

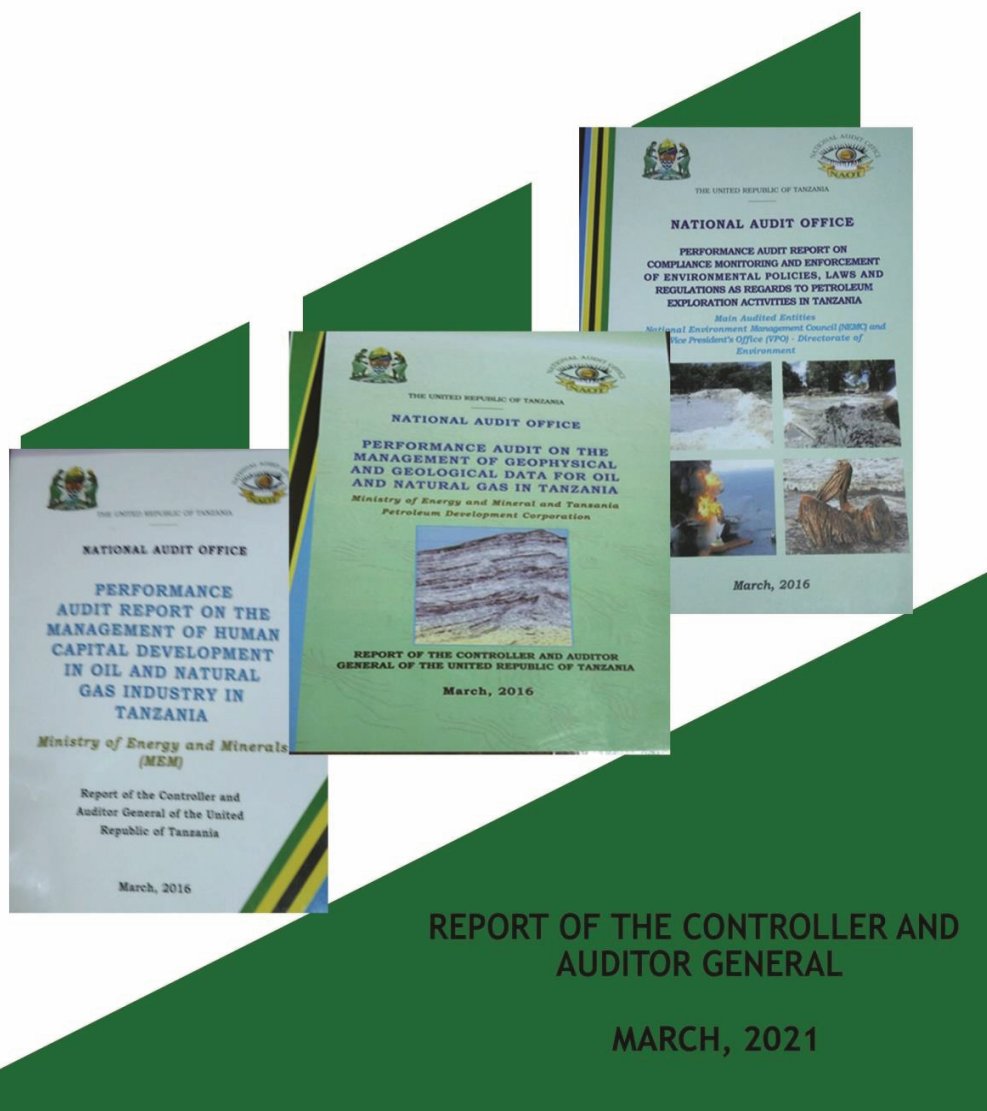


THE UNITED REPUBLIC OF TANZANIA



NATIONAL AUDIT OFFICE

FOLLOW-UP REPORT ON THE IMPLEMENTATION OF THE CONTROLLER AND AUDITOR GENERAL'S  
RECOMMENDATIONS FOR THE FIVE PERFORMANCE AUDIT REPORTS ISSUED AND TABLED  
BEFORE PARLIAMENT IN APRIL, 2016



REPORT OF THE CONTROLLER AND  
AUDITOR GENERAL

MARCH, 2021





THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE



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## PREFACE



I am pleased to present a Follow-up Report on the Implementation of Performance Audit Recommendations from the previously issued Performance Audit Reports. This report covers five individual performance audit reports. The related recommendations were issued to five government entities namely: Ministry of Energy (MoE), Vice President's Office (VPO), Tanzania Petroleum Development Corporation (TPDC), Petroleum Upstream Regulatory Authority (PURA) and National Environment Management Council (NEMC).

This report provides our main stakeholders, namely: Members of Parliament and the Government of the United Republic of Tanzania, with the analysis of the progress of the audited entities in responding to the recommendations made in the performance audit reports which were tabled and adopted by Parliament in April, 2016. The rationale behind is to report to Parliament on the implementation status of the recommendations made in those performance audit reports.

I have the honour to submit this Follow-up Report on the Implementation of Performance Audit Recommendations from the previously issued Performance Audit Reports to Her Excellency, the President of the United Republic of Tanzania, Hon. Samia Suluhu Hassan and through her to the Parliament, in accordance with Article 143 of the Constitution of the United Republic of Tanzania (URT) of 1977 and Section 34(1) and (2) of the Public Audit Act No. 11 of 2008.

In essence, this follow-up report has enabled me to provide independent assurance to the Parliament concerning the implementation status of the previously issued recommendations on areas such as: Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements; Management of Geophysical and Geological Data for Oil and Gas in Tanzania; Management of Process of Awarding Exploration and Development Contracts and Licenses for Natural Gas; Compliance Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Exploration Activities in Tanzania; and Management of Human Capital Development in Oil and Natural Gas.

The main objective of conducting these audits was to examine the identified problems in the respective areas; establish whether the allocated resources were spent with due regard to economy, efficiency and effectiveness as intended and appropriated by the Parliament in the above-mentioned areas.

While my office conducts audits and issues reports on the performance of Ministries, Departments and Agencies, Local Government Authorities, Public Authorities and Other Bodies' programmes and activities basing on the relevant laws, rules and regulations governing such programmes and activities; the ultimate responsibility for ensuring there is efficiency, economy and effectiveness in the use of public resources rests with the respective Accounting Officers. At the same time, it is the responsibility of the Accounting Officers to ensure that the observations and recommendations raised by the Controller and Auditor General are acted upon in a timely manner possible.

