status of relevant legislation:

Relevant Petroleum Legislation and Policies (partly in progress)

Relevant policies and legislation

National Oil and Gas Policy

- From 2008

Oil and Gas Revenue Management Policy

- Final Draft from April 2011

Model Production Sharing Agreement (Model PSA)

- For Petroleum Exploration, Development and Production
- By and between The Government of Uganda and the Company X
- From 2006

The Petroleum Law

- Draft of May 12th, 2010
- Might be split in 2 laws--one covering upstream activities, and another one covering mid- and downstream activities
- Both laws must be followed up by a set of regulations

The Income Tax Act

- Last Amendments November 5th, 2010

Public Finance Accountability Act (PFAA)

- From 2003
- Taskforce agreed proposals as of January 21st, 2011
- Will also be amended to provide for the institutional, operation and management of the Petroleum Fund

The National Audit Act

- From 2008

The Uganda Revenue Authority Act

- From September 5th, 1991

MEMD: Strategic options and recommendations for the formation of Uganda National Oil Company

- Draft Report from April 2011

Comments and Recommendations

All legislation must reflect policies

- The ideal procedure is to have decided the relevant policies before developing laws and regulations

Nothing is finished until everything is finished

- There is an interdependence between all elements of future governance of the petroleum sector, complicating the development of every single element, and resulting in a need for coordinating the final results at the end

Missing elements

- Policies for utilization of Petroleum Revenue
 - Setting the frames for how much to be allocated in actual governmental budgets and how much allocated for future stabilization and/or intergenerational purposes
- Investment policies for the Petroleum Fund
 - Such policies must have been developed and decided in time for building the fund for future stabilization and/or intergenerational purposes
- Policies for Information and Reporting (ref. previous page)

Implementation of laws

- Just as important as having laws is to establish institutions with capacity and procedures with which to implement the laws
- For Uganda, is it important that the petroleum sector is ensured good governance reflecting the given laws and regulations from day one

2.3 Status of relevant legislation: Sources of revenue - Model PSA

Revenue to be collected according to the Model PSA from 2006*

Signature Bonus

- To be paid upon signing of PSA in US\$

State Participation

- State is allowed to participate for no more than 20 % through a Joint Venture Agreement with Licensee
- Licensee agrees to carry the costs of Government or its Nominee through development to production

Royalty

- The Licensee shall pay the Government a Royalty on the Gross Total Daily Production in Barrels of oil per day (BOPD)
- The Royalty shall be received by Government on a monthly basis whether in kind or in cash (US\$) depending on Government's preference

Profit Oil

- Government and Licensee shall apply a split on the remaining (after Royalty and Cost recovery) total daily production called Profit Oil
- "Government shall have the right to receive its share of Profit Oil in cash US\$ on a Quarterly basis

Taxes, duties, levies or other lawful impositions

- Shall be paid by the Licensee in accordance with the laws in timely fashion

Model PSA illustrated

Signature bonus

State Participation
Joint Venture Agreement, limit 20%

Royalty
% BOPD

Cost Recovery
(cost oil)

Production Sharing
Profit Oil, % of BOPD

Taxation
Company share of profit oil

* a revised Model is under development

2.3 Status of relevant legislation: Comments and Recommendations on the Model PSA

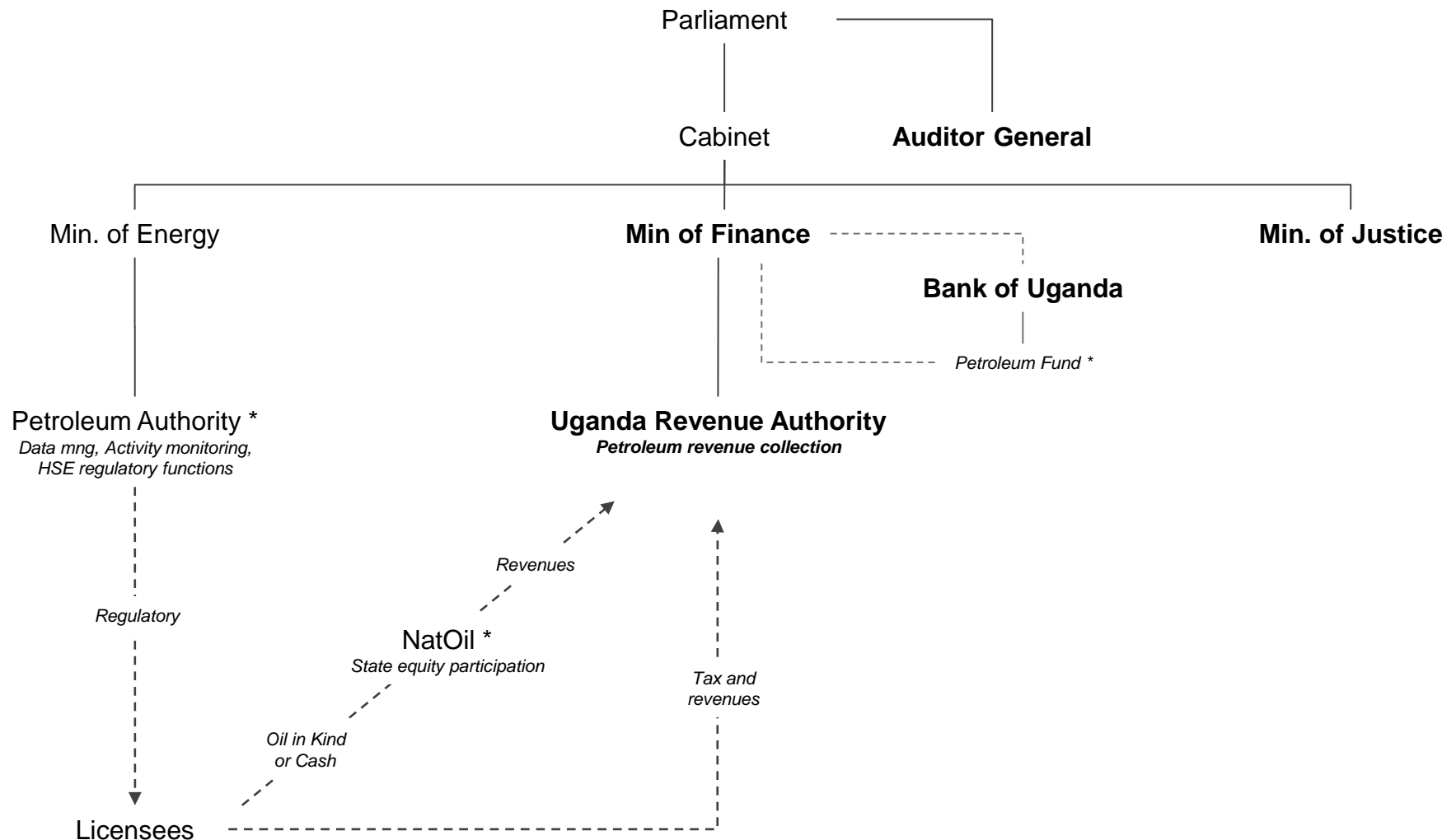
Defining the negotiable and non-negotiable terms for the elements in the Model PSA

- The Model PSA must build on the fiscal elements already set in the Law (as it will be)
- If the government wants to have the option to change fiscal terms, they need to include such terms in the law not in the model PSA (the law can be changed through the parliament, a signed contract is binding for the parties as long as it is valid)
- The operating companies will often like to have most of the terms negotiated and set in the PSA, giving them predictability as long as the PSA is valid
- Too many elements open for negotiations will result in fluctuating terms from field to field, creating governing challenges for the authorities

Special Petroleum sector controls/implications to be recognized

- Procedures must be established and followed up, and responsibilities must be precisely allocated to enable control of volume of Crude Oil produced
- Procedures must be established and followed up, and responsibilities must be precisely allocated to ensure control of all types of costs to be presented by the licensees for cost recovery (=Cost Oil)
- Control of Market Price (stipulated on arm's length distance) used to value crude oil; The Norwegian Authorities have established a special Norm Price commission (Petroleumprisrådet) to define norm prices for every field:
 - Six permanent members
 - Four of the members are independent experts
 - Two of them are representing the ministries, one from the Ministry of Petroleum and Energy and one from the Ministry of Finance
 - Meets once every quarter
 - The Ministry of Petroleum and Energy is secretariat for the Commission
 - The commission is delegated the responsibility for setting the norm prices
- The role of such a Commission in Uganda, if such a solution is chosen, must reflect the solution for the role given to the Refinery. It will benefit all involved parties in the petroleum sector (reduce costs), if infrastructure as pipelines and refineries, are established to sell their services to the parties in need of such services. Such a solution will require an independent institution to define the tariffs for the services. The above mentioned Price commission, or another specialized commission, can be allocated that responsibility. The higher taxation rate in the upstream part of the value chain must be taken in to consideration when tariffs are set
- Such commissions might draw on foreign experts in addition to local experts, at least in the first years of operation

2.4 Institutions involved in the Petroleum Revenue Management: Governmental petroleum related institutions in Uganda



* To be established

2.5 The National Oil Company:

The National Oil Company proposed in the Oil and Gas policy, NATOIL (UGNOC)

Mandate and Principles acc. to The Nat. Oil and Gas Policy

Mission:

- In addition to policy and regulation, the State will require an entity to handle its commercial interests in the sub sector, e.g. state participation in the licenses and marketing the country's share of oil and gas production received in kind

Specific roles of NATOIL:

- Managing the business aspects of state participation
- Developing in depth expertise in the oil and gas industry
- Optimising value to its share holders
- Administering contracts with co-ventures
- Participating in Contractor/Operator meetings
- Investigating and proposing new upstream, midstream and downstream ventures initially locally but later internationally

Government shall promote company efficiency and enhance company recognition by:

- Keeping NATOIL focused on the State's commercial interests
- Insulating NATOIL from bureaucracy and political play
- Promoting healthy competition among oil companies
- Reaping benefits of diversified expertise and approach
- Allowing correct benchmarking of the company's performance
- Avoiding power concentration (i.e. a state within a state)
- Facilitating NATOIL's expansion abroad (with Government's approval)

Although this entity will become more relevant when production begins, the period before production shall be used to build its capacity

It will be necessary for NATOIL to be supported financially (by seed money and/or yearly budgets) by the Government at the beginning

Mandate and principles acc. to PwC report, April 2011

Vision:

- To be a world class National Oil Company maximising the economic value of the State's commercial interest in the oil and gas sector, contributing to the growth and development of Uganda

Mission:

- UGNOC is a petroleum company operating across the petroleum value chain, committed to delivering superior economic benefits to our stakeholders through the application of sound commercial practices

Important principles from the PwC report:

- UGNOC should be formed and developed with commercial principles in mind. This means that UGNOC should be an independent company with financial autonomy
- National mission objectives that are in line with the core business functions of UGNOC should be allowed
- Strong corporate governance and transparency principles should form the foundations underpinning the company
- UGNOC is recommended to be an entity incorporated under the Companies Act, with an independent Board of Directors
- It should be recognised that UGNOC will initially require funding
- Whilst the initial focus of the company will be the activities supporting participation in production licenses, we recommend that the State's investment in refining activities should be through UGNOC
- The proposed organisational design includes building a scalable platform for management and governance

2.5 The National Oil Company:

Comments and recommendations on The National Oil Company

A more focused National Oil Company

- The PwC Report from 2010 gives a more focused/evident definition of the role of the National Oil Company than the National Oil and Gas Policy from 2008:
 - The National Oil and Gas Policy: “Investigating and proposing new upstream, midstream and downstream ventures initially locally but later internationally”
 - The PwC report: “Whilst the initial focus of the company will be the activities supporting participation in production licenses, we recommend that the State’s investment in refining activities should be through UGNOC
 - The PwC report is developed some years after the National Oil and Gas Policy and consequently based on more current data
- Regarding the idea of having the National Oil Company as co-owner in the Refinery:
 - If the Refinery is set up to sell services based on tariffs set by a commission (see page 13), it might be questioned if the Government through its National Oil Company should invest limited resources in the Refinery

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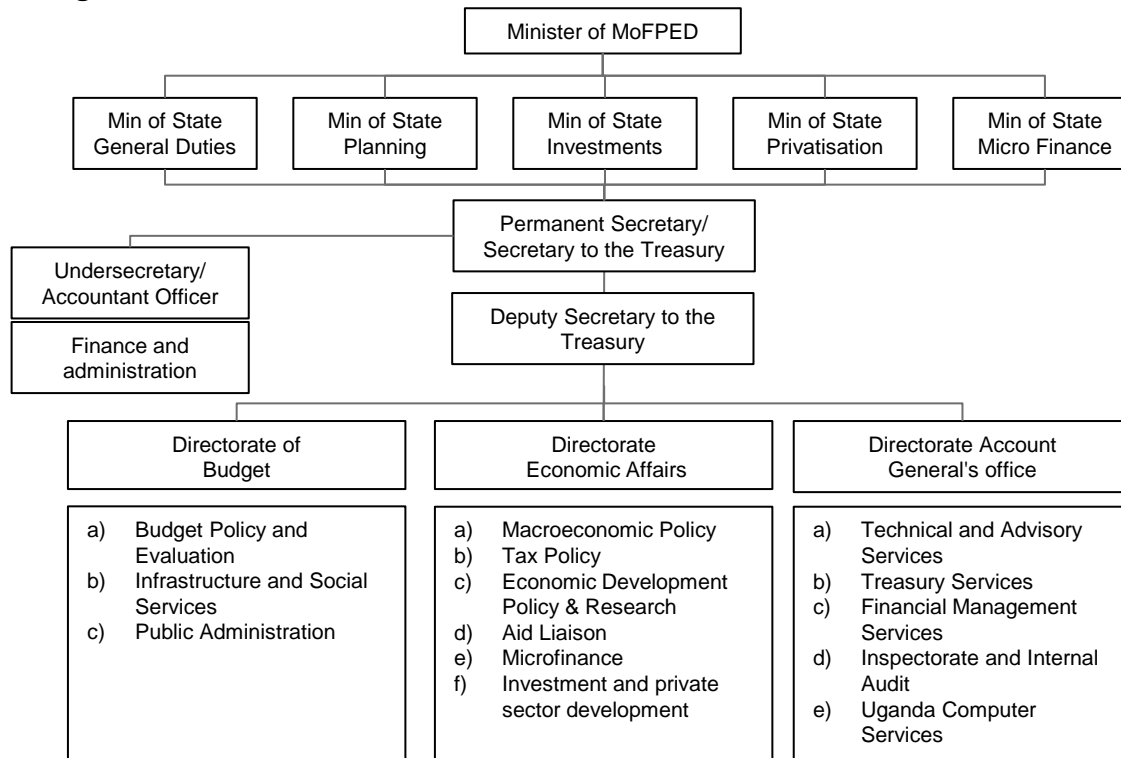
3.1 Institution as-is: Roles, Responsibilities and Structure: Ministry of Finance, Planning and Economic Development as-is

Mandate and Organisational structure

Mandate:

- In general the role of the Ministry is to ensure macroeconomic stability, which includes prudent fiscal management and ensuring appropriate distribution of government funds to provide efficient and effective delivery of services
- The illustration shows the current structure in the Ministry, with three units under the Permanent Secretary

Organisational Structure



Structure and responsibilities

- The Ministry is organised with three Directorates where the Ministry's main objectives is the organisational principle used:
 - Bring together and present the Government Budget
 - Analyse, formulate and implement macroeconomic policies
 - Keep track of the national accounts, debts and assets
- The department structure is organised in technical units such as tax, financial management and Treasury Services. There are no units with sectorial responsibilities' related to petroleum in the current structure
- In the current set up the Directorate of Economic Affairs (DEA) and Accountant General's office (AGO) will be the main units affected by future petroleum revenue. DEA is the overall policymaker and the point of contact towards the main institutions managing the petroleum revenue such as the Bank of Uganda and URA. AGO's responsibilities is first of all to keep the national accounts and report on the nation's debts and assets
- In the current structure the petroleum revenue management tasks and responsibilities is to a great extent centralized in DEA. This may be a good solution to build strong technical competence and capacity, but may also isolate the knowledge in one Directorate