I would like to acknowledge the commitment of my staff and cooperation accorded to my audit teams by the respective Accounting Officers and their staff which has facilitated timely completion of this follow up audit report.

I hope the National Assembly and public at large will find the information in this report relevant and useful in holding the Government accountable for public funds and delivery of services to Tanzanian citizens.



**Charles E. Kichere**  
**Controller and Auditor General**  
**Dodoma, United Republic of Tanzania**  
**March, 2021**

## LIST OF ABBREVIATIONS

CAG	Controller and Auditor General
DECE	Directorate of Environmental Compliance and Enforcement
DEIA	Directorate of Environmental Impact Assessment
DoE	Directorate of Environment
E and P	Exploration and Production
EA	Environmental Audit
e-GA	Electronic Government
EIA	Environmental Impact Assessment
EMA	Environmental Management Act
HCD	Human Capital Development
IOCS	International Oil Companies
LGAs	Local Government Authorities
MEM	Ministry of Energy and Minerals
MoE	Ministry of Energy
MTEP	Medium Term Expenditure Framework
NAOT	National Audit of Tanzania
NEMC	National Environment Management Council
OSHA	Occupational Safety and Health Authority
PMU	Procurement Management Unit
PSA	Production Sharing Agreements
PURA	Petroleum and Utility Regulatory Authority
TANESCO	Tanzania Electricity Supply Company Limited
TCU	Tanzania Commission for Universities
TPDC	Tanzania Petroleum Development
USD	United States Dollar
VETA	Vocational Education Training Authority
VPO	Vice President's Office

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## **EXECUTIVE SUMMARY**

Performance audit seeks to improve the accountability and performance of government organizations. It provides an objective and constructive assessment of the extent to which the audited entity has utilized its resources in carrying-out its responsibilities with due regard to economy, efficiency and effectiveness. Section 28 of the Public Audit Act No.11 of 2008 gives the Controller and Auditor General the mandate to carry-out performance audit.

This consolidated report summarizes follow-up reports on the implementation of the audit recommendations of five performance audit reports which were tabled before the Parliament in April, 2016. The reports are:

1. Management of Process of Awarding Exploration, Development Contracts and Licenses for Natural Gas;
2. Compliance Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Exploration Activities in Tanzania;
3. Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements;
4. Management of Geophysical and Geological Data for Oil and Gas in Tanzania; and
5. Management of Human Capital Development in Oil and Natural Gas.

Follow-up of the issued recommendations is a necessary process for ensuring that recommendations are addressed and that citizens receive the appropriate feedbacks on the value for money of various programmes and activities conducted by Ministries, Departments and Agencies from the Controller and Auditor General's work.

### **Implementation Status of the Issued Recommendations**

As regards to follow-up, a total of 63 recommendations were issued in all five performance audit reports. As at the date of the follow-up, 9 recommendations were fully implemented, 38 were partially implemented, 15 had not been implemented while one (1) has been overtaken by events.

**Table 1** below shows the state of implementation of the audit recommendations of the said audit reports categorized as *fully, partially, not implemented and overtaken by events*.

**Table 1: Implementation Status of Performance Audit Recommendations**

Audit ed Entity	Recommendations				
	Numbe r	Fully implement ed	Partially implement ed	Not Implement ed	Overtake n by Events
MoE	24	1	12	10	1
VPO	4	1	3	0	0
PURA	24	7	13	4	0
NEMC	11	0	10	1	0
<b>Total</b>	<b>63</b>	<b>9</b>	<b>38</b>	<b>15</b>	<b>1</b>
<b>%age</b>	<b>100</b>	<b>14.3</b>	<b>60.3</b>	<b>23.8</b>	<b>1.6</b>

*Source: Auditors' Analysis (2020)*

From **Table 1**, the overall status on the implementation of the issued recommendations indicates that 84.1% of the issued recommendations were either partially or not implemented at all.

A summary of individual performance audit reports is as distributed below:

#### **1. Management of Process of Awarding Exploration, Development Contracts and Licenses for Natural Gas**

A total of twelve(12) recommendations were issued in this particular audit. Six (6) of them were directed to MoE and six (6) of them to TPDC and are now being implemented by PURA

The overall follow-up results on the implementation of the issued audit recommendations indicated that out of 12 issued recommendations, 9 recommendations (equivalent to 75%) were partially implemented and 3 recommendations (equivalent to 25%) had not been implemented.

#### **2. Compliance Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Exploration Activities in Tanzania**

A total of 15 recommendations were issued in this particular audit. Four (4) of them were directed to VPO-DOE and eleven(11) to NEMC.

The overall follow-up results on the implementation of the issued audit recommendations indicated that out of 15 issued recommendations, 1

recommendation (equivalent to 6.7) was fully implemented, 13 (equivalent to 86.7%) were partially implemented and 1 (equivalent to 6.7%) had not been implemented.

### **3. Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements**

A total of 10 recommendations were issued in this particular audit. Three (3) of them were directed to MoE and seven (7) to TPDC and are now being implemented by PURA .

The overall follow-up results indicated that, out of 10 issued recommendations, six (6) (equivalent to 60%) were partially implemented, three (3) (equivalent to 30%) were not implemented, one (1) (equivalent to 10%) had been overtaken by events and none of the recommendation was fully implemented.

### **4. Management of Geophysical and Geological Data for Oil and Gas in Tanzania**

A total of sixteen (16) recommendations were issued in this particular audit. Five (5) of them were directed to MoE and eleven (11) to TPDC and are now being implemented by PURA.

The overall follow-up results on the implementation of the issued audit recommendations indicated that out of the 16 issued recommendations, 8 recommendations (equivalent to 50%) were fully implemented, 5 recommendations (equivalent to 32 %) were partially implemented and 3 recommendations (equivalent to 18%) were not implemented.

### **5. Management of Human Capital Development in Oil and Natural Gas**

A total of 10 recommendations were issued in this particular audit to the Ministry of Energy.

The overall follow-up results on the implementation of the issued audit recommendations indicated that out of 10 issued recommendations, five (5) recommendations (equivalent to 50%) were partially implemented, five (5) recommendations (equivalent to 50%) were not implemented and none of the recommendations was either fully implemented or overtaken by events.

## Categories of Recommendations Issued to the Audited Entities

Recommendations issued to the audited entities fall under seven (7) categories which are: monitoring, evaluation and supervision; decision making; development; planning; coordination; performance measurement; and data management (See Table 2)

**Table 2: Categories of Recommendations Issued to the Audited Entities**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category			
		Fully implemented	Partially Implemented	Not implemented	Overtaken by Event
Coordination	2	0	2	0	0
Data Management	2	2	0	0	0
Decision making	11	0	9	1	1
Development	13	1	10	2	0
Monitoring, evaluation and supervision	18	2	5	11	0
Performance Measurement	6	0	5	1	0
Planning	11	4	7	0	0
Grand Total	63	9	38	15	1
	100.0	14.3	60.3	23.8	1.6

*Source: Auditors' Analysis (2021)*

From Table 2 above, it was noted that 53 out of 63 recommendations (which is equivalent to 84.1%) covered planning; decision making; development; and supervision, monitoring and evaluation. However, 11 out of 18 recommendations (61%) on monitoring, evaluation and supervision were not implemented at all. On the other hand, the planning, performance measurement, development and decision making categories had about 63.6% to 83.3% of the recommendations at least partially implemented.

## Overall Conclusion

The overall conclusion on this follow up is that, the efforts taken by the respective entities to implement CAG's recommendations were not promising. The implementation of the issued recommendations was not satisfactory because out of 63 recommendations, only 9 (14.3%) were fully implemented, 38 (60.3 %) were partial implemented, 15 (23.8%) were not implemented at all and 1 (1.6 %) had been overtaken by events. Therefore,

82% of the issued recommendations were either partially or not implemented at all.

### **Overall Recommendations**

The Prime Minister's Office should ensure that all Ministries, Independent Departments, Agencies and Local Government Authorities establish a sound governance structure for monitoring NAOT's performance audit recommendations by:

- 1) Establishing a specific section/ unit or individual staff for coordinating all the issued performance audit recommendations;
- 2) Ensuring that recommendation(s) registry is in place and has to be updated to appropriately capture all issued performance audit recommendations;
- 3) Developing a detailed plan to ensure incorporation and implementation of the issued performance audit recommendations in the respective responsible entities; and
- 4) Establishing a system that will allow regular development of implementation status from the issued performance audit recommendations.





## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background**

Performance audit seeks to improve the accountability and performance of government organizations. It provides an objective and constructive assessment of the extent to which the audited body has utilized its resources in carrying out its responsibilities with due regard to economy, efficiency and effectiveness. Section 28 of Public Audit Act No.11 of 2008 gives the Controller and Auditor General (CAG) of the United Republic of Tanzania mandate to carry out performance audit.

The Office of the Controller and Auditor General carries out a number of performance audits in the government entities. Basing on the findings and conclusions made in those audits, CAG issues recommendations which, if implemented they can assist in improving the performance of government entities and ensure that public resources are economically, efficiently and effectively managed.

Likewise, Regulation 77 (5) of the Public Audit Regulations of 2009 provides mandate to the Controller and Auditor General to conduct follow-ups on the recommendations issued to the government entities by conducting performance audits. In this regard, CAG conducted a follow-up on five performance audit reports namely: (1) Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements; (2) Management of Geophysical and Geological Data for Oil and Gas in Tanzania; (3) Management of Process of Awarding Exploration and Development Contracts and Licenses for Natural Gas; (4) Compliance Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Exploration Activities in Tanzania; and (5) Management of Human Capital Development in Oil and Natural Gas

#### **1.2 Rationale for Follow Up on Implementanation of Audit Recommendations**

Follow-ups are conducted in order to provide stakeholders (Members of Parliament and the Government of the United Republic of Tanzania) with the analysis of the progress made by the audited entities with regard to the

recommendations made in the performance audit reports which were tabled and adopted by Parliament. This is normally done with the view to reporting back to the Parliament the extent to which the issued recommendations have been implemented.

Follow-ups on the implementation of the audit recommendations enables CAG to provide the necessary independent assurance to the Parliament concerning with the implementation status of the previously issued recommendations on different areas.

Therefore, follow-ups on the implementation of the audit recommendations examine the identified problems in the respective area; establish whether allocated resources have been spent with due regard to economy, efficiency and effectiveness as intended and as appropriated by the Parliament.

### **1.3 Design of the Follow-up on the Implementation of Audit Recommendations**

This audit is designed in such a way that it provides to CAG the required information regarding the implementation status of the issued recommendations. It covers the objective and scope of the follow up on the implementation of the audit recommendation as detailed hereunder:

#### **1.3.1 Objectives of Follow-up on the Implementation of Issued Recommendations**

##### **Main Objective**

The main objective of the follow-up is to assess the extent to which the audited entities implemented the recommendations issued by the Controller and Auditor General.

##### **Specific Objectives**

1. To examine corrective measures taken by the audited entities on the recommendations issued by CAG;
2. To assess the governance systems for monitoring NAOT's performance audit recommendations; and
3. To examine reporting arrangements on the implementation of the performance audit recommendations issued by CAG.

## Scope of the Follow-up

The audit covered five (5) performance audit reports which comprised five (5) audited entities and which were tabled before the Parliament and Published in 2016 as described in **Table 1.1**.

**Table 1.1: List of Five Performance Audit Reports Followed Up**

S/N	Title of the Chapter	Audited entity
1.	Management of Process of Awarding Exploration and Development Contracts and Licenses for Natural Gas.	Ministry of Energy (MoE) and TPDC/PURA
2.	Compliance Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Exploration Activities in Tanzania.	Vice President's Office (VPO) and National Environment Management Council (NEMC)
3.	Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements.	Ministry of Energy (MoE) and TPDC/PURA
4.	Management of Geophysical and Geological Data for Oil and Gas in Tanzania.	Ministry of Energy (MoE) and TPDC/PURA
5.	Management of Human Capital Development in Oil and Natural Gas.	Ministry of Energy (MoE)

*Source: Audit Reports Tabled in year 2016*

The follow-up audit is limited to the review of recommendations detailed in the original performance audit reports mentioned in **Table 1.1** and their respective responses, commitments and implementation status.