3.1 Institution as-is: Roles, Responsibilities and Structure:

Comments and Recommendations on the roles and responsibilities, MoFPED

- The National Oil and Gas Policy gives a diverse set of responsibilities to MoFPED, ranging from the resource administration of the petroleum sector to the revenue management aspects. It will be challenging to build capacity on all these areas because of the complexity and the wide range of tasks. A classification of all the responsibilities defined in the National Oil and Gas Policy is given below
- The responsibilities following the role for MoFPED as Participating in “Petroleum Resource Management” are activities where most of the work is already in progress, and where PEPD (MoE) has the primary responsibility
- MoFPED must consequently give priority to fulfil its obligations where they are in charge defined under “Petroleum Revenue Management” and “Accountability and Transparency”. Consequently, MoFPED should take a more leading role in the formulation of petroleum tax laws, and must prioritize capacity building on responsibilities where MoFPED should be the main premise provider
- MoFPED must, in addition to the given responsibilities, be mandated to govern and follow up the Petroleum Fund managed by BoU

Petroleum Revenue Management

- Ensuring appropriate management of petroleum revenues
- Responsibility for administering the collection and utilisation of oil and gas revenues in line with the relevant laws
- Participating in the formulation of the law to regulate the collection, use and management of oil and gas revenues
- Monitoring and assessing the impact of oil and gas revenues on the economy
- Providing policy guidance in the management of the Petroleum Fund
- Ensuring that fiscal and other economic issues are appropriately addressed in the PSA's
- Defining the roles of different institutions with regard to the collection of oil and gas revenues

Accountability and Transparency

- Providing the necessary funding to support undertaking of the additional responsibilities for the different Ministries and operational/managerial agencies arising out of this policy
- Ensuring development and harmonization of accounting standards in oil and gas activities including implementing principles of the Extractive Industries Transparency Initiative (EITI)
- Promoting and sustaining transparency in the oil and gas sector

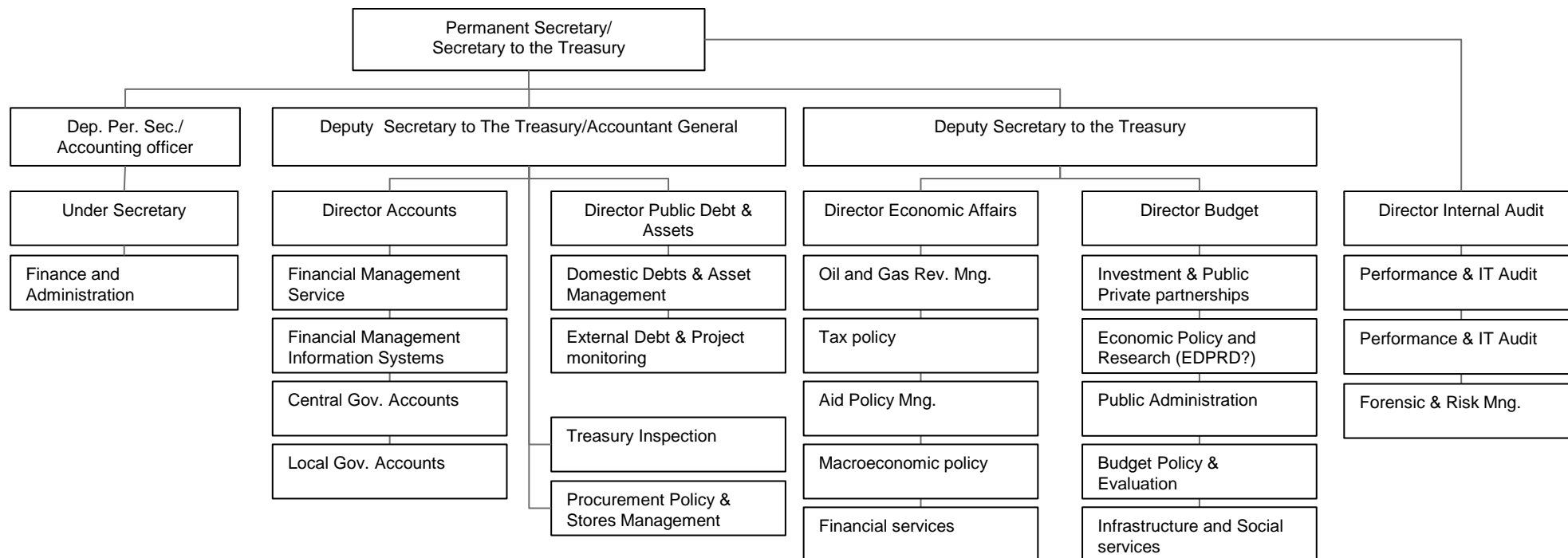
Participating in Petroleum Resource Management

- Participating in oil and gas policy formulation
- Participating in the formulation of petroleum legislation
- Participating in petroleum licensing
- Participating in the administration of PSA's

3.1 Institution as-is: Roles, Responsibilities and Structure:

Proposed macrostructure for the Ministry – Draft, not yet decided

- The Ministry has proposed a new structure in order to improve its work processes and enhance focus on petroleum revenue management, by introducing a Oil and Gas Revenue Department in the Economic affairs Directorate. It is unclear which tasks the department shall be responsible for
- The structure is not yet decided, but we have found it suitable for the purpose to examine the proposed structure in the light of the ambitions to improve Petroleum Revenue management processes
- The proposed structure contains a new level of three Deputies, as a consequence the chain of command is extended from the Permanent Secretary to the operating core
- Reporting through the three deputies, four Directorates and an Under Secretary who handles the internal finances and the day to day operation
- A new Director responsible for internal audit is introduced reporting directly to the Permanent Secretary
- The current Account General Office is divided in two Directorates with a new Directorate responsible for the asset management and public debts. Both Directorates report through the Deputy to the Treasury
- A new Deputy Secretary to the Treasury is established with the two former Directorates: Economic Affairs and Budget. In the Directorate of Economic affairs a new Oil and Gas Revenue Management department is proposed to handle the macroeconomic concerns and effects of the national economy



3.1 Institution as-is: Roles, Responsibilities and Structure:

Comments and Recommendations on the proposed MoFPED-structure

More emphasis on audit, more hierarchical?

- More hierarchical with a new layer of Deputies, removes the Permanent secretary even more from daily operations?
- The new Internal audit department strengthens the control and audit of the Ministry, reporting directly to the Permanent Secretary is fundamental to secure independence towards the Directorates
- The internal audit reports to the audit committee which reports directly to the Minister. This will strengthen the role and independence of the internal auditor

Future governance of the Petroleum Fund

- The governance and the follow-up of the Petroleum Fund must be shared between Economic Affairs and Accountant General in the new structure
- The Directorate of Economic Affairs must be responsible for the formulation of investment policy and make sure the Parliament's objectives are implemented by the Fund. The Economic Affairs Directorate must exert the overall ownership on behalf of the Parliament and the nation
- Accountant General is responsible for the accounting of both expenditure and income in the fiscal budget. As such, Accountant General must oversee the accounting procedures of the Fund and keep track of all amounts in the Fund's accounts. Accountant General must be responsible for assessing that the Fund follows the accounting standards and reporting regulations set by the State, and for preparing accounting reports to be submitted to the Parliament

The need for focus vs the need for coordination:

- The Oil and Gas department in the proposed macro structure does not indicate what tasks or competence the department shall be responsible for. On an overall level the possible responsibilities of such department can be divided in two main categories: (1) Macro economic policy and (2) Petroleum Tax policy. These tasks should be assessed differently when organisational design is decided:
 - One option is to organise both tax policy and macro economic policy together. This may be a good solution if specialisation of petroleum competence is the main objective. The main disadvantage is that separating petroleum macro economic policy as a separate unit may be problematic. It is our general opinion that macro economic policy should be analysed and modelled holistically and not industry by industry
 - Another option is to organise only petroleum tax policy in the new Oil and Gas petroleum department, leaving the department to be a specialised petroleum tax policy unit. The petroleum tax policy may be easier to separate as an own department because of the distinctive character of the petroleum tax policy
 - The Norwegian Ministry of Finance has tried both models since the early 1980s. In the current structure there is no separate Petroleum unit in the Economic Policy department. However, a petroleum tax policy department is organised in the Tax Law Directorate
- Regardless of models mentioned above, an Oil and Gas department must not operate as an "Oil and Gas Ministry" within MoFPED. It is important to secure coordination with other departments, and this should be formalised
- Introduction of a new Oil and Gas Revenue Department may secure a stronger focus on the petroleum revenue issue and might speed up the process of building competence. However, the need for coordination must not be under-estimated
- Our preferred solution is to integrate and build oil and gas competence in the technical units of Tax Law and Macroeconomic departments

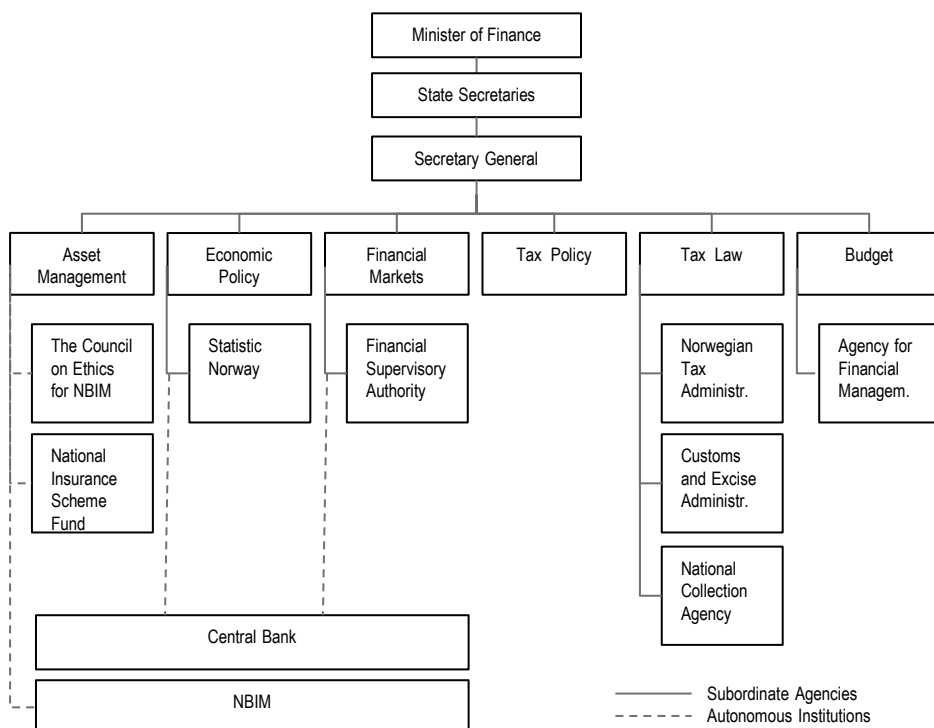
3.2 Norwegian Experience: The Norwegian Ministry of Finance

Mandate and Organisation

Mandate:

- Planning and implementing economic policy
- Coordinating the preparation of the budget
- Ensuring government revenues by maintaining and developing the system of taxes and duties
- Monitoring financial markets and drawing up regulations

Organisational Structure



Responsibilities in each Department

- **The Asset Management Department** is responsible for the Ministry's work on the Government Pension Funds. The work on strengthening the management of the funds is central to the Ministry of Finance, and the department's responsibilities include investment strategy for the funds, evaluation of the operational management by Norges Bank and the National Insurance Scheme Fund, and development and implementation of ethical guidelines for the Government Pension Fund Global
- **The Budget Department** is responsible for coordinating the work on the budget
- **The Financial Markets Department** attends to many of the responsibilities of the Ministry of Finance toward the financial markets including regulating according to provisions made in the central legislation, holding the responsibilities as tax authority and management of public ownership in financial institutions
- **Tax Law Department** is responsible for drafting, interpreting and administering regulations relating to income and wealth tax, petroleum tax, national insurance contributions, property tax, inheritance tax, value-added tax, customs duty and various special taxes. It is also responsible for the negotiation of Double Tax Treaties and acts as the superior Norwegian Competent Authority under these treaties and for coordinating consideration of international tax issues within the Ministry
- **The Tax Policy Department** analyses how tax legislation and amendments affect saving, consumption, investments and labour supply and how tax revenues change when regulations are amended
- **The Economic Policy Department** monitors and analyses economic trends in Norway and abroad, and gives advice in a number of areas of economic policy. The Economic Policy Department is responsible for raising and servicing government loans at home and abroad and has the overall responsibility for Norway's cash reserves and short-term claims, which are largely deposits in the Central bank. In addition to this, the department coordinates the work on the national budget and has a special responsibility for issues of methodology with regard to economic planning. Hence, it maintains close links with academic and research communities

3.3 Needs assessment: Capacity and competences: Ministry of Finance, Planning and Economic Development - Self assessment

Building Petroleum Revenue Competence in the Ministry – a prioritized task

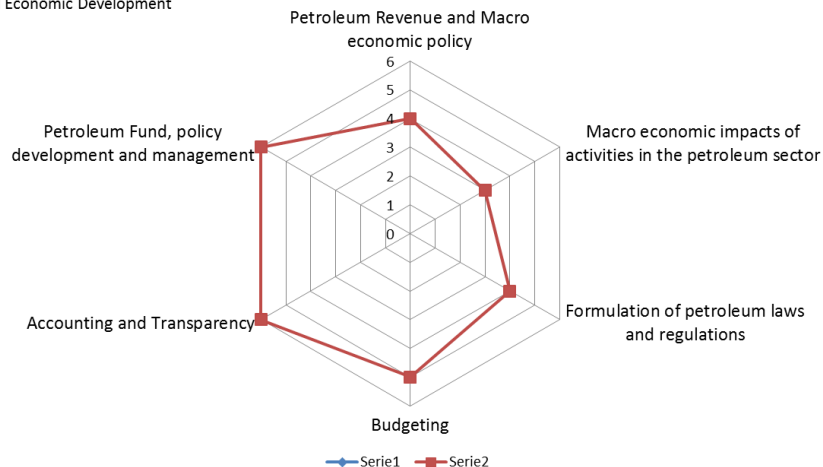
Competence areas

- Petroleum Revenue and Macro economic policy (Forecasting and modelling)
- Macro economic impacts of activities in the petroleum sector (Employment, cost, demography, etc)
- Formulation of petroleum laws and regulations (PSA, Tax etc)
- Budgeting (Petroleum sector competence)
- Accounting and Transparency (Reporting, Accounting standards in oil and gas activities, Extractive Industries Transparency Initiative, EITI)
- Petroleum Fund, policy development and management (Ownership and control, strategic investment guideline, monitor performance, reporting)

1

Ministry of Finance, Planning
and Economic Development

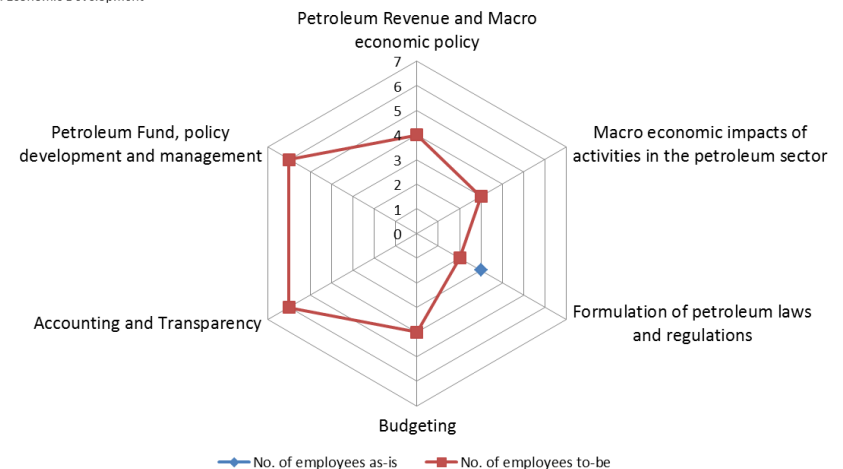
"Specialist"