### 1.4 Approaches to Follow-up on the Implementation of the Issued Audit Recommendations

The follow-up on the implementation of the issued recommendations was conducted through the following approaches:

- 1) Sending letters to the audited entities requesting for the implementation status of the issued performance audit recommendations;
- 2) Review of the implementation status responses with their corresponding supporting evidences from the audited entities;
- 3) Developing a matrix for the implementation status of the issued recommendations by consolidating all received responses for each specific audit;

- 4) Submission of the verification letters including a matrix on the implementation status of the issued performance audit recommendations with auditors' comments to the audited entities for their review;
- 5) Verification and factual clearance on the responses; and
- 6) Developing a follow - up report on the implementation status of the issued performance audit recommendations.

## 1.5 Methodology used to Follow-up on the Implementation of Recommendations

### (i) Interviews

Interviews were conducted with the audited entities' senior and operational management personnel for them to understand the process and clarify issues regarding the implementation of the issued performance audit recommendations from the identified reports. The interviews assisted in obtaining verbal responses in relation to the activities that were carried out in responding to the issued performance audit recommendations.

### (ii) Document Reviews

The audit team reviewed the implementation status of the previously issued performance audit recommendations in order to explore the progress. The document reviews provided evidence regarding matters agreed during the original individual performance audits, commitments made by the audited entities and initiatives and corrective measures taken so far in addressing the respective recommendations.

### (iii) Observations

The audit team also visited different entities and regions to assess the level of implementation of various projects or physical structures or items that were supposed to be installed or acquired by the audited entities as shown in Table 1.2

**Table 1.2: Areas Visited as Part of the Verification Process**

Audit Report	Areas visited	Objective of the visit
Management of Process of Awarding Exploration and Development Contracts and Licenses for Natural Gas.	Dodoma and Dar es Salaam	Verification of informations submitted by MoE and PURA

Audit Report	Areas visited	Objective of the visit
Compliance Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Exploration Activities in Tanzania.	Dar es Salaam and Dodoma	Verification of informations submitted by NEMC and VPO
Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements.	Dar es Salaam	Verification of informations submitted by PURA
Management of Geophysical and Geological Data for Oil and Gas in Tanzania.	Dar es Salaam	Verification of informations and site visit at TPDC HQ, Mikocheni & Kinyerezi
Management of Human Capital Development in Oil and Natural Gas.	Dar es Salaam and Dodoma	Verification of informations submitted by PURA

*Source; Auditor's analysis of the visited areas, (2020)*

## 1.6 Criteria for Assessing the Level of Implementation of Recommendations

Follow-up audit work examined the recommendations or significant observations made in the previous performance audits. The previous recommendations or observations served as the follow-up criteria. Commitments such as action plans made by entities in response to the issued performance audit recommendations of the original audit reports were also used as the criteria. In ensuring that issued performance audit recommendations are adequately implemented, the audited entities were expected to:

- Address the recommendations issued in the performance audit reports based on the commitments made during the audit; and
- Have appropriate governance systems and reporting arrangements to ensure that the audit recommendations were timely and adequately implemented.

## 1.7 Level of Implementation of Recommendations and Factors Considered when Ranking the Implementation Level

Implementation of the issued recommendations was measured using levels and classification of recommendations as described in **Table 1.3**.

**Table 1.3: Levels of Implementation of Recommendations with Reasons**

Level of Implementation Status	Reason for Implementation Status
Fully Implemented	When the audited entity provides sufficient and appropriate evidence to support all elements of the recommendation.
Partially Implemented	<p>When the audited entity provides some evidence which support the implementation, but not all elements of the recommendation are addressed.</p> <p>Partially implemented is categorized into two:</p> <ul style="list-style-type: none"> <li>Partially - satisfactory: This is when audited entity provides most of the required evidence to support implementation of the recommendations that have been done within the required/acceptable time duration.</li> <li>Partially - not satisfactory: This is when the audited entity provides evidence which shows only preliminary measurable steps have been taken to address the recommendation; or when only some few elements of the evidence have been issued.</li> </ul>
Not Implemented	When the audited entity provides evidence which does not support meaningful movement towards implementation of a recommendation, or no evidence is provided, where implementation might take time and it is in the process but there is nothing that can be measured.
Overtaken by event	When the recommendation made has been overtaken by other circumstances which are likely to make the recommendation irrelevant or to have less impact at that particular time.

*Source: Audit Office, 2020*

For the purpose of analyzing the level of implementation, a classification of each of the issued recommendations was made basing on:

- Nature of recommendation; and
- Length of time needed to implement the issued recommendation.

*Nature of the recommendation:* includes analyzing the nature of issues that the concerned recommendation is all about. These are such as planning, budgeting, implementation, monitoring and evaluation, performance measurement, coordination, policy making, etc.

*Length of time needed to implement the issued recommendation* to its completion was used as another criterion.

**Table 1.4** provides three categories used to classify the implementation levels in relation to the duration required for implementing the issued performance audit recommendations.

**Table 1.4: Classification of Recommendations Relating to Time**

Classification of Time	Measurable factors
<b>Short-term recommendations</b>	Recommendations that take less than 6 months to be fully implemented. These are recommendations that do not need much time and budget to implement.
<b>Medium-term recommendations</b>	Recommendations that take between 6 and 18 months to be fully implemented. These are recommendations that need considerable time and budget to implement.
<b>Long-term recommendations</b>	Recommendations that take between 18 and 36 months to be fully implemented. These are recommendations that need enough time and budget to implement. Similarly, these recommendations involve seeking various approvals from higher authorities to the audited entities or involve development of various guides or implementation policies.

## 1.8 Data Validation Process

The audited entities, which were issued with the respective recommendations and which were the subjects of this follow-up, were given the opportunity to go through the observations made during the follow-up and were allowed to comment on the accuracy and correctness of information and statistics presented. Confirmation on the accuracy of the figures used and information presented in the audit report was also considered.

## 1.9 Standards Used for the Follow-up

The follow-up audit work was conducted in accordance with the International Standards of Supreme Audit Institutions on performance (ISSAI) auditing. ISSAI 300 provides for principles of performance audit, specifically, ISSAI 3000/5.5 provides guidelines on how to conduct follow-up audits.

The standard requires that the follow-up be planned and performed in a manner that enables auditors to obtain sufficient and appropriate evidence

to serve as the basis for reporting the outcome of the issued recommendations and provide feedback to SAls.

Results of follow-up are appropriately reported in order to provide feedback to the Parliament on the level of implementation for corrective actions to be taken where relevant.