2

Ministry of Finance, Planning
and Economic Development

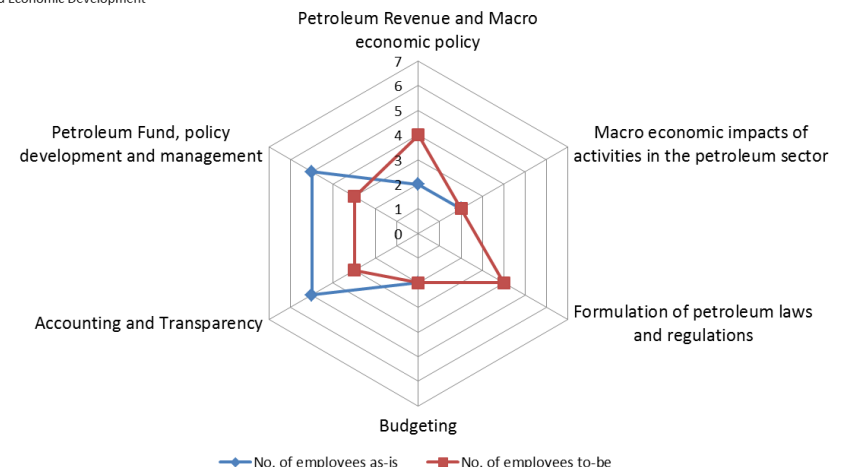
"Understand subject well"



3

Ministry of Finance, Planning
and Economic Development

"Limited knowledge"



3.3 Needs assessment: Capacity and competences: Comments and Recommendations on the capacity analysis

Summary of MoFPED self-assessment

Directorate	Competence area	Specialists	Unders. subj. well
DEA	Petroleum Revenue and Macro economic policy (Forecasting and modelling)	4	4
DEA	Macro economic impacts of activities in the petroleum sector (Employment, cost, demography, etc)	3	3
DEA	Formulation of petroleum laws and regulations (PSA, Tax etc)	2	4
Budget	Budgeting (Petroleum sector competence)	4	5
AGO	Accounting and Transparency (Reporting, Accounting standards in oil and gas activities, Extractive Industries Transparency Initiative, EITI)	6	6
DEA	Petroleum Fund, policy development and management (Ownership and control, strategic investment guideline, monitor performance, reporting)	6	6

Macroeconomic policy and modelling

- Competence on macro-economic policy and modelling will be necessary to give advice on the use of oil revenues in the economy
- The as-is mapping suggests no employees who "understand subject well". In order to be judged as a competent advisor it is necessary to build such capacity

Building legal capacity on tax legislation

- The Ministry must build capacity to fulfil its role as contributor when formulating tax laws and regulations. In the National Oil and Gas Policy, MoFPED shall "*Participate in the formulation of the law to regulate the collection, use and management of oil and gas revenues*". It is our point of view that the Ministry should take a more conspicuous role when drafting tax bills. The Ministry of Justice may well play the role as the superior Ministry in the law formulation process. MoFPED should nevertheless build specialized knowledge on the legal framework within tax legislation. Recruitment of three to five lawyers with specialization in petroleum tax legislation may be a proper start

Funds and Asset management

- To oversee the performance of BoU and to report on the performance to the Parliament, the Ministry needs specialists on Funds and Asset Management
- The Ministry as such will be responsible for the ownership of the Fund, outsourcing the managing to the Bank of Uganda. DEA will be responsible for the investment policy, while the Accountant General will be responsible for overseeing the Fund's accounts
- It takes time to build competence in asset management. A plan should therefore be prepared to ensure adequate resource planning
- The number of specialists needed will be lower than in BoU, but must have enough competence to be a "demanding customer". The estimate given from MoFPED might be too high

3.3 Needs assessment: Capacity and competences:

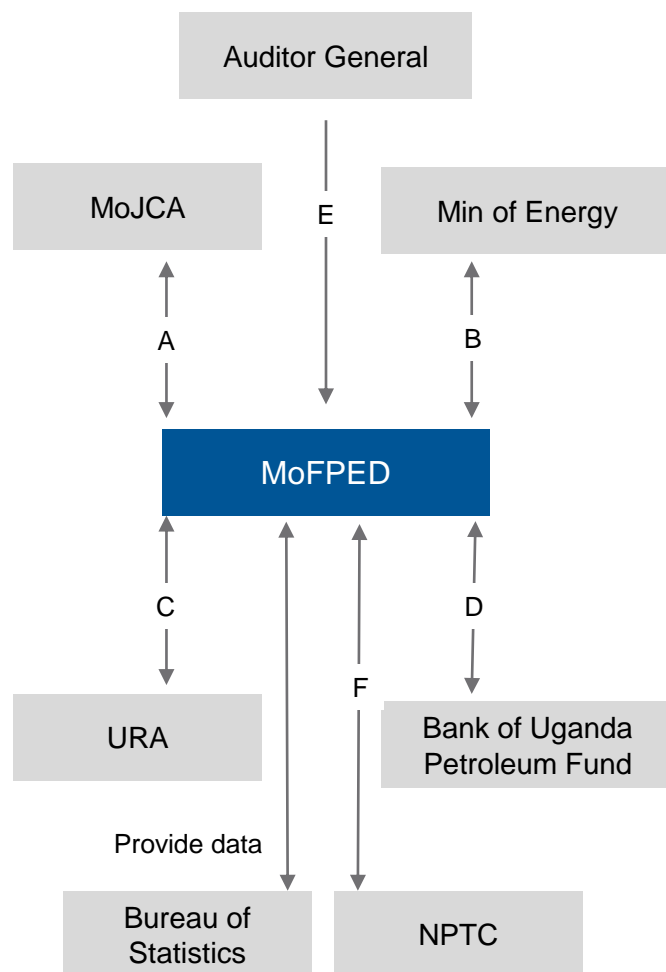
Comments and Recommendations on the capacity analysis

Competence area	Comments	Capacity
<ul style="list-style-type: none"> Formulation of petroleum laws and regulations (PSA, Tax etc) 	<i>The department responsible for tax policy must build a team of specialised legal advisors, with law degrees, who is responsible for drafting petroleum taxation legislation. This team must be able to discuss the content of PSAs and the taxation effects of the petroleum resource legislation</i>	3 – 5 employees (DEA)
<ul style="list-style-type: none"> Petroleum Revenue and Macro economic policy (Forecasting and modelling) Macro economic impacts of activities in the petroleum sector (Employment, cost, demography, etc) 	<i>DEA must be strengthened with additional economists with understanding of the Oil and Gas industry with knowledge and insight about modelling and the forecasting of petroleum revenues, and about the impact of the revenues on the national economy</i>	At least 3 economists (DEA)
<ul style="list-style-type: none"> Budgeting (Petroleum sector competence) 	<i>The main competence is to meet the budgets proposals from the other sectorial authorities and constructively be able to discuss the needs (This can be solved through additional training of existing employees in the Budget Directorate)</i>	Approx. 2 employees (Dir. Budget)
<ul style="list-style-type: none"> Accounting and Transparency (Reporting, Accounting standards in oil and gas activities, Extractive Industries Transparency Initiative, EITI) 	<i>The Ministry must establish an independent project team of professionals who is responsible for the implementation of EITI (Implementation of EITI may be solved through external experts)</i>	2 – 4 employees (AGO)
<ul style="list-style-type: none"> Petroleum Fund, policy development and management (Ownership and control, strategic investment guideline, monitor performance, reporting) 	<i>MoFPED must build a team of specialists with investment- and asset management masters. The employees must be able to draft investment policy and a reference index for measuring performance</i>	2 - 4 employees (DEA)
	<i>MoFPED must also build competence and capacity to formulate accounting and reporting standards, to conduct control, and to report on the performance of the fund</i>	At least 2 employees (AGO)

3.4 Needs assessment: Coordination and cooperation:

Ministry of Finance, Planning and Economic Development - Coordination

Coordination illustrated



Comments and Recommendations regarding Petroleum Revenue

A. MoFPED and MoJCA

- As described, our point of view is that MoFPED must take a more conspicuous role in the law formulation process. MoFPED and MoJCA must cooperate from start to finish, and should organise their work on an ad hoc basis

B. MoFPED and Min. of Energy (MoE)

- Due to the National Oil and Gas policy MoFPED is participating in the following areas: Licensing, Negotiation and administration of PSA's; Prognosis; State participation; Concessionary transfers; Tax law consequences of Petroleum Law amendments; Price setting; CO₂ duties; etc. All the above activities stress the importance of a close cooperation between the two Ministries because of the interdependence between the resource management and the revenue management in the Petroleum sector
- Our point of view is that these activities should be handled under the NPTC-umbrella in sub committees. Mandates, participants and scope must be drawn up

C. MoFPED and URA

- As an auxiliary the MoU between URA and MoFPED must reflect the challenges regarding the petroleum revenue management

D. MoFPED and Bank of Uganda

- Regulated in the MoU between BOU and MoFPED
- The MoU must be amended to reflect the governance of the Petroleum Fund

E. MoFPED and Auditor General (AG)

- The Auditor General must perform audit of MoFPED to secure good governance in the MoFPED and the petroleum revenue. The current mandate of AG gives the right authority to act and perform both financial and value for money audits

3.4 Needs assessment: Coordination and cooperation:

National Petroleum Technical Committee – a future petroleum coordination body?

NPTC

Coordination within Oil and Gas Sector through the National Petroleum Technical Committee (NPTC):

Objectives:

- A forum where the institutions share reports and updates on the implementation of their Oil and Gas related mandate
- Share information to ensure that these institutions achieve harmony and move forward in one direction
- Brings together representatives from key government players in the Oil and Gas sector: MoFPED, URA, PEPD, BOU
- Occasionally when needed also from: NEMA, UWA, MoJCA
- The Director of Economic Affairs in MoFPED is Chair
- Meets every first Wednesday of the month

Subcommittees*:

- Revenue Management
- Pricing
- Investment

(*The Terms of Reference for each committee are currently under revision)

Comments and Recommendations

Maintain the NPTC as a permanent coordination unit:

- NPTC is considered to play an important role in bringing all involved public entities together and keeping all parties updated and informed. It is our recommendation to maintain NPTC as the national coordination forum in the future to secure an open and transparent mutual information flow between all involved parties

Regarding the Pricing Committee or Commission:

- Possible mandate: Setting the price for crude, but it can also be setting tariffs for sale of infrastructure services (pipeline, refinery etc)
- Commissions being allocated such a mandate should be given an independent role with full responsibility for its decisions (ref the Norwegian Norm Price Commission)
- The existing Model PSA gives definitions on how to price crude oil (ref Article 15). Article 15 in the Model PSA must therefore be revised if a Pricing Committee should be established

Regarding the Investment Committee:

- Possible mandate: Drafting the investment policy for the Petroleum Fund, and evaluating and revising when necessary
- Because such policies are so politically important, they are normally decided by the Cabinet/Parliament. Hence, such a committee's role is limited to presenting proposals to MoFPED, which will then decide what to present to the Cabinet/Parliament

Regarding the Revenue Management Committee:

- Possible mandate: This committee might cover all areas not allocated to the two other committees; included in the list of responsibilities should be responsibility for ensuring openness, i.e. information to the society and reporting to the involved institutions and to the parliament
- This committee will develop proposals for presentation to MoFPED

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4.1 Institution as-is: Roles, Responsibilities and Structure: Ministry of Justice and Constitutional Affairs as-is

Mandate and Organisational structure

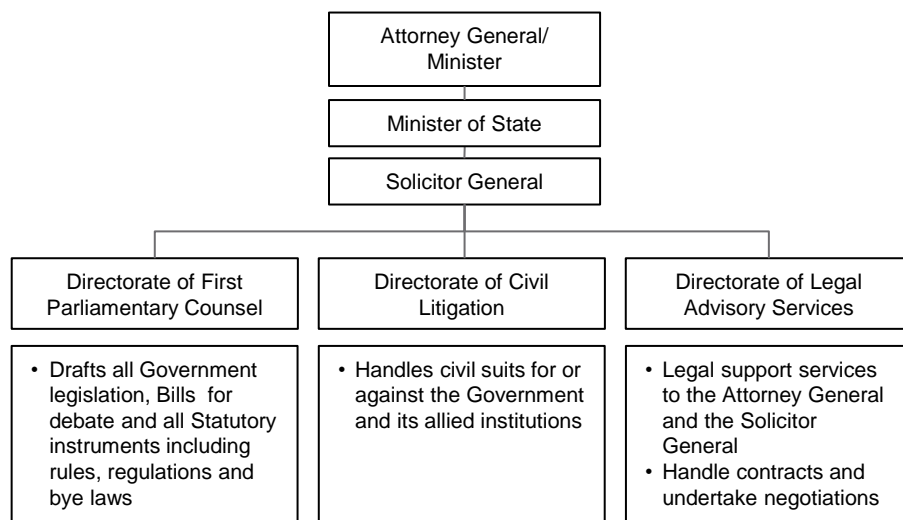
Mandate:

- To provide legal advice and legal services as well as to support the machinery that provides the legal framework for good governance. The Ministry also provides technical advice on matters of law to Government and advises on the interpretation of various provisions of the Constitution

MoJCA - the legal competence hub of the government

- The legal competence of the governmental institutions is centralized in the MoJCA, leaving the Ministry as the sole provider of all legislation and legal service to all Ministries
- The legal competence in the other Ministries is minimal with few or no lawyers employed

Organisational Structure:



Responsibilities within Oil and Gas Sector

Roles according to the National Oil and Gas Policy (2008):

- Guiding the formulation and drafting of petroleum legislation
- Guiding the formulation and drafting of the law on management of petroleum revenues
- Participating in oil and gas policy formulation
- Participating in petroleum licensing
- Participating in the negotiation and administration of PSA's

Involvement is needed from all three Directorates in the Petroleum Revenue Management process, as a consequence of centralizing legal competence in MoJCA:

- Dir. of First Parliamentary Counsel when drafting petroleum legislation
- Dir. of Civil Litigation when legal actions are taken such as prosecution and litigations
- Dir. Legal Services as the legal advisor to the other Ministries

MoJCA's central role in petroleum tax law development

- Today MoJCA employs the majority, if not all, legal employees on the petroleum area
- In the sectorial Ministries, there is a limited number of lawyers employed, and in the MoFPED there are no lawyers employed. This leaves the whole responsibility on the legal area to the MoJCA
- To develop petroleum tax legislation, MoJCA has a responsibility to develop and educate a sufficient number petroleum tax lawyers to keep with the pace outlined in the National Oil and Gas Policy
- A resource shortage in the MoJCA will slow the processes of building a strong legal base on the petroleum tax area

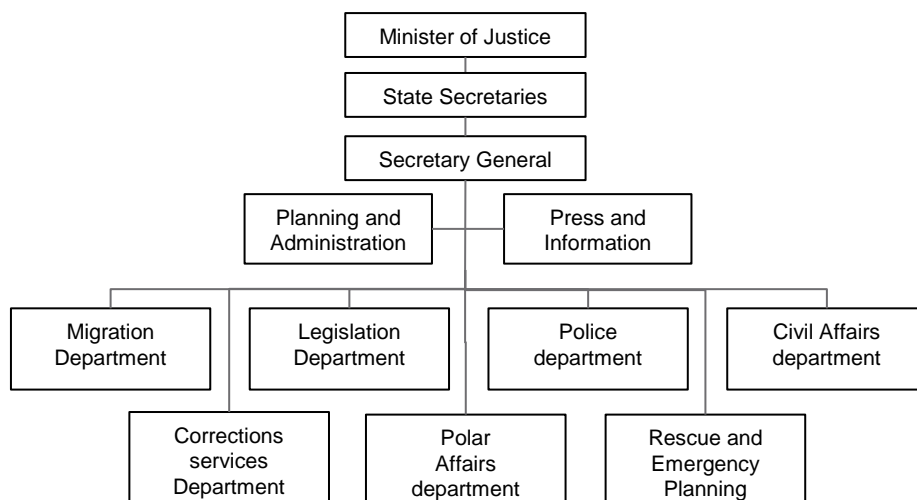
4.2 Norwegian experience: The Norwegian Ministry of Justice

Mandate and Structure

Mandate:

- The main purpose of the Ministry is to provide for the maintenance and development of the basic guarantees of the rule of law. An overriding objective is to ensure the security of society and of individual citizens