## **1.10 Structure of the Report**

This report is presented in eight chapters as follows:

Chapter *one* provides the introduction and background, objectives, scope, criteria and methodology used during the follow up.

Chapters *two* through *six* present the main findings regarding the implementation of audit recommendations noted from the individual performance audit reports.

Chapter *seven* presents the governance arrangements for the implementation of performance audit recommendations in the audited entities.

Chapter *eight* provides the audit conclusions and recommendations based on the findings of the follow up.



## **CHAPTER TWO**

### **PERFORMANCE AUDIT ON MANAGEMENT OF PROCESS OF AWARDING EXPLORATION AND DEVELOPMENT CONTRACTS AND LICENSES FOR NATURAL GAS**

#### **2.1 Background of the Audit**

Performance Audit Report on Management of Process of Awarding Exploration and Development Contracts and Licenses for Natural Gas was tabled before Parliament in April, 2016.

The overall objective of the audit was to assess whether MoE and TPDC (PURA) have efficient, effective and ethical Management process of awarding contracts and licenses of the Natural Gas in Tanzania. The audit focused on whether MoE and TPDC had a system in place to identify areas for improvement in the process.

#### **2.2 Audit Scope**

The audit covered four financial years from 2010/11 to 2013/14. The audit focused on the last two licensing rounds, the 3rd round which was conducted from May 2004 to May 2005 and the 4th round conducted in 2013, for comparison purpose. The 1st and 2nd rounds were also considered, when necessary.

Data was collected from the Ministry of Energy and Minerals (MEM) and Tanzania Petroleum Development Corporation (TPDC). Both entities were responsible for procuring, contracting and awarding exploration and development licenses.

#### **2.3 Main Audit Findings**

##### **2.3.1 Inefficient Management of the contracting and licensing process**

###### **Needs analysis were not conducted in a proper way**

This was noted due to absence of criteria for conducting needs analysis to meet environmental, health and safety requirements and needs of

communities. Despite TPDC and MoE claimed that they conducted needs analysis before licensing round, there were no reports showing such criterion was considered in the preparation of such needs.

#### **Absence of procurement strategy**

It was noted that, both TPDC and MoE did not have a procurement strategy apart from the annual plans. The procurement strategy helps to make proper allocation of available resources, efficient measurement of the performance and implementation of the activities, proper and timely decision making of the activities in order to achieve the organization objectives within the complexity of the process.

#### **The procuring process was not properly organized to take into account the complexity of the procurement**

It was noted that the Procurement Management Unit (PMU) at TPDC was not multi-disciplinary, this is contrary to *Section 37 (2) of the PPA 2011* which requires the Procurement Management Unit (PMU) to consist of procurement and other technical specialists together with the necessary supporting and administrative staff. It was noted that Licensing round was not structured to address impending risks of fluctuation in oil and gas prices, delays and costs. Furthermore, it was noted that there was inadequate coordination between TPDC and MoE as far as procurement of International Oil Company (IOC) for exploring and developing natural gas in the country is concerned.

#### **There were no adequate controls in place to ensure procurement complied with the relevant legislations**

There were inadequate controls in place to ensure that awarding process complied with the relevant legislations. Moreover, there was no Legal, Regulatory Institution Framework to manage procurement in the extractive industry.

#### **There was no formal risk management to provide reasonable assurance regarding the organization's awarding objectives**

There was no formal risk management conducted within the licensing rounds. Even though there was existence of the Risk Management Unit, TPDC could not produce any risk assessment report or any kind of document with risks developed and analysed.

### **The goal of awarding was not met accordingly**

The TPDCs goal of procuring, contracting and awarding licenses was not successfully met due to lack of proper timeframe, absence of proper policies, strategies and guidelines.

### **Inadequate ex-post assessment of the contracting and licensing Process**

There were no reviews and evaluation of the process quarterly or annually conducted by either MoE or TPDC. The adequacy of the procurement process and its results was not assessed ex-post to benchmark the performance against other comparable entities.

## **2.4 Overall Audit Conclusion**

Based on the findings and objective of the study, the audit concluded that the Ministry of Energy (MoE) and Tanzania Petroleum Development Cooperation (TPDC) did not have the proper system in place to efficiently, effectively and ethically manage the process of awarding contracts and licenses for exploration and development of natural gas. This is because the outcome of the procurement has not been beneficial to the government taking into account that some of the procurement processes were still on-going while they were supposed to be completed and the contract could have been in the implementation stage at the time of the audit.

Furthermore, despite the notable areas for further improvements, MoE and TPDC did not institute adequate learning environment that could assist them to learn from the previous mistakes and through that improve the way things were operating.

Areas such as needs analysis, preparation of specifications for tender, advertising for tender, evaluation of the received bids and negotiation with the prospective IOCs have been observed to have a lot of deficiencies and yet MoE and TPDC did not address them.

## 2.5 Results of the follow-up on the Implementation of the Issued Audit Recommendations

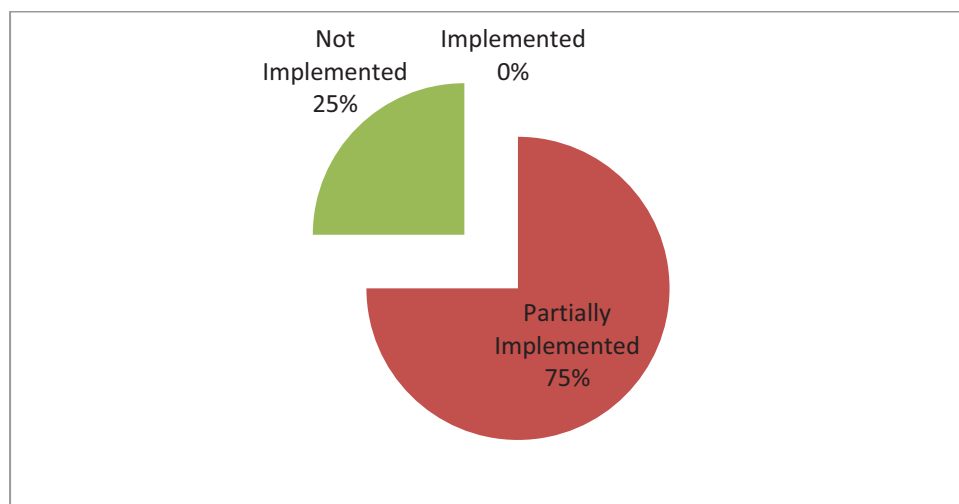
This part presents implementation status of issued recommendations to the Ministry of Energy and Minerals (MEM) and Tanzania Petroleum Development Corporation (TPDC) whose functions moved to Petroleum Upstream Regulatory Authority (PURA). Implementation status has been categorized in two categories namely, *recommendations that were partially implemented and recommendations that were not implemented.*

### 2.5.1 Overall Implementation of Issued Recommendations

A total of 12 recommendations were issued in this particular audit. Six (6) of them were directed to MoE and Six (6) directed to TPDC and are now being implemented by PURA.

The overall follow-up results on the implementation of issued audit recommendations indicated that out of 12 issued recommendations, 9 (equivalent to 75 %) were partially implemented and 3 (equivalent to 25 %) had not been implemented as shown in **Figure 2.1.**

**Figure 2.1: Overall Implementation of Recommendations by MoE and PURA**



Source: Auditors' analysis of responses from MoE and PURA (2020)

**Table 2.1** below provides a detailed description of all recommendations by indicating the total number of recommendations issued to the specific

audited entities, and the specific number of recommendations which were fully implemented, partially implemented and not implemented.

**Table 2.1: Implementation Status of Audit Recommendations**

Audited Entity	No. of issued recommendations	Level of implementation of recommendations					
		Fully implemented		Partially implemented		Not implemented	
		No.	%	No.	%	No.	%
MoE	6	0	0	4	67	2	33
PURA	6	0	0	5	83	1	17

*Source: Analysis of Implementation status, 2020*

As seen in **Table 2.1**, a total of twelve (12) recommendations were issued to both MoE and PURA. MoE was issued with six (6) recommendations (equivalent 50 % of all recommendations) while PURA was issued with six (6) recommendations (equivalent to 50 % of all issued recommendations). Out of twelve (12) issued recommendations, nine (9) recommendations (equivalent to 75 %) were partially implemented and three (3) recommendations (equivalent to 25 %) were not implemented.

MoE partially implemented four (4) recommendations and two (2) recommendations were not implemented. PURA partially implemented five (5) recommendations and one (1) recommendation was not implemented.

Further analysis of the issued recommendations per each cluster or category was made; the analysis made was based on the recommendations which were not implemented. **Table 2.2** provides clusters of all issued recommendations and **Table 2.3** indicates recommendations that were not implemented for each cluster.

**Table 2.2: Category of Recommendations issued to the Ministry of Energy and Minerals and Petroleum Upstream Regulatory Authority and their Implementation Status**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category		
		Fully implemented	Partially Implemented	Not implemented
Monitoring, evaluation and supervision	3	0	0	3
Decision making	2	0	2	0
Development	4	0	4	0
Planning	3	0	3	0

Total	12	0	9	3
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*Source: Analysis of Implementation Status, 2020*

**Table 2.3: Category of Recommendation Not Implemented**

Category of Recommendation	Total number of issued recommendation	Number of recommendation not implemented	
		Number	%
Monitoring, Evaluation and Supervision	3	3	100

*Source: Analysis of Implementation Status, 2020*

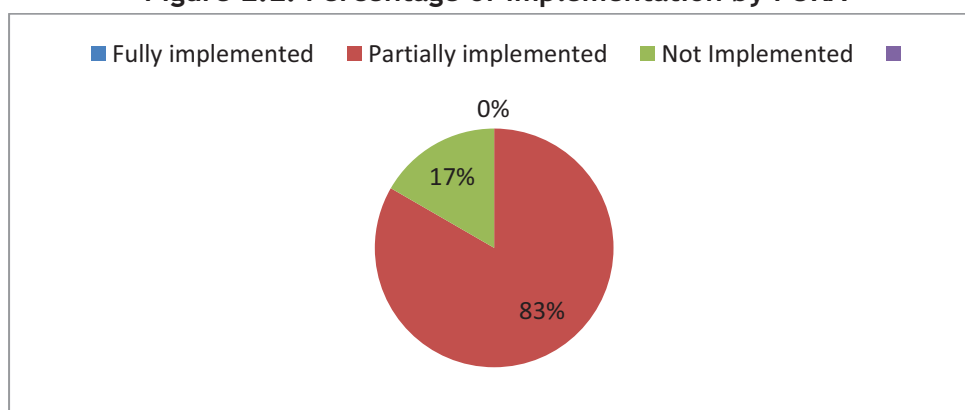
Tables 2.2 and 2.3 show that, a total of three (3) out of twelve (12) issued recommendations (equivalent to 25 %) were not implemented up to the time of follow up. All these recommendations were under the categories of Monitoring, Evaluation and Supervision.

#### 2.5.2 Level of Implementation of Audit Recommendations Issued to the Petroleum Upstream Regulatory Authority (PURA)

The audit team noted that, PURA partially implemented five (5) recommendations (equivalent to 83 %) and one (1) recommendation (equivalent to 17 %) was not implemented.

Figure 2.2 shows the implementation status of recommendations issued to PURA.

**Figure 2.2: Percentage of implementation by PURA**



*Source: Auditors analysis of PURA responses (2020)*

Figure 2.2 reveals that PURA did not successfully implement the issued recommendations as it was noted through the fact that there was no recommendation that was fully implemented.

**i. Recommendation that was not implemented by PURA**

The audit team noted that out of six (6) issued recommendations to PURA, one (1) recommendation was not implemented at all. This recommendation was:

***Recommendation 6: Make ex-post assessment/evaluation of the process to identify areas for further improvement.***

The recommendation called for PURA to make ex-post assessment or evaluation of the process to identify areas for further improvement.

PURA responded that, the Licensing Strategy will be developed by 2022 as provided in the PURA Strategic Plan. This Licensing Strategy is expected to provide scheduling of Licensing rounds, a need and manner for evaluating the performance of conducted licensing rounds and other related aspects. Upon completion of the Licensing Strategy, Ex-post assessment/evaluation will be conducted to evaluate the whole licensing process from the opening of petroleum areas to the executing of petroleum rights awarding agreements as recommended and reports will be produced.