Organisational structure:



The Norwegian Ministry of Justice is divided in specialised sectorial units:

- The Legislation Department is the legal expertise department serving the Government and the central government administration. All acts from other Ministries have to go through the Ministry of Justice for a legal technical review, apart from Tax laws which the Ministry of Finance propose directly

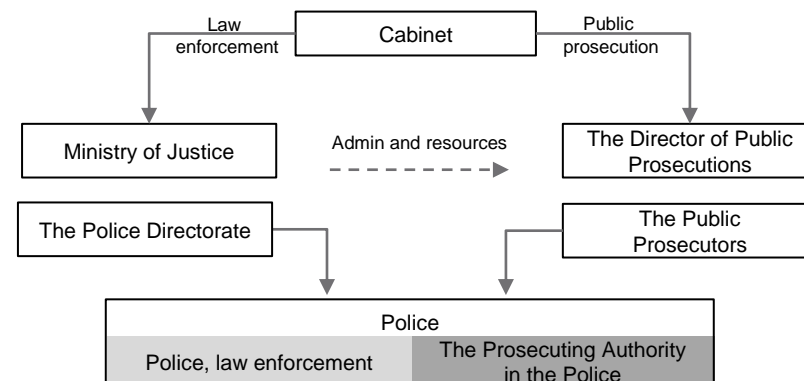
Decentralized and Shared responsibility

Decentralised legal competence in all Ministries

- The legal capacity in the other Ministries is considerable. All Ministries have their own legal department with specialised lawyers within their sectorial area
- The Ministry of Justice provides legal services to all the Ministries, but because of the complexity and the large number specialised legal areas, the need for hands-on legal knowledge and experience in all Ministries is critical
- As mentioned, Tax law formulation is not a part of the Ministry of Justice's responsibility. Hence, the Ministry of Finance in Norway has a extensive legal department with specialised legal advisors

The Norwegian Prosecuting Authority

- The Norwegian Prosecuting Authority is a separate unit outside the Ministry of Justice, subordinate to the Cabinet
- Headed by the Director of Public Prosecutions (Riksadvokat) and organised in ten regional Public Prosecutors (Statsadvokatene) and a specialized unit for investigation and prosecution of economic and environmental crime (ØKOKRIM)



4.3 Needs assessment: Roles, responsibilities and structure:

Comparison of the Ugandan and the Norwegian practice within the Petroleum Tax Law area

Comments and Recommendations regarding the future role of MoJCA

- The Ugandan practice and the Norwegian practice on the petroleum legal area differ to a great extent mainly because of the centralized vs a decentralized model in the two countries, illustrated in the model below:

Country \ Area	Formulation of Tax Laws and Regulations	Tax Law Legal Service	Trials and Litigations (petroleum tax)
Uganda	MoJCA	MoJCA	Legal department in URA
Norway	Ministry of Finance	Ministry of Finance	Norwegian Prosecuting Authority, in cooperation with the Norwegian Petroleum Tax Office

- Consequently, the MoJCA have a more crucial part in the Revenue Management process compared to the Norwegian model. Capacity in the MoJCA must be compared to the legal capacity in the Norwegian Ministry of Finance on the Revenue Management issue
- The Ugandan model may work well if the following conditions are met:
 - A strong competence base (academic and experience) in the MoJCA on petroleum taxation laws and regulations
 - Build legal competence in MoFPED in addition to MOJCA
 - A capacity to serve the MoFPED as an advisor and sparring partner
 - URA has its own legal department responsible for all trials on tax matters. However, MoJCA should have capacity to serve the URA as an advisor and sparring partner when legal action towards the oil companies are taken

4.4 Needs assessment: Capacity and competences

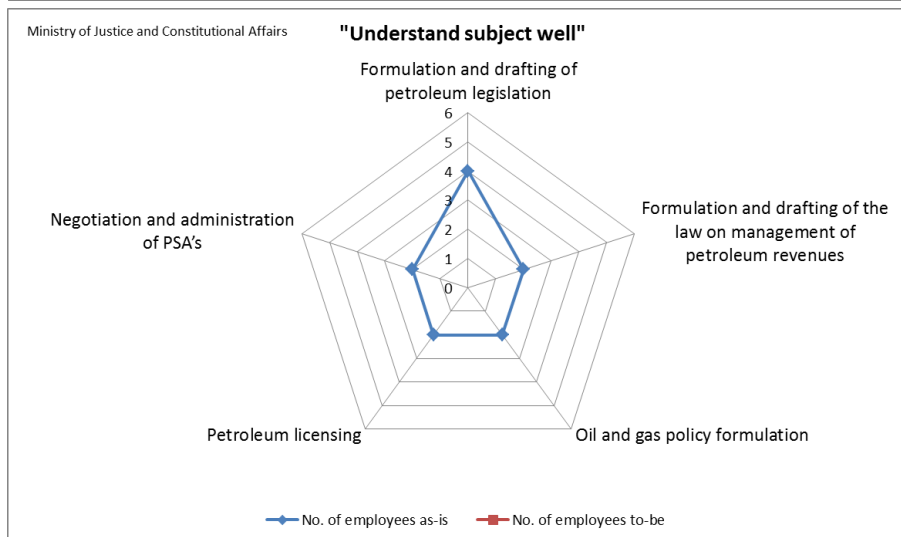
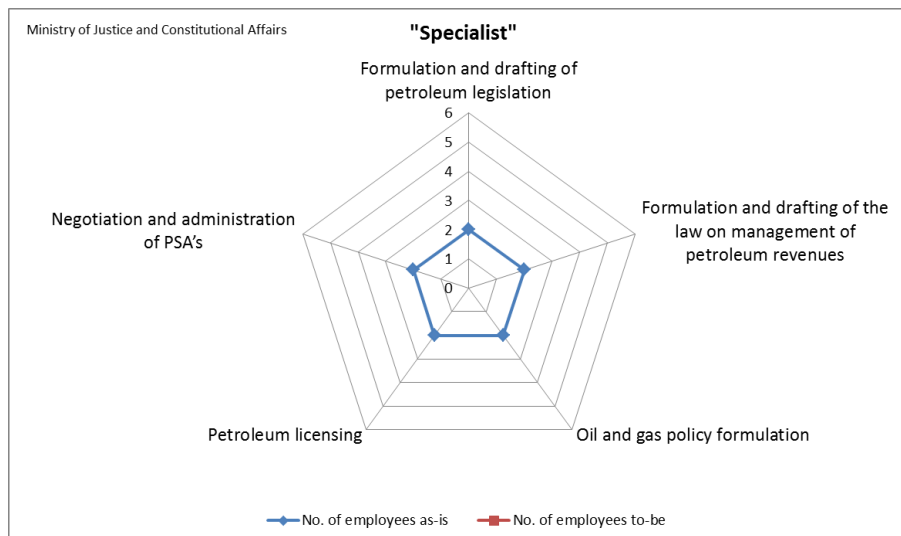
Ministry of Justice and Constitutional Affairs - Self assessment

Petroleum Competence in the MoJCA

Competence areas included in the capacity analysis:

- Formulation and drafting of petroleum legislation
 - Formulation and drafting of the law on management of petroleum revenues
 - Oil and gas policy formulation
 - Petroleum licensing
 - Negotiation and administration of PSA's
- The figures show the self-assessment of the capacity in the Ministry of five competence areas related to the legal aspect of the petroleum revenue management. No data was reported on the lowest competence level called "limited knowledge"

Capacity analysis



4.4 Needs assessment: Capacity and competences

Comments and Recommendations on the capacity analysis in MoJCA

Capacity building as-is

- MoJCA has a limited resources base of lawyers with petroleum law competence as the illustrations show. The “specialists” are employees just finished with their masters degrees, with limited practical experience
- In the capacity analysis, MoJCA has not indicated their future needs of competence, but data from other sources (interviews and documents) show that the Ministry has started their capacity building
- The Ministry has embarked on training programmes to prepare lawyers for the future petroleum administration era
- Two lawyers have completed Masters’ programmes in “Oil and Gas Dispute Resolution” and “Oil and Gas Law” (the “specialists”)
- Three lawyers are at presently attending masters programs
- As a prioritized need, MoJCA considers the training needs within the Directorate of First Parliamentary Counsel responsible for drafting the legislation, as most crucial

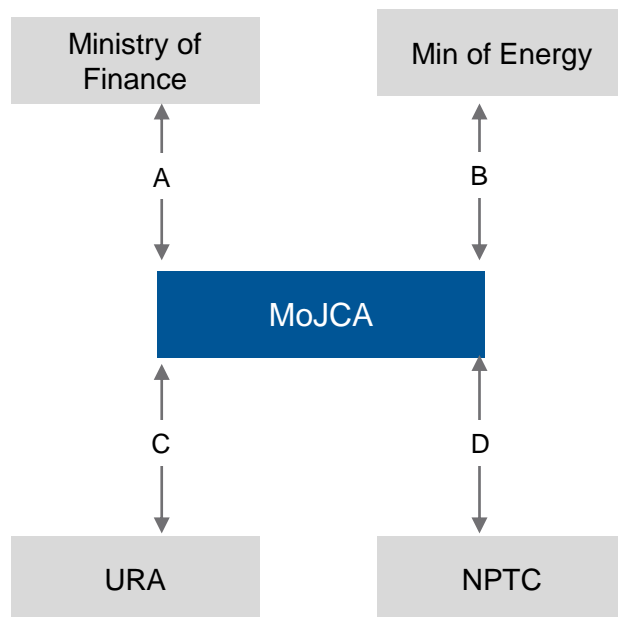
Capacity building to-be

- The capacity need in MoJCA must be analysed in light of the Ministry’s central position discussed earlier. With that as a background, it is our recommendation that MoJCA must take on a totally different approach
- Relevant to the revenue management process a legal team of at least 5 to 7 employees within petroleum tax law expertise is required. This is still a small number, but is in line with our recommendation to build parallel competence in the MoFPED
- If the sectorial ministries fail in their capacity building of own lawyers, MoJCA must build a strong team of lawyers to serve as an legal advisor to both MoFPED and Ministry of Energy/PEPD on a regular basis. MoJCA should consider developing exchange programs with the both PEPD and MoFPED, where employees from MoJCA are deployed in the respective institutions. The number of employees must be considered up against the capacity building in MoFPED and PEPD
- It is our view that education of employees must seek to give the employees practical experience. An exchange program with experienced oil nations may be considered

4.5 Needs assessment: Coordination and cooperation

Ministry of Justice and Constitutional Affairs - Coordination

Information flow and Coordination illustrated



Comments and Recommendations

A. MoFPED and MoJCA

- Due to the centralized position of the MoJCA as the only Ministry with powers to issue legislation to the Parliament, a strong relationship with the MoFPED must be formalized on all matters where Petroleum Tax Laws are addressed
- The MoFPED must be involved to discuss the macro economic consequences and effects of tax laws on the petroleum revenue area
- The Petroleum sector is a global industry where national tax laws must be attuned with the global “standards” in order to make investments in Uganda attractive

B. Ministry of Energy and MoJCA

- Both Ministries must make institutional arrangement to address the following topics : (1) Petroleum law, (2) Negotiation and administration of PSA's, (3) Contracts and negotiations
- This is outside the Revenue Management scope and will not be discussed in detail

C. URA and MoJCA

- URA is responsible for pursuing taxpayers and taking legal action through their Legal department in all cases regarding tax
- An alternative model for the future might be a cooperation where MoJCA and URA work as one legal team. MoJCA will be the head prosecutor and URA will be the legal team supporting the Solicitor General

D. NPTC and MoJCA

- With the essential role given to the MoJCA to formulate laws and operate as the legal advisor in the Petroleum sector, their status in the NPTC should be upgraded to a permanent member

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5.1 Institution as-is: Roles, Responsibilities and Structure: Uganda Revenue Authority as-is

Mandate and Organisational structure

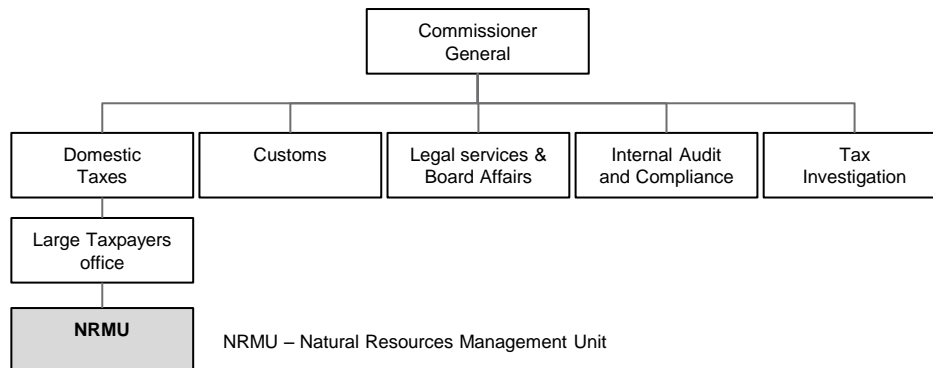
Background:

- The Uganda Revenue Authority (URA) was set up by an Act of Parliament in 1991. The URA has head offices in Kampala and operates 30 main branches throughout the country. It is responsible for collecting and accounting for various forms of tax revenue in Uganda

Functions of URA:

- To administer and give effect to the laws or the specified provisions of the laws set out in the First Schedule to this Act, and for this purpose to assess, collect and account for all revenue to which those laws apply
- To advice the Minister on revenue implications, tax administration and aspects of policy changes relating to all taxes referred to in the First Schedule
- To perform such other functions in relation to revenue as the Minister may direct

Organisational Structure:



Departments

Domestic Taxes

- To collect the domestic taxes on behalf of the Government of Uganda

Legal services and Board Affairs (organised as a law firm)

- Provide legal advise to URA management
- Represent URA on all matters relating to litigation and prosecution
- Provide the secretariat role to the Board of Directors

Internal Audit

- To monitor the compliance of the URA business to the set policies, systems and procedures
- To monitor and investigate matters relating to staff compliance

Tax Investigations

- To investigate and report on tax fraud in the URA business

Customs

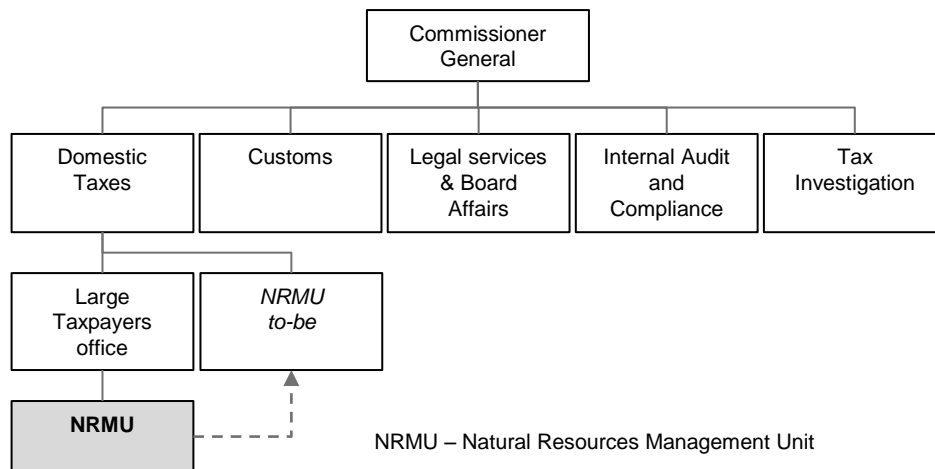
- To facilitate international trade
- Monitor and regulate the importations on prohibited and restricted goods

5.1 Institution as-is: Roles, Responsibilities and Structure: Uganda Revenue Authority as-is

Responsibilities within Oil and Gas Sector

Role according to the National Oil and Gas Policy (2008):

- Administering the collection of revenue from oil and gas activities in line with the relevant laws
- Assisting in monitoring and assessing the impact of oil and gas revenues on the economy
- Participating in the formulation of tax measures to regulate collection of the right revenues from oil and gas activities



NRMU and Petroleum

Mandate for NRMU:

- Spearhead and guide the development of technical capacity to handle the administration and collection of oil revenue and taxes from other natural resources
- Administer the collection of oil and non oil revenues and taxes from other natural resources in line with the relevant laws
- Verify and ascertain cost recovery due to oil companies
- Participate in the formulation of tax policy measures to regulate collection of the right revenues from oil and gas activities
- Promote greater understanding and awareness of issues relating to Oil and Gas sector in the Authority
- Key Client Liaison office for the Natural Resources Sector with the various stake holders

Structural adjustments:

- The Natural Resource Management Unit (NRMU) is set up under the Large Taxpayer office
- NRMU will be raised to assistant commissioner level (at the same management level as Large Taxpayers office)
- Total employees 7. 1 Manager, 2 Advisors and 4 Supervisors
- *URA plans to develop NRMU to a specialised petroleum tax office, leaving the other natural resources in the Large Taxpayers office. This will be presented to the board.*

5.2 Norwegian experience: The Norwegian Oil Taxation Office

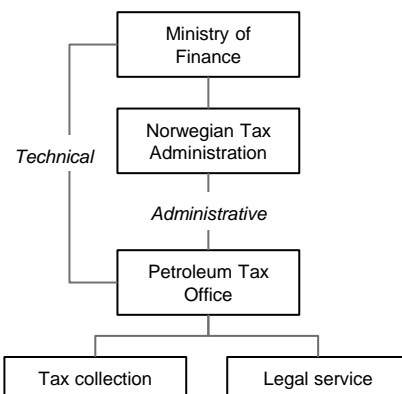
Norwegian Oil Taxation Office

Specialised tax office performing tax assessment of all petroleum companies on the Norwegian Shelf:

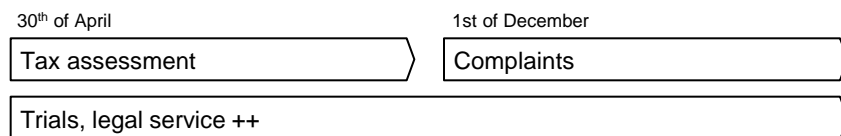
- Established in 1981 as a separate Petroleum tax office reporting directly to the Ministry of Finance
- Total tax register, 75 companies in 2010. 30 companies in tax position
- Staff: 45 employees, (auditors and lawyers)

Main responsibilities:

- Tax assessment and collection
- Tax audits
- Advance rulings
- Tax corrections
- Trials and litigations (assist Attorney General)
- Participation in formulation of laws and regulations
- Information and reporting



Annual work flow:



- The tax assessment process is organised in teams with employees from both departments. Each team is given a portfolio of companies divided based on the nature of the companies, e.g. size
- The same teams will handle the first phase of the complaint-process if an oil company make complaints about the tax assessment

The institutions allocated to the Oil Taxation Office

Oil Taxation Board

(Oljeskattenemda)

- The Oil Taxation Board has 5 members with high qualifications within tax law, accounting and economy in general
- Members are appointed by the Ministry of Finance for four-year terms
- It is the Oil Taxation Board that confirms the tax assessment for every company
- The Oil Taxation Office can not be delegated that authority, but they prepare all tax assessments with their comments to the Oil Taxation Board

The Complaints Board for Petroleum tax

(Klagenemda for Petroleumsskatt)

- 7 members with same high qualifications within the same subjects as the Oil Taxation Board
- Appointed by the Ministry of Finance, also for four-year terms
- Handles all complaints on decisions taken by the Oil Taxation Board
- The Oil Taxation Office prepares all reports to the Complaints Board, but the Companies are given the possibility to comment on all reports before they are presented to the Complaints Board
- If a company does not accept the decisions taken by the Complaints Board, the case is brought for the legal court system

Both of these Boards are drawing on other petroleum experts from other public authorities within the petroleum sector when necessary

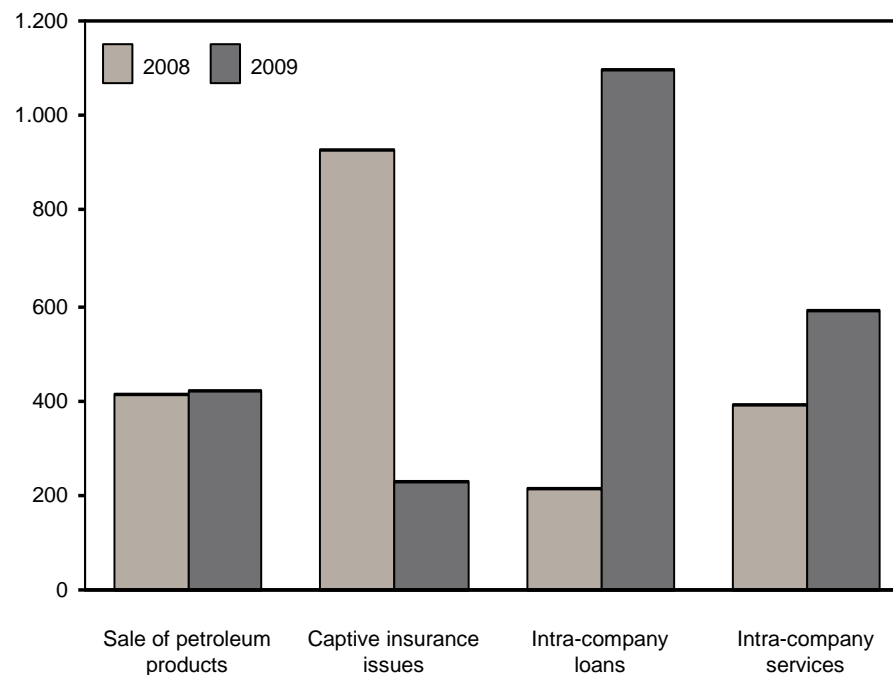
5.2 Norwegian experience:

The huge challenge regarding petroleum tax assessment

The need for a thorough Tax Assessment

- Some of the challenges for the Norwegian Oil Taxation Office are related to the difference in taxes for activities offshore and onshore, but that can only partly explain the huge changes in taxes obtained by comprehensive tax examinations
- For Uganda, working with international corporations (corporations having companies selling goods and services to each other over state lines) will represent the main challenges
- These statistics (right graph) indicate the need for thorough knowledge about captive insurance issues and how to organise corporate loans within the corporations in the business, and how to organise and to set prices for internal services within international corporations
- The tax income increase in 2009 was NOK 2,6 billion because of a thorough tax audit on the issue of transfer pricing:
 - Sale of petroleum products, (crude, gas/LNG)
 - Captive insurance issues
 - Intra-company loans
 - Intra-company services

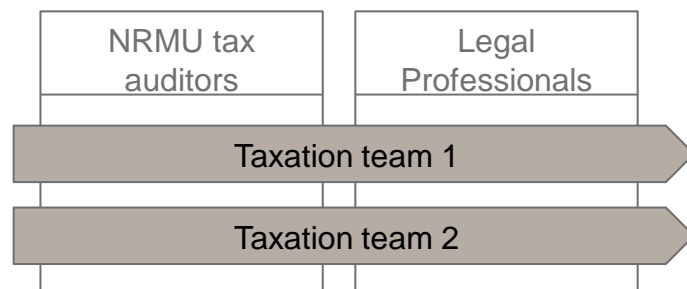
Effect of tax amendments in 2008 and 2009



5.3 Needs assessment: Roles, responsibilities (main processes) and structure: Comments and Recommendations - Organisational adjustments

Team Organising of the tax assessment process

- The Norwegian team-organisation model, where joint teams of auditors and legal professionals work together, might be a model to consider in URA. It will strengthen the tax audit process if specialized petroleum tax auditors work closely with petroleum tax legal professionals throughout the entire process
- URA should expect complaints after tax assessment is completed, and a joint team of auditors and lawyers would be more robust and qualified to meet the petroleum companies
- Based on proven experience, the team organisation of the URA taxation process might include:
 - Every team consists of both auditors and legal professionals
 - Each team is managed by a team coordinator
 - Each team is allocated a given number of the relevant companies
 - The members of each team should shift from year to year
 - Each team follows the given company from the start of the tax assessment process and throughout potential complaints and eventual litigations
 - The teamwork-process should be based on predefined instructions
- Conceptual model



Additional Tax Boards to improve work process

- The Norwegian system, with allocated special commissions such as the Oil Taxation Board and the Complaints Board for petroleum tax, with members having high competence in relevant subjects, seems also to be a recommendable system for Uganda
- Both of these suggestions can be adopted independent of the number of companies in the petroleum sector
- Such commissions can be staffed with experts from abroad in addition to local experts, at least during the first years of operation

5.4 Needs assessment: Capacity and competences: Uganda Revenue Authority – Self assessment

Petroleum Competence Capacity Analysis

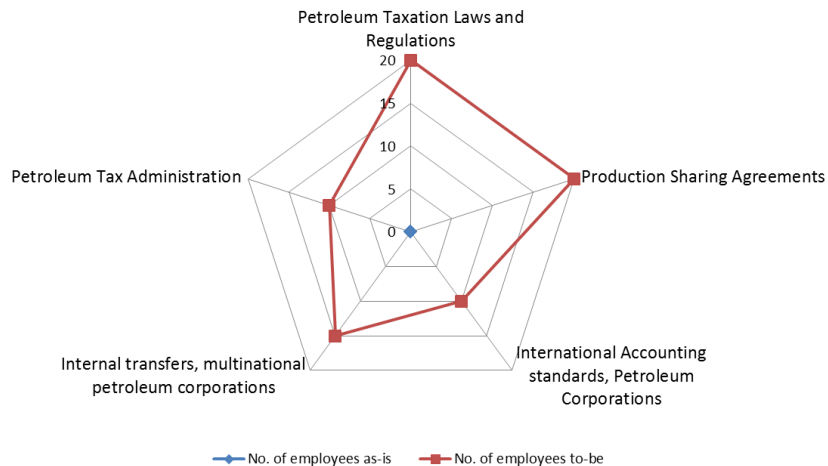
Competence Areas

- Petroleum Taxation Laws and Regulations
- Production Sharing Agreements (Government share profit oil, Bonuses, Royalties, Cost recovery, etc.)
- International Accounting standards, Petroleum Corporations
- Internal transfers, multinational petroleum corporations (Sale of petroleum products, Insurance captives, Intra-company loans, Intra-company services)
- Petroleum Tax Administration (e.g. Reporting, Audit and tax control, Transparency)
- The competence analysis only include the present and future NRMU. In addition, the Legal service department have 3 lawyers specialised in petroleum taxation

1

URA

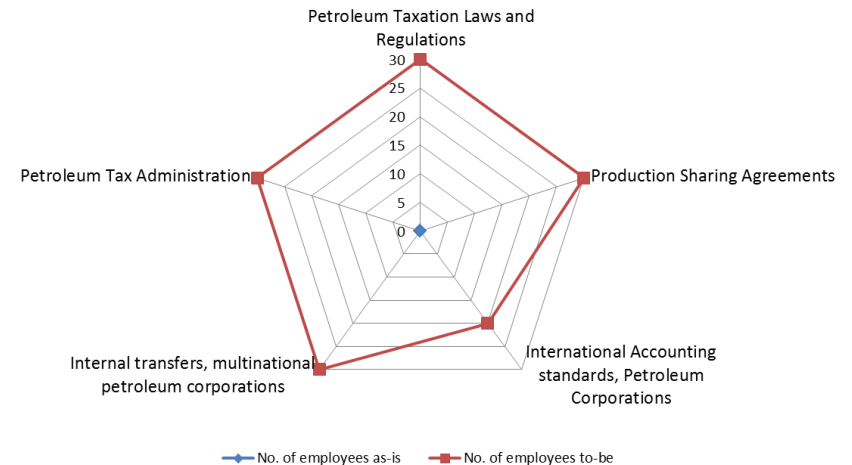
"Specialist"



2

URA

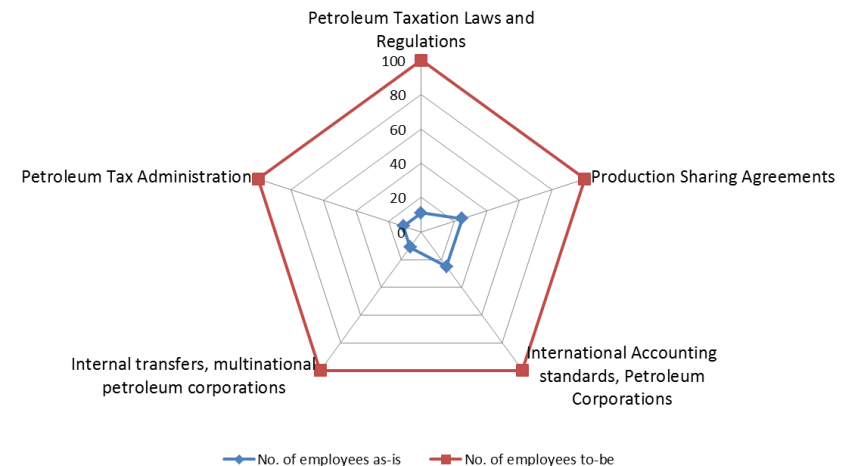
"Understand subject well"



3

URA

"Limited knowledge"



5.4 Needs assessment: Capacity and competences:

Comments and Recommendations on URA's capacity needs

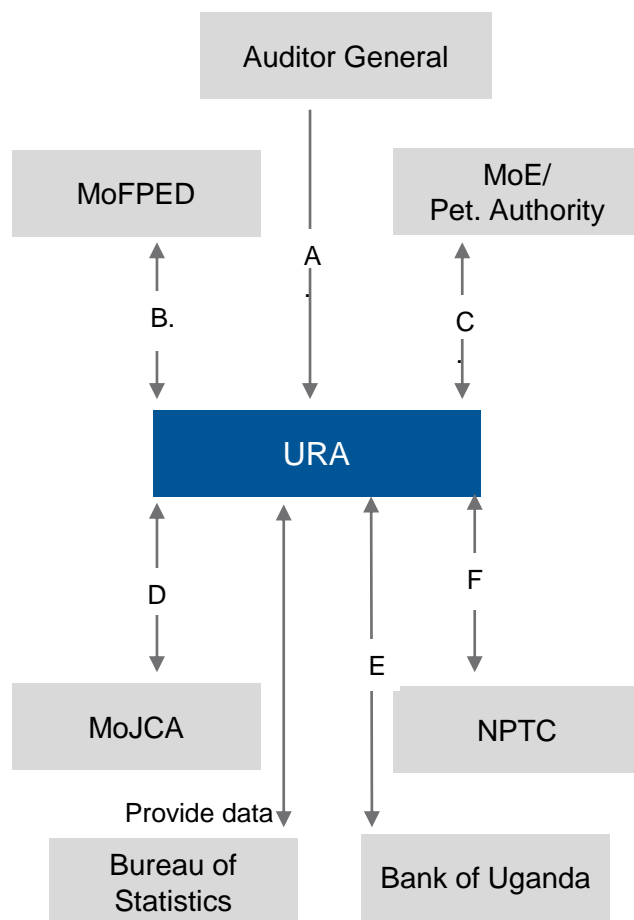
- The Norwegian Oil Taxation Office (Oljeskattekontoret) has higher capacity per tax registered company than any other taxation office in Norway, opening for the office to go in depth on the issues arising, and for a closer contact with the tax departments in the companies
- The experts in Norway are almost half and half auditors in Tax Collection and legal professionals in the office of Legal Services
- The Norwegian Oil Taxation Office does not include advice services in their portfolio other than responding on general questions
- When dividing the different parts of the value chain in the Norwegian Taxation Office, 40 % of the total workload is used to do tax assessment. This shows that there is a considerable amount of time used on complaint, external control and trials

	No of professional employees	No of active petroleum companies	No of employees per company
Uganda experts	URA plans: 20 Hartmark suggestion: 10	6	URA: 8,3 employees Hartmark: 3,3 employees
Uganda “understands the subject well”	URA plans: 30 Hartmark suggestion: 10		
Uganda “limited knowledge”	URA plans: 100		<i>Recruitment base</i>
Norway total	45	75	1,7 employees

- We understand the future ambitions for number of employees in URA to cover capacities needed just for the petroleum sector
- Having such high ambitions in number of employees working at least partially in the petroleum sector, indicates the need of establishing a separate Petroleum Office in URA
- The need for staff in URA compared to in the Norwegian Oil Taxation Office must be considered on following background:
 - Norway has been building competence over more than 40 years of operation
 - Operators under PSA regimes might take into account extraordinary revenue from selling the cost oil, and consequently might not be sufficiently concerned about operating their exploration and production as cost efficiently as they should be
 - Unless there is more than one international partner to the National Oil Company in the licences, especially in the first learning period of the National Oil Company, the tax authorities will have a higher challenge
- Even after considering these extended challenges, the total number of staff that the URA is aiming for in the petroleum sector seems high considering the number of companies that can be expected to be active in Uganda
- More important than aiming at that total number of employees, is having a relevant split of auditors and legal professionals working in teams with the clients
- Based on a number of 6 oil companies subject to tax assessment, our recommendation is to build two teams covering all competence areas mentioned on the previous page
- Each team should have at least one specialist and one employee on the level “understands subjects well” for each competence area – a potential maximum of 10 employees in each team
- In addition, each team should include one or two employees from the “limited knowledge” level to serve as trainees or secretaries for future advancement

5.5 Needs assessment: Coordination and cooperation: Uganda Revenue Authority – Coordination

Information flow and Coordination as-is



NatOil is considered a regular taxpayer and not included in the illustration

Comments and Recommendations

A. URA and Auditor General

- Auditor General responsibility is to conduct an independent financial audit of URA
- Auditor General should, as part of the performance audit of URA, also supervise URA's audit of its clients through selected examples; that responsibility does not indicate need of doing full audits of the URA clients

B. URA and MoFPED

- URA must fulfill its reporting obligations to MoFPED
- If introducing Taxation and Complaints Commissions, MoFPED must appoint members

C. URA and Ministry of Energy/Petroleum Authority (PEPD)

- PEPD is responsible for doing metering/measurement of production volumes; URA needs these figures in its auditing
- PEPD approves the exploration, development and production plans and budgets for all licensees; URA needs these plans in its auditing (cost control)
- It is necessary to develop a special MoU covering the cooperation between URA and PEPD

D. URA and MoJCA

- URA is responsible for pursuing taxpayers and taking legal action through their Legal department in all cases regarding tax
- An alternative model for the future may be a cooperation where MoJCA and URA work as one legal team. MoJCA will be the head prosecutor and URA will be the legal team supporting the Solicitor General

E. URA and Bank of Uganda

- URA and Bank of Uganda should be involved in development of input to MoFPED regarding petroleum revenue forecasts
- URA must fulfil its reporting obligations to BoU

F. URA and NPTC

- URA must fulfil its obligations as member of NPTC

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6.	Bank of Uganda/Petroleum Fund	6.1 Institution as-is: Roles, Responsibilities and Structure 6.2 Norwegian experience 6.3 Needs assessment: Roles, responsibilities (main processes) and structure 6.4 Needs assessment: Capacity and competences 6.5 Needs assessment: Coordination and cooperation
7.	Auditor General	
8.	Appendix	

6.1 Institution as-is: Roles, Responsibilities and Structure: Bank of Uganda as-is

Mandate and Organisational structure

Mission

- To foster price stability and a sound financial system

Core activities

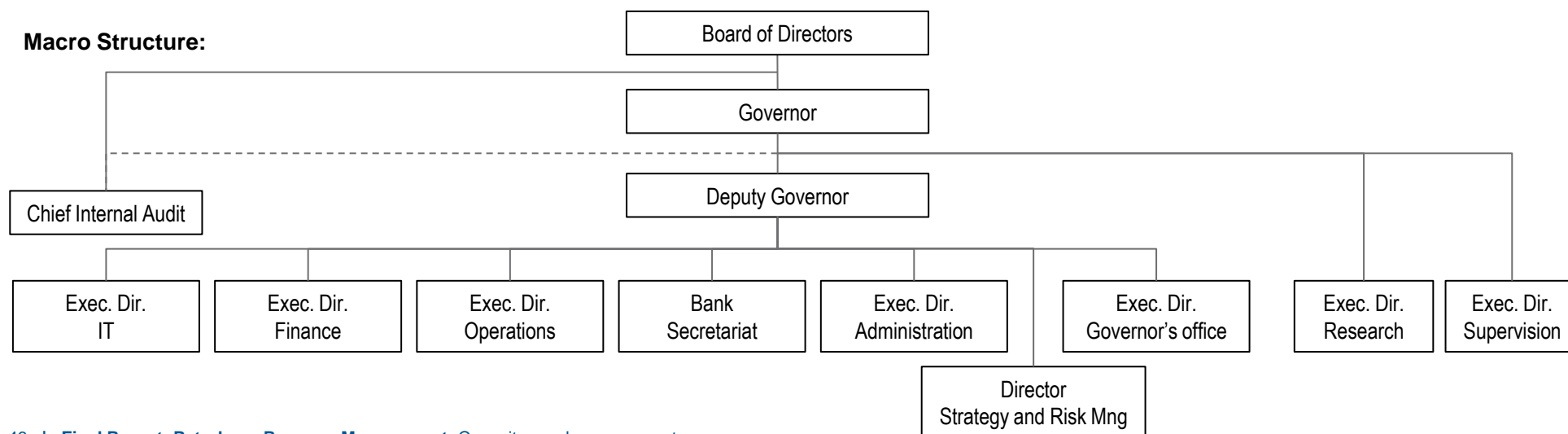
- Issuance of Uganda's national currency/legal tender, the Uganda Shilling (UGX)
- Regulation of money supply through Monetary Policy
- Banker to the Government of Uganda
- Banker to Commercial Banks
- Supervision and regulation of Financial Institutions
- Management of the country's external/foreign reserves
- Management of Uganda's external debt
- Adviser of Government on financial and economic issues
- The Bank also has responsibility to the public and this is fulfilled through its Corporate Social Responsibility programs

Responsibilities within Oil and Gas Sector

Role according to the National Oil and Gas Policy (2008):

- Advising Government on the impact of the oil and gas sector on the national economy
- Ensuring that oil and gas activities do not impact negatively on monetary policy and macroeconomic stability
- Managing and administering the Petroleum Fund

Macro Structure:



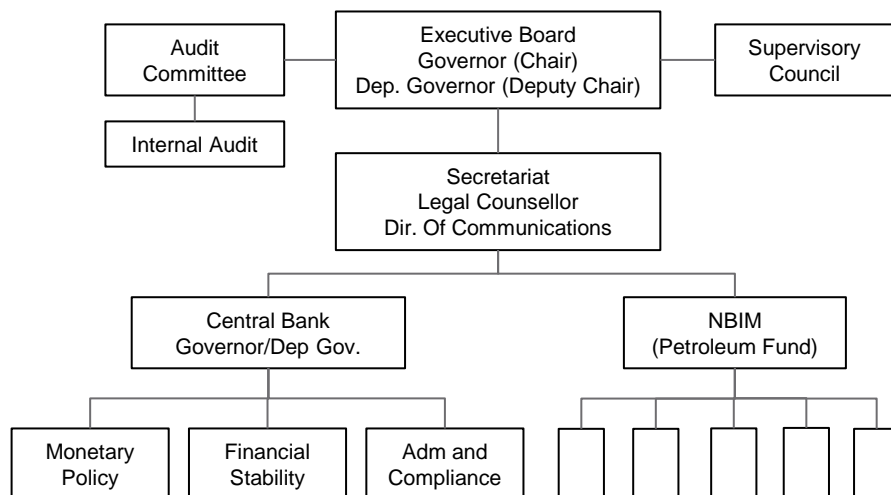
6.2 Norwegian experience: The Norwegian Central Bank “Norges Bank”

Mandate and Organisation

Mandate

- Norges Bank shall promote economic stability in Norway. Norges Bank has executive and advisory responsibilities in the area of monetary policy and is responsible for promoting robust and efficient payment systems and financial markets. Norges Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global
- "Chinese Wall" between Central Bank and NBIM due to potential insider position of NBIM

Organisational Structure



Responsibilities

The Monetary Policy wing shall contribute to balanced economic developments and to the attainment of the inflation target of 2.5 %

- Providing advice on the conduct of monetary policy
- Managing the most liquid portion of the foreign exchange reserves
- Contributing to result-oriented international economic cooperation
- Conducting economic research and performing analyses

Norges Bank Financial Stability (NBFS) shall promote a financial system that is robust to shocks to the economy so that it is possible to channel capital, execute payments and redistribute risk in a satisfactory manner

- Assess risk and identify vulnerabilities in the financial system
- Ensure a regulatory framework that contributes to a robust and efficient financial system
- Contribute to a safe and efficient payment system by providing interbank settlements for Norwegian banks
- Supply notes and coins

Norges Bank's competence needs

- **Monetary Policy wing:** Forecasting, macroeconomics, international economics, econometric modelling, financial markets, interbank markets
- **Financial Stability wing:** National and international financial markets and their interrelations, banks' behaviour, capital flow, market and liquidity risk, building and interpreting models for stress testing financial institutions, payment and settlement systems

6.2 Norwegian experience:

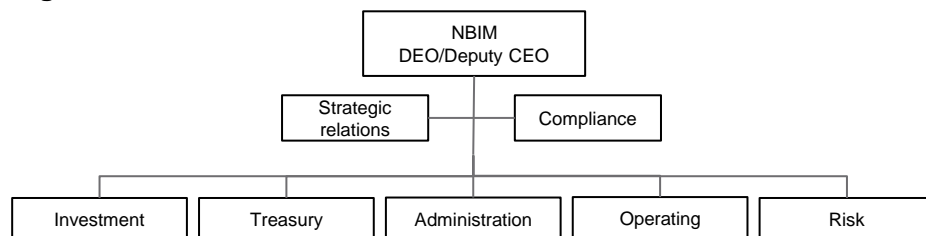
Norges Bank Investment Management (NBIM) – The Petroleum Fund

Mandate, Organisation and Supervision

Mandate

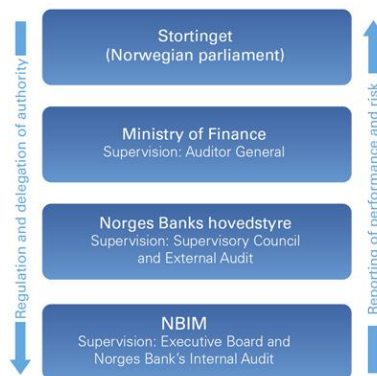
- NBIM shall be a first-class management organisation by international standards and shall ensure satisfactory management of the foreign currency portfolios for which Norges Bank is responsible
- Investments are made in equity (60 %), fixed income (35-40 %) and real estate (up to 5 %). Investments are made both as active management and by the use of external mandates. Ownership strategies are developed for voting on the General Assemblies

Organisational structure



Supervisory structure

- Regulation and delegation of authority goes from Parliament through Ministry to NBIM. Reports from NBIM are public. Performance reports are published monthly on their web-site. Quarterly reports are published on press conferences and as paper reports, and are widely commented and debated by the press



Governance

- NBIM manages the fund on behalf of the Ministry of Finance, which owns the fund on behalf of the Norwegian people. The Ministry determines the fund's investment strategy, following advice from among others NBIM and discussions in Parliament. The Ministry has appointed a Council on Ethics whose task is to advise the Ministry on companies not eligible for investments
- The Ministry regularly transfers petroleum revenue to the fund. The capital is invested abroad, to avoid overheating the Norwegian economy and to shield it from the effects of oil price fluctuations. The fund invests in international equity and fixed-income markets. It also has a mandate to invest in real estate. The aim is to have a diversified investment mix that will give the highest possible risk-adjusted return within the guidelines set by the ministry
- The fund was set up to give the government room for manoeuvring in fiscal policy should oil prices drop or the mainland economy contract. It also served as a tool to manage the financial challenges of an ageing population and an expected drop in petroleum revenue
- The fund is fully integrated with the state budget and that net allocations to the fund reflect the total budget surplus, including petroleum revenue. Fiscal policy is based on the guideline that over time the structural, non-oil budget deficit shall correspond to the real return on the fund, estimated at 4 %. The so-called spending rule that no more than 4 % of the fund's return should over time be spent on the annual national budget was first established in 2001

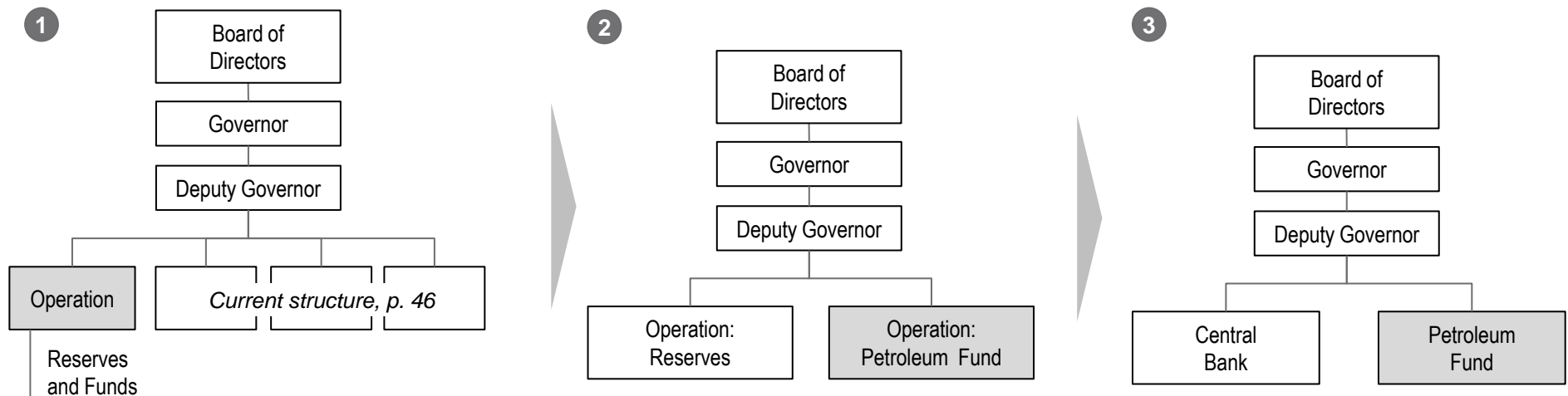
NBIM's Competence Needs

- Advanced financial instruments and markets, corporate governance, active and indexing management, supervision of external mandates, models for identifying, measuring and managing risks

6.1 Institution to-be: Roles, Responsibilities and Structure: Introducing the Petroleum Fund in the Central Bank's organisation

Illustration of structural adjustments, introducing the petroleum fund

- An important objective of a Central bank's management of foreign reserves is to support the core activities of the central bank. This will not be the objective of the Petroleum Fund. When assets in the fund are invested in the financial markets, the objective will be to make profit. Profit earned on information not publicly available will be "insider trading". It will be important for the reputation of BoU that no stakeholders in the financial markets can accuse the bank for insider trading. This was an important argument for the Norwegian Central Bank when deciding to establish the Petroleum Fund



Central Bank as-is: Funds and Reserves in the same division

- According to the Oil and Gas Revenue Management Policy the oil revenue will be used to finance the non oil budget deficit in the initial years
- In this phase, it may be efficient to organize the Fund in the Operations Department, building on that department's existing competence

Separation of the Fund from Operations, but still within the Central Bank

- When the fund starts to invest in financial instruments in significant volumes, a separate "Petroleum Fund Department" within the Central Bank should be considered

Separation of the Petroleum Fund from Central Bank tasks

- When the fund has become an institutional investor, it should not be able to have access to central bank information which no other institutional investors have access to. At that point, the fund should be separated from all central bank tasks, in an own unit who's focus is on risk and profit opportunities of the various financial instruments

6.4 Needs assessment: Capacity and competences: Bank of Uganda – Self assessment

Petroleum Competence Capacity Analysis

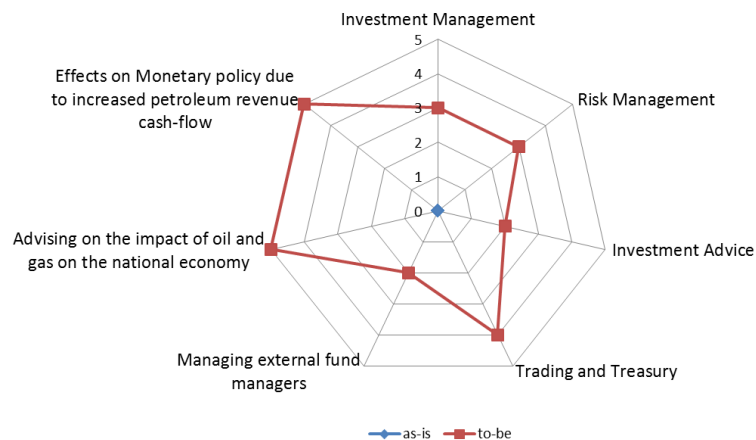
Competence Areas

- Investment Management (Analysis and investments in equities, fixed income etc.)
- Risk Management (Analysing risk exposure, including market and credit risks)
- Investment Advice (Development of investment strategies and assessment of business opportunities)
- Trading and Treasury (Transition management and trading in equities, FX and fixed income instruments and products)
- Managing external fund managers (Select, supervise, monitor and evaluate)
- Advising on the impact of oil and gas on the national economy (I.e. price stability, financial sector stability and foreign exchange market)
- Effects on Monetary policy due to increased petroleum revenue cash-flow. (New monetary policy instruments, quantities etc.)