It was further explained that, the delays to implement this recommendation was caused by the fact that, during the transition period, since its establishment, PURA struggled with preparation and processing of corporate internal frame documents as well as the preparation of regulatory operational instruments for administration and management of the upstream petroleum sector. The shortage of requisite human and financial resources, in some instances, had made PURA not to act timely causing delays in preparation of some of the operational guiding documents such as Licensing Strategy, Regulations, Policies, Guidelines, PURA's Organizational Structure, Scheme of Services etc. which in turn slipped their projected timelines.

Based on the above explanation, it is concluded that, this recommendation is not implemented due to the fact that, during the audit, the commitment was to complete the licensing strategy by December 2017, but in the responses, it seems it will be developed by 2022.

## **ii. Recommendations that were partially implemented by PURA**

The audit team noted that out of six (6) issued recommendations to PURA, five (5) recommendations were partially implemented. These recommendations were:

***Recommendation 1: Establish the controls relating to needs analysis and timeframe for issuance of licenses and contracts.***

The recommendation required establishment of need analysis controls including timeframe of issuing licenses and contracts. In the responses, PURA responded that, since the establishment of PURA, no Licensing round for the award of exploration Blocks have been undertaken.

PURA further told the team that, section 33 of the Petroleum Act, 2015 introduced in the current legal regime a process for management of petroleum areas. According to the Act, prior to the opening of areas for petroleum activities, an evaluation of various interests in the areas shall be undertaken and documented in the report. The report shall have major two parts, namely a technical assessment of the potential for petroleum accumulation in the area and a strategic assessment of the social and environmental impact of the petroleum activities on national development, local communities, environment etc. To further strength the legal system governing the conduct of licensing round for awards of exploration Block, the Petroleum (Reconnaissance and Tendering) of 2019 set forth how competitive, transparent and effective bidding rounds for awards of Blocks shall be conducted.

Therefore based on those issues as addressed by the Petroleum Act of 2015, PURA explained that, as part of its preparation of all future Licensing Rounds will undertake the full evaluation of all aspect and secure Cabinet approval before opening up of new areas for awards as provided in the referred Section 33 of the Act.

Regarding the issue of controls, PURA explained that controls on other related aspect of Licensing round for awards of exploration Block, (such as control that ensure the Blocks are not awarded to weak and financially stressed companies with poor safety and environmental standards), have been enshrined in the new Petroleum Act, 2015. The Act has provided for the requirements for the provision of evidence of financial resources and



technical know how to safely undertake exploration activities with due regards to the environment and community protection.

Further, Petroleum (Reconnaissance and Tendering) Regulations and the Petroleum (Corporate Integrity Pledge) Regulations have been prepared to further strength or clarify the controls and provide legal guidance on licensing processes that should be followed during all licensing stages.

After analyzing the submitted responses and interviews, therein, the audit team was satisfied with the efforts made in ensuring the measures to redress the observed shortcomings have been incorporate into the Act and Regulations. However, nothing has been done so far regarding its implementation since PURA was in the process of establisng corporate internal frame documents.

***Recommendation 2: Conduct and document the needs analysis in a proper manner before announcement of the licensing round to facilitate the achievement of objectives***

Interview conducted with PURA officials and review of Activty Map revealed that, a list of exploration areas both active and open areas are shown in Activity Map which is updated on regular basis. However before conducting licensing round, open areas for award are identified basing on the conducted needs analysis assessment for licensing.

Review of responses from PURA revealed that, being a creature of the newly enacted Petroleum Act, 2015, has taken stock of the noted weakness relating to conduct and documentation of assessment before licensing rounds for awards of exploration block. This is because Section 33 of the Petroleum Act, 2015 requires a conduct and documentation of evaluation of need analysis as recommended by the audit. In preparation of all future Licensing Rounds, PURA shall undertake full evaluation of all aspect and secure Cabinet approval before opening up of new areas for petroleum activities. Review of responses further revealed that, the requirement to seek cabinet approval on whether to open an area or not in itself will necessitate proper documentation of the need analysis outcome.

Furthermore, the evaluation report is required to be published in the Government gazette and the website of the Ministry and PURA. This requirement is also expected to enhance both transparency and documentation as recommended.

Since PURA is still on progress to develop the Licensing Strategy by 2022 as provided in the PURA Strategic Plan, PURA officials responded that, this recommendation is taken into consideration as well, therefore, it is expected this document will also be used to ensure the conduct of need analysis and proper documentation before announcement of Licensing rounds as recommended.

Therefore, the audit team is in a view that, this recommendation is partially implemented as it gives more of information on what is expected to be done based on the newly enacted Petroleum Act, 2015 as compared to its implementation.

***Recommendation 3: Make fully implementation and utilization of the Risk Management Framework***

In the implementation status submitted to auditors, PURA explained that the recommendation is not full implemented because they have so far developed a draft of the Risk Register and the Development of PURA's Risk Management Framework is in progress and it is expected to be completed by 2021/2022.

In the interview, PURA told the audit team that, PURA is struggling with preparation and finalization of its corporate internal frame documents (including the Risk Management Framework) as well as the preparation of operational instruments for administration and management. According to PURA interviewed officials, delays in finalization of these documents have been caused by limitations on human and financial resources.

Since there are efforts towards addressing the recommendation, the audit team assessed this recommendation as partially implemented.

***Recommendation 4: Ensure that PMU is composed with multidisciplinary professionals who can guarantee availability of the required technical skills during the processes for awarding contracts and licenses.***

Review of responses from PURA revealed that, since PURA is currently struggling with the shortage of human resources to perform other key activities, an optimal setup for effective utilization of available limited human resource is necessary. However, the needs for multi-disciplinary / professional team as recommended by the Audit was noted and incorporated

within PURA's Organizational structure. It is expected that established a "Contracting and Licensing Unit" will be working in collaboration with the PMU and Directorate of Technical Operations during the Licensing rounds for award of exploration Block. The introduced collaboration in the PURA's organizational structure addresses fully the weaknesses which were observed at TPDC during the audit.

Currently the Contracting and Licensing Unit is headed by the Acting Head who is a lawyer with no subordinate, however the scheme of services of staff who qualify to work on this unit includes the following professionals with Law, Geology, Engineering and Geophysics background. PMU is currently headed by a Procurement expert, while the Directorate of Technical Operations is headed by the Acting Director with Petroleum Engineering background, and this Directorate is currently staffed with two (2) Geophysicists, five (5) Geologists and one (1) Petroleum engineer.

However, PURA officials further explained that, despite taking into consideration the issued recommendation in their Organization Structure, PURA also takes into consideration Regulations 30 through to 34 of the Petroleum (Reconnaissance and Tendering) Regulations, 2019 which provide for the number and professionals that will be involved during bid evaluation and contract negotiation stages of the Block award process. These staff shall be sourced from the Authority, Ministry of Energy, Ministry of Finance and Planning, TPDC, TEIT and elsewhere as deemed fit by the Minister who has been given the appointing powers.

This recommendation was categorized as partially implemented pending to its implementation.

***Recommendation 5: Prepare and maintain procurement strategy/Policy to ensure proper allocation of the resources***

Interview with PURA officials and review of their responses revealed that, the need for proper allocation of resources for effective licensing round execution as recommended by Audit was considered in the developed PURA's Organizational Structure which has established a "Contracting and Licensing Unit" which will be working in collaboration with the PMU and Directorate of Technical Operations during the Licensing rounds for award of exploration Block.

Furthermore, PURA responded that the “Licensing policy” was planned to be prepared and be maintained by 2022 going forward as provided in the PURA’s strategic plan.

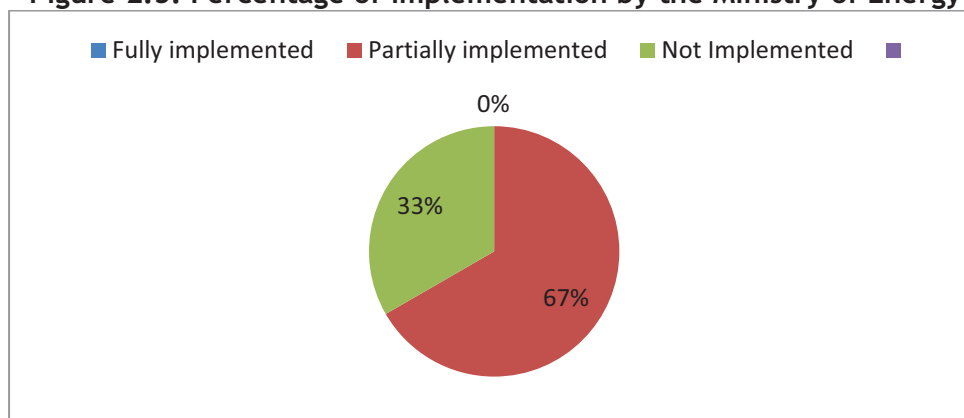
Based on the above explanation, this recommendation is categorized as partially implemented since the implementation of PURA Organization started on July,2020 and it is yet to be fully implemented.

### 2.5.3 Level of Implementation of Audit Recommendations Issued to the Ministry of Energy (MoE)

The audit team noted that, Ministry of Energy partially implemented four (4) recommendations (equivalent to 67 %) and Two (2) recommendations (equivalent to 33 %) were not implemented.

Figure 2.3 shows the implementation status of the recommendations issued to the Ministry of Energy.

**Figure 2.3: Percentage of implementation by the Ministry of Energy**



*Source: Auditors analysis of MoE responses (2020)*

Figure 2.3 reveals that PURA has not successfully implemented the issued recommendations due to the fact that there is no recommendation that is fully implemented.

**(i) Recommendations that were not implemented by MoE**

The audit team noted that out of six (6) issued recommendations to MoE, two (2) recommendations were not implemented at all. These recommendations were:

***Recommendation 2: Evaluate the TPDC's (PURA) objectives as far as licensing process is concerned together with organization strategy to ensure attainment of the intended objectives***

The Ministry of Energy responded that, Pursuant to Section 12 (1) of Petroleum Act, 2015, the licensing issues have been mandated to PURA, currently the process is ongoing to prepare performance agreement between MoE and PURA. However, due to fluctuation of oil prices globally, the licensing round could not be conducted.

The Audit Team categorized this recommendation as not implemented due to the fact that, the recommendation called for the Ministry of Energy to evaluate TPDC/ PURA objectives as far as issues of licensing are concerned. This has not been implemented and it was reported that performance agreement between MoE and PURA is under preparation. Interviews conducted with PURA officials further revealed that, the agreement was expected to be finalized from the year 2017, and would have been customized to suit PURA operations.

***Recommendation 5: Periodically monitor and evaluate corruption prone areas in order to report on the overall performance for the benefit of the people of Tanzania***

The Interviewed officials from the Ministry of Energy and review of submitted responses revealed that, the Ministry has developed the Petroleum (Corporate Integrity Pledge) Regulations, 2019 which identify risk areas prone to corruption, fraud and general malpractice in the oil and gas industry.

The audit expected statistics of monitoring and evaluation reports on areas which are corruption prone. However, it was explained by the interviewed officials from the Ministry of Energy that, the implementation part of the developed regulations is yet to be done. Therefore, this is regarded as not implemented, despite regulations being in place.

**(ii) Recommendations that were partially implemented by MoE**

The audit team noted that out of six (6) issued recommendations to the Ministry of Energy, four (4) recommendations were partially implemented. These recommendations were:

***Recommendation 1: Conduct and document the needs analysis in a proper manner before announcement of a licensing round to facilitate the achievement of objectives***

The Ministry of Energy responded that, Licensing strategy development is still under plan. Review of the Ministry's responses while concluding the audit in 2016 showed that, the Ministry committed to develop a Licensing strategy for awarding of exploration blocks by December, 2017. But it is three years now, and the development is still under plan. Furthermore, in their current responses, the Ministry informed the Audit Team that, the procedures for conducting Needs Analysis before announcement of licensing round are provided for in the Petroleum (Reconnaissance and Tendering) Regulations, 2019. However, there is no license round that has been announced after the development of the Petroleum (Reconnaissance and Tendering) Regulations, 2019.

Since the recommendation called for the conduct of needs analysis before announcement of licensing round and proper documentation which has been well provided in the Petroleum regulation of 2019, the Audit team is of the view that, this recommendation is partially implemented because the established regulations of 2019 were yet to be implemented.

***Recommendation 3: Establish proper timeframe in the activities within the process for issuance of licenses and contracts***

The interviewed officials from the Ministry of Energy responded to have developed Petroleum (Reconnaissance and Tendering) Regulations which were developed and published in 2019. The developed Regulations address procedures including timeframe to be followed during granting of license.

This recommendation was considered to be partially implemented since the responses from the Ministry showed only the development of Regulations which were yet to be implemented