1

Bank of Uganda

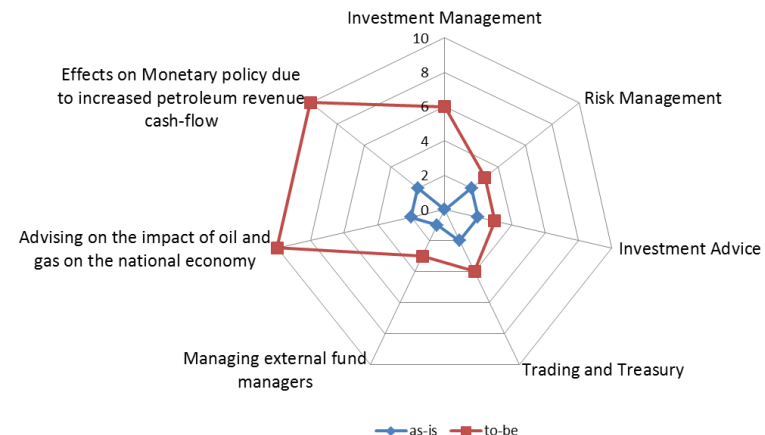
"Specialist"



2

Bank of Uganda

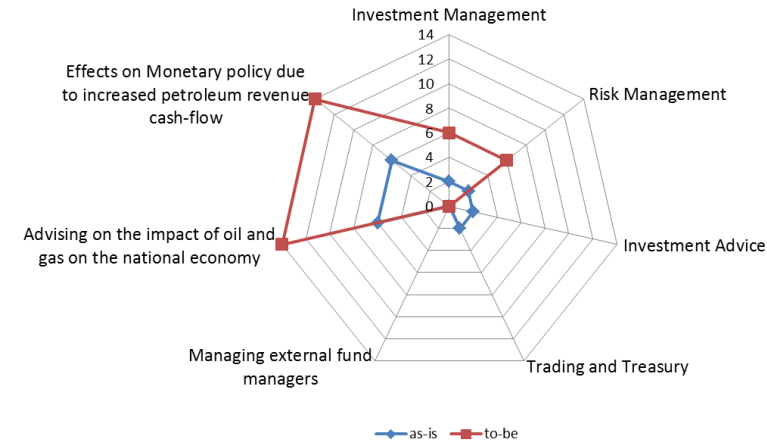
"Understand subject well"



3

Bank of Uganda

"Limited knowledge"



6.4 Needs assessment: Capacity and competences:

Comments and Recommendations on the future capacity in the Bank of Uganda

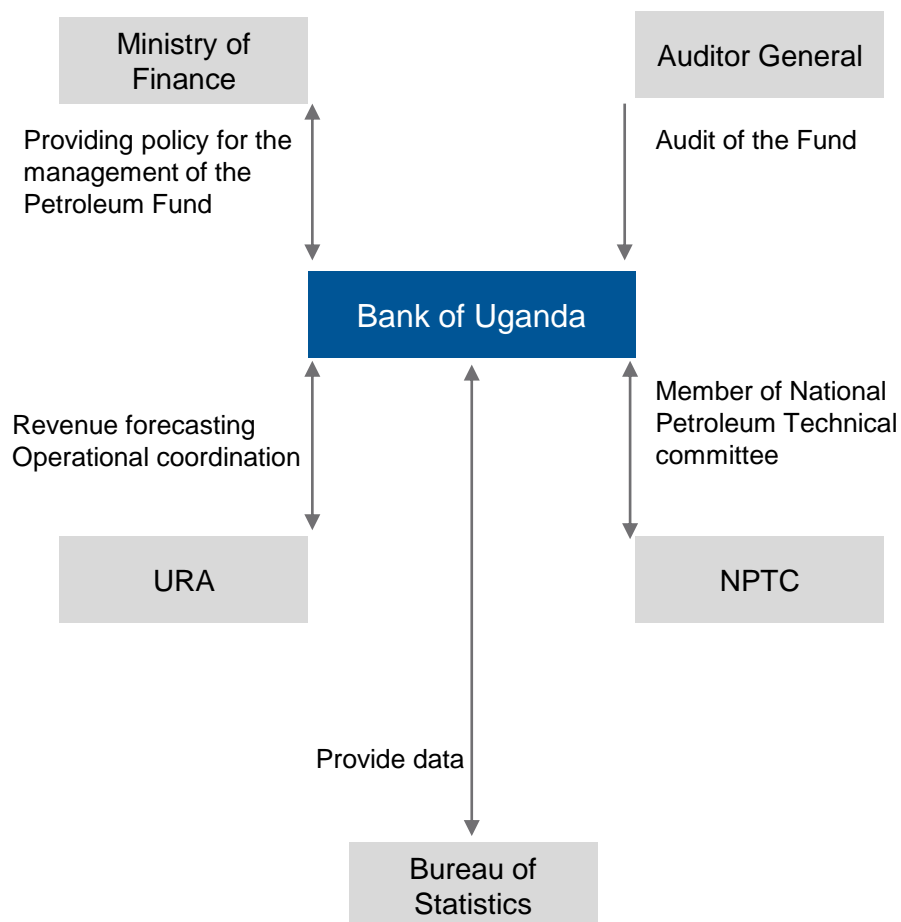
- Capacity needs as estimated by the Bank seems to be high on "Effects on Monetary Policy due to increased petroleum revenue cash flow". It is natural that a central bank should have adequate competence on monetary policy. However, planned increase is significant
- The planned increase in capacity on "Advising on the impact of oil and gas on the national economy" is also significant. The need for competence in the bank should be viewed in context with capacity and competence in the MoFPED
- Estimated capacity needs with regards to Risk Management, Investment Advice and Managing External Fund Managers seem low, especially when compared to the high estimates on macro-economic and monetary policy impacts
- The central bank should be the national competence centre on managing the fund as well as external managers, and should build competence and capacity reflecting this objective
- The planned increase in capacity seems to have a bias towards policy issues. More capacity on issues directly related to fund management should be considered. BoU will need time to develop such competence, and hence, the use of external experts should be considered as a tool in competence building

Competence area		Comments	Capacity
1	Investment Management (Analysis and investments in equities, fixed income etc.)	<ul style="list-style-type: none"> BoU should build a strong team dealing with the different aspects of managing the fund and the external fund managers. External experts will probably be needed for competence building If BoU should decide to go into active management, the number of employees will be higher than this estimate 	Approx 10-12 employees with good knowledge of financial investments
	Risk Management (Analysing risk exposure, including market and credit risks)		
	Investment Advice (Development of investment strategies and assessment of business opportunities)		
	Managing external fund managers (Select, supervise, monitor and evaluate)		
2	Trading and Treasury (Transition management and trading in equities, FX and fixed income instruments and products)	Depending on the size and composition of the portfolio, the number of transactions and the agreements with external managers, the necessary capacity may be of 3-5 persons	Not less than 3
3	Advising on the impact of oil and gas on the national economy (I.e. price stability, financial sector stability and foreign exchange market)	The competence need may, at least in the beginning, be solved by competence building of existing economists. However, extra capacity may be necessary	2-3 extra economists may be needed
	Effects on Monetary policy due to increased petroleum revenue cash-flow (New monetary policy instruments, quantities etc.)		

6.5 Needs assessment: Coordination and cooperation

Bank of Uganda - Coordination

Information flow and Coordination as-is



Comments and Recommendations

Cooperation with other institutions:

- Regulated on the MoU of July, 2008
- Fiscal, Monetary, Exchange Rate Policy coordination: Monthly reports from BoU to the Treasury on economic data (main economic indicators, monetary policy measures, FX reserves, receipts of payments, outstanding Government securities, balance of payments projections)
- Ministry shall share information with the Bank on tax revenue collection, government expenditure, budget support, monthly outturns and projection on fiscal accounts, and also on projected liquidity situation
- The central bank should prepare a communication strategy for the petroleum fund – i.e. publishing the accounts regularly, and quarterly or semi-annual seminars/press conferences on the performance of the fund, aligned with the overall policy for reporting and information

Proposed committees in the Petroleum Revenue Policy*

- The Petroleum Fund Policy Management Committee
- The Petroleum Fund Technical Committee
- The Petroleum Revenue Tracking and Management Team
- A thorough consideration must be done before introducing new committees because there are already several committees regulating the relationship between BoU and MoFPED. Under no circumstances must committees undermine the responsibility given to the respective institution. If the proposed committees are being established the following conditions must be met:
 - The planned committees for information flow and coordination should have clear mandates with reporting structures
 - The mandates should include a policy for the distribution of minutes from the committee meetings

* Proposed committees are being reviewed

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7.1 Institution as-is: Roles, Responsibilities and Structure

Auditor General in Uganda as-is

Mandate and Organisational structure

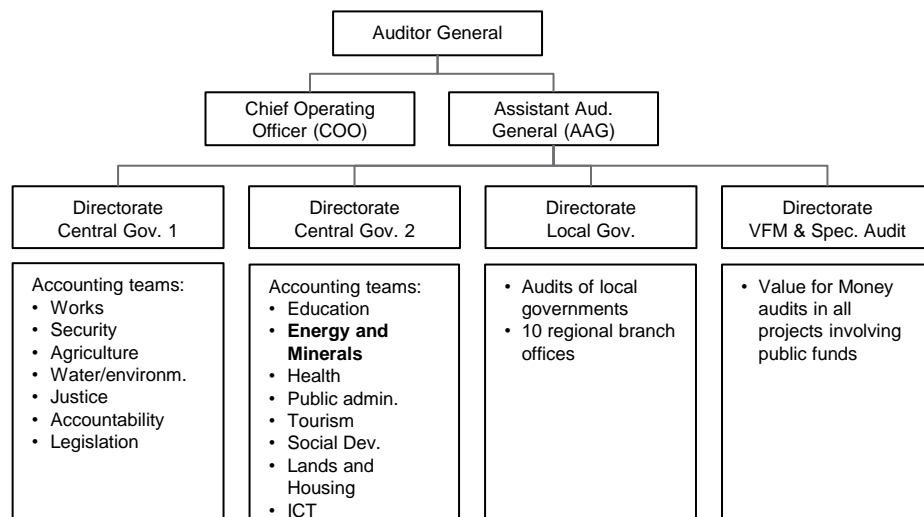
Mission

- As an independent external auditor of Government, the role of the Auditor General is to provide an independent oversight of Government operations through financial, performance and other management audits

Mandate

- Providing an independent oversight of government petroleum operations through financial, value for money and other management audits in accordance with the Constitutional provisions, National Audit Act and any other relevant legislation
- Undertake financial audits of all public accounts
- Audit of public money in private organisations
- Value for money audit of all projects with public fund

Organisational structure, (main directorates)



Responsibilities within Oil and Gas sector

Role according to the National Oil and Gas Policy (2008):

- Providing an independent oversight of government petroleum operations through financial and other management audits in accordance with the constitutional provisions and any other relevant legislation
- Ensuring adherence to national and international accounting standards in the oil and gas sector

Energy sector strategic plan 2011-2016

- OAG has developed a strategic plan for the energy sector which includes the Oil and Gas challenges to be met in the future. The strategic plan covers the audit challenges mainly in the petroleum resource administration

The Auditor General and private organisations

- The Auditor General's mandate, ref bullet 3 and 4, opens for performing audits of all projects with public money/funding
- This may open for cost recovery audits in private organisations in the petroleum sector by the Auditor General. Hence, it is a mandate to perform audits of the project itself, and an audit of the management of the State's interest in the project

Reporting

- Reports to Parliament in March, 9 months after end of the fiscal year
- The report is discussed in Parliamentary committees, and the MoFPED produce the Treasury Memorandum. OAG comments on the Memorandum

7.3 Needs assessment: Roles, responsibilities (main processes) and structure:

Comments and Recommendations on roles, responsibilities and structure

A need for horizontal coordination in the current structure

- The current organisational structure divides the responsibilities parallel to the structure of the state administration in Uganda
- Hence, to cover all institutions involved in the government's administration of the petroleum sector, an involvement of several departments, in addition to the Mineral and Energy team, is required
- The Energy and Mineral team will cover the institutions responsible for the petroleum resource management in the central government
- The VFM-team will audit publicly funded projects in the petroleum sector
- Audits of the institutions responsible for the petroleum revenue management are not clearly defined in the current structure. Our assumption is that they will be carried out by the same team responsible for the auditing of MoFPED, URA and Bank of Uganda today
- As a consequence, at least three units/teams will be involved to cover all aspects of the petroleum administration, as illustrated:

<i>Responsibility</i>	Central government, Petroleum Revenue	Central government, Petroleum Resource	Value for Money audits petroleum sector
<i>Institutions to be audited</i>	MoFPED, URA and Bank of Uganda	MoE, PEPD	Public funded projects (petroleum sector)

- There is a great need to coordinate the work between the three teams in order to give a complete picture on how the petroleum sector is managed by the Government
- OAG's Energy sector strategic plan 2011-2016 does not include the institutions responsible for the revenue management. It is our recommendation to include ambitions and goals of the revenue management audits in the strategic plan, and make institutional arrangements to secure horizontal specialisation and vertical cooperation within the OAG

VFM audits of licensees/concessionaires

- Auditor General has performed cost recovery audits in the private companies due to their mandate to follow all projects with public spending
- These first cost recovery audits by the Auditor General have been conducted by external private auditors, but it is the Auditor General's intention to build own competence in order to conduct such audits by own staff
- These actions imply that the OAG interprets its mandate to perform audits of private companies in Uganda, extending its auditing responsibility outside the Government
- At worst, involvement in the cost recovery audits may disqualify OAG's role when performing audits of the URA

7.2 Norwegian experience: Auditor General in Norway – “Riksrevisjonen”

Roles and Responsibilities

Role:

- The Auditor General (AG) is subordinate to the Parliament, and monitors the Government's compliance with the Parliament's decisions. The AG is the Parliament's most important external monitoring body. The Parliament appoints an external auditor to audit the AG

Tasks and Responsibilities:

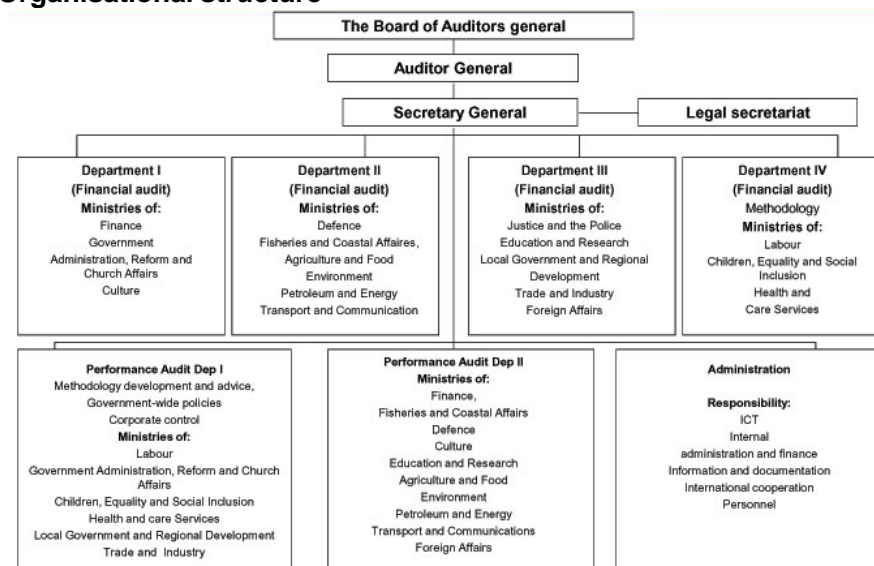
- Audit the central government accounts (financial auditing)
- Audit the accounts for the various ministries and government agencies (financial auditing)
- Perform a systematic investigation of economy, efficiency and effectiveness (performance auditing)
- Monitor the management of the State's proprietary interests in companies etc. (corporate control)
- Provide guidance for the government administration on issues concerning accounts and economy, including promoting the prevention of future defects and deficiencies
- Report the results of the auditing and monitoring to the Parliament and the government administration

Auditor General and limited companies

- As the table illustrates, the AG of Norway has the mandate to perform corporate control in 100% and partly-owned state companies. AG has no power to audit private companies
- The AG can conduct performance audit on how the State's interests in limited companies is managed. This is an audit of the respective Owner-Ministry and not an audit of the company itself

Structure

Organisational structure



Scope of AG's auditing and monitoring

	Performance audit	Financial audit	Corporate control
Central government	X	X	
Governmental agencies	X	X	
Government funds and agencies with special powers	X	X	
Companies, separate legislation	X	X	
Health- and state-owned enterprises	X	X	X
100 % owned state limited companies	X		X
Partly-owned state limited companies			X

7.4 Needs assessment: Capacity and competences: Auditor General – Self assessment

Petroleum Competence Capacity analysis

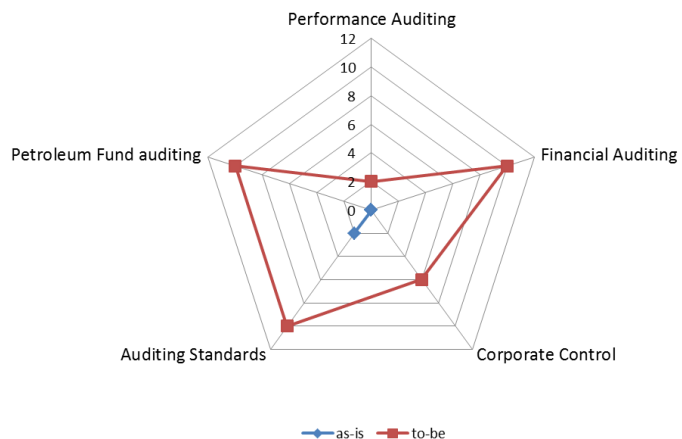
Competence Areas:

- Performance Auditing
(To verify how government measures have been implemented and to ascertain the effects of the Petroleum sector)
- Financial Auditing
(Governmental Petroleum entities)
- Corporate Control
(State owned Petroleum Corporations)
- Auditing Standards
(International operative and Reporting standards, Transparency etc.)
- Petroleum Fund auditing

1

Auditor General

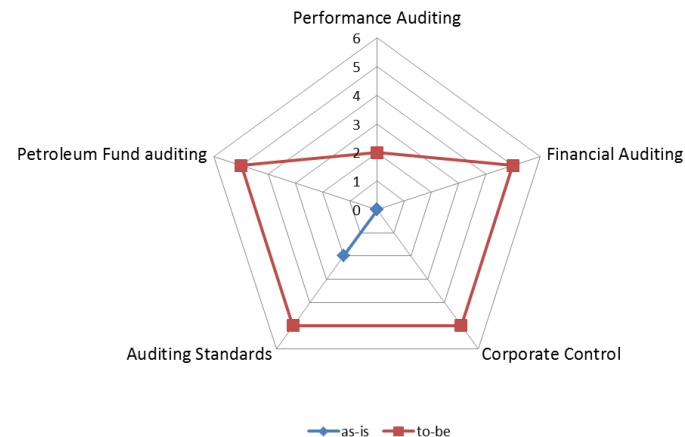
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2

Auditor General

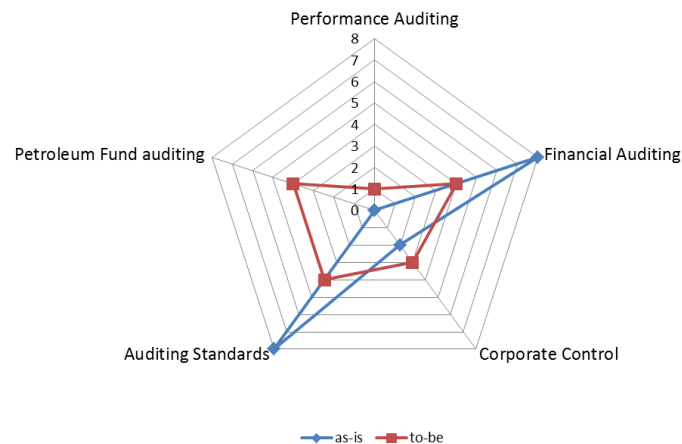
"Understand subject well"



3

Auditor General

"Limited knowledge"



7.4 Needs assessment: Capacity and competences: Comments and Recommendations on the capacity analysis

Strong entities on both petroleum resource and -revenue

- Based on the capacity analysis and data from interviews the OAG has limited capacity to perform audits in the petroleum sector
 - Audit team Energy and Minerals: 9 employees as-is, 20 to-be
 - Petroleum VFM audits: 5 employees to-be
- A strategy to meet the challenges within the petroleum resource administration has been formulated with concrete actions to fill the gap of competence. This does not include the revenue management pillar
- Actions plans to meet the auditing challenges of the petroleum revenue administration must consequently be formulated. It is crucial to build competence on areas where the Government takes on new tasks, e.g. petroleum fund and petroleum tax legislation
- An estimate on capacity needs for each responsibility area is given below

Responsibility	Central government, Petroleum Revenue	Central government, Petroleum Resource	Value for Money audits petroleum sector
Institutions to be audited	MoFPED, URA and Bank of Uganda	MoE, PEPD	Public funded projects down- and mid-stream
Capacity in OAG	Hartmark suggestion: 15 employees	OAG plans: 20 employees	OAG plans: 5 employees

Horizontal synergies for a complete petroleum audit

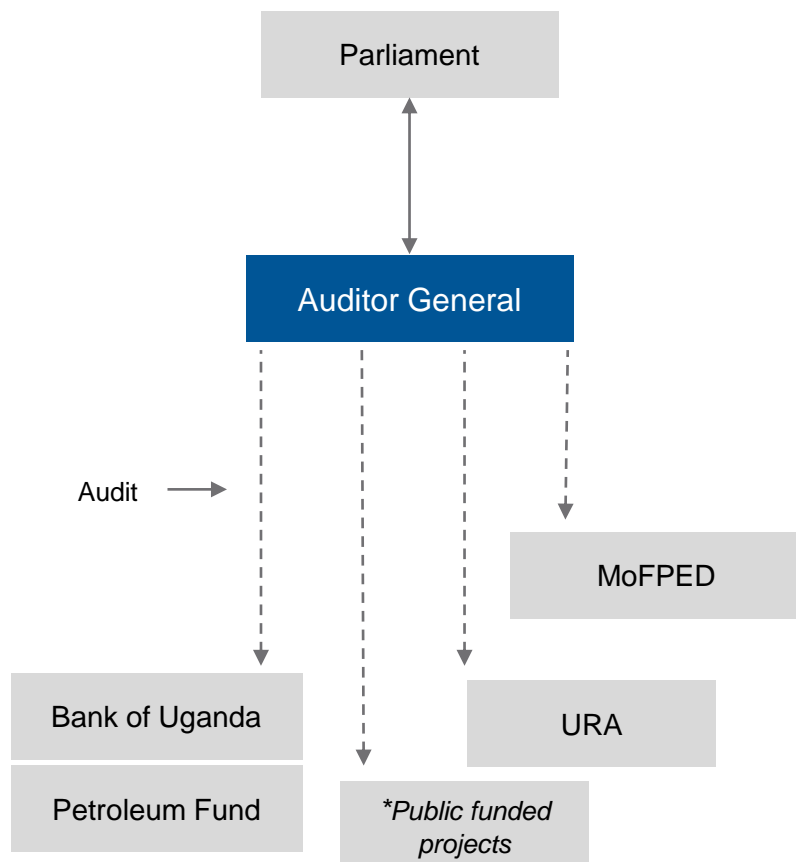
- The governmental resource administration and revenue administration in the petroleum sector is complex and intertwined, and require strong cooperation between the specialized teams
- OAG should consider organising a horizontal team (resource pool) in order to learn and coordinate the work between the employees
- The VFM team should also be included in a horizontal team of petroleum auditors to exploit synergies and boost the learning process of the VFM team

Fulfilling the auditor role, the most important task for OAG

- The strategy of the OAG is to start its capacity building mainly focusing on financial audits of the petroleum sector. Next step is to build capacity in the VFM team
- OAG in Uganda has, as other similar institutions in other countries, been discussing to operate both as an auditor and an advisor towards the public institutions. It is our point of view that the auditing role should be prioritized and taken care of before any actions are taken to fill the advisor role – a role that will demand resources
- The OAG has a great challenge to keep up the pace to fulfil its role as the nations overseer and watchdog on behalf of the Ugandan people, and plays a crucial role in preventing fraud and corruption in the petroleum administration
- OAG's ambition to include being an advisor to the public institutions might also influence the need of being independent when auditing the same institutions; the Norwegian Auditor General (Riksrevisjonen) is avoiding the advisory role
- OAG in Uganda acting as an advisor, at least on short term, can be necessary for building accounting and financial competence in Ugandan public institutions

7.5 Needs assessment: Coordination and cooperation: Auditor General - Coordination

The watchdog on behalf of the people of Uganda



Comments and Recommendations

Uphold a strong independent position

- The Auditor General is a vital institution for making sure that the revenues from the petroleum sector is correctly managed by the governmental institutions and for the Nation's best. It is our point of view that OAG should focus all its resources on filling this important role before expanding its scope in the public funded projects or striving to be an advisor towards the governmental institutions
- As an independent institution working on behalf of the Parliament, the OAG must balance its need for necessary distance to the institutions involved to maintain its objectivity, with the need for sufficient proximity to understand and do in-depth audits. This is a challenging position and demands great effort all the way from the top management to the employees
- Regular reports to the Parliament and to the public society is a strong tool for keeping the institutions accountable and responsible for their actions and ability to implement the national policies and objectives. OAG may consider to report on the petroleum sector in its entirety with input from all teams in OAG auditing petroleum related institutions

Capacity building on new areas

- It is our point of view that OAG must prioritize building competence in areas where new institutions are established or where new tasks are introduced in existing institutions as a result of the introduction of the petroleum revenue, such as:
 - Audit of URA and their management of the new petroleum taxation regime
 - Audit of the petroleum fund in BoU
 - Auditing of the asset management, MoFPED

Main focus on the governmental institutions

- Further it is our point of view that OAG and URA sort out who is responsible for what towards the licensees. Today's practice may disqualify the objectivity of OAG and lead to double jobholding

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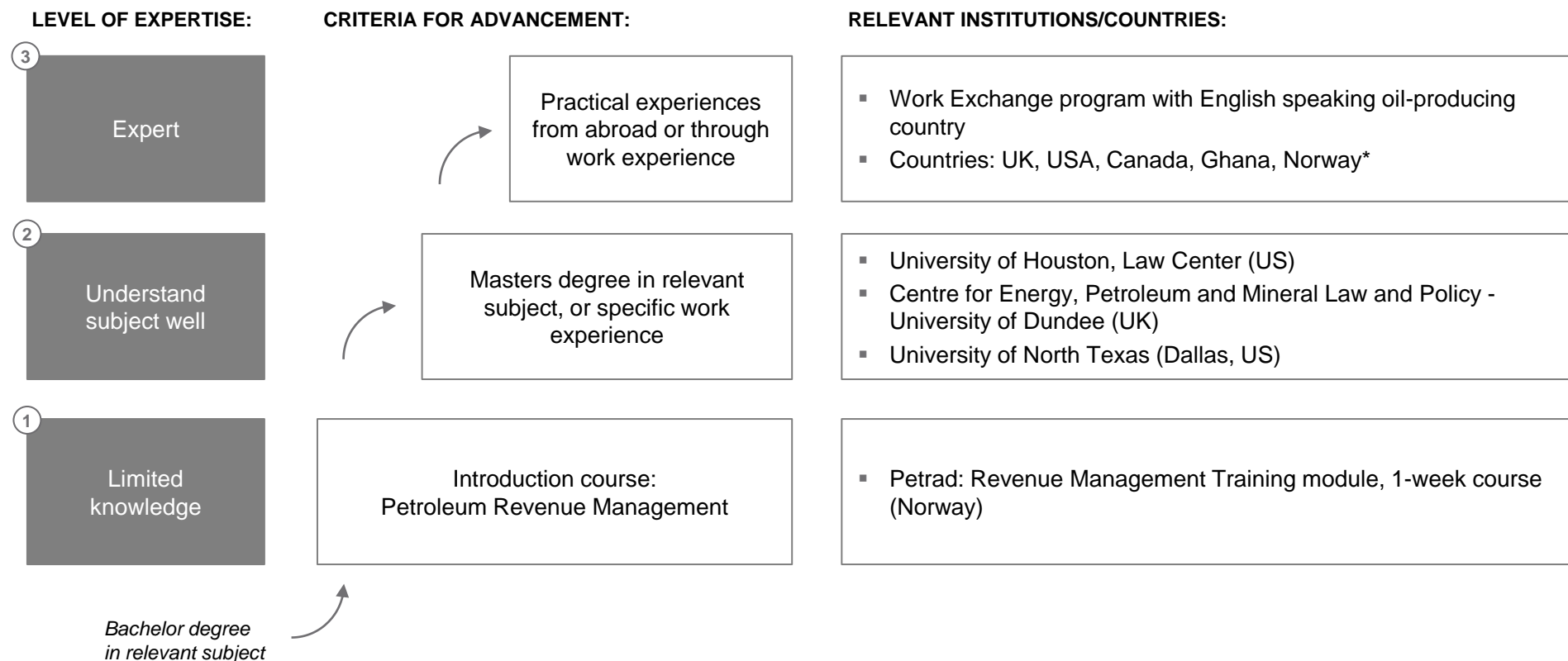
- 1. Method and project approach
- 2. Background to the Petroleum Revenue Management
- 3. Ministry of Finance Planning and Economic Development
- 4. Ministry of Justice and Constitutional Affairs
- 5. Uganda Revenue Authority
- 6. Bank of Uganda/Petroleum Fund
- 7. Auditor General

8. Appendix: Capacity Building

8.0 Appendix: Capacity Building

Principle for Capacity Building in all Institutions

- The capacity building model below illustrates the principles for career development and recruitment that every institution of this study can apply in their HR strategy plans
- Level of expertise follows the three levels used in the capacity analysis in this study and the capacity recommendations given for each institution
- The basic requirement for a career as a petroleum revenue management expert is a bachelor degree in law or economics or similar
- Expert level can only be achieved with a combination of education and experience. Work experience can be acquired through exchange programs with other oil producing English speaking countries or working together with other experts over a period of minimum a year. Alternatively, external experts can be invited to work in Uganda for a shorter period and thereby contribute to knowledge transfer to local Ugandans
- Universities, institutions and countries suggested in the left box are only examples





ABOUT US

Hartmark AS is the largest Norwegian owned management consultancy firm. The firm has clients in both the public and private sectors with references from a broad range of industries. Our aim is to assist clients in developing and improving their business and in developing their human resources. Close dialogue, practical approaches and feasibility are the foundations for successful co-operation. The business advisors all have higher academic records and broad experience from management.

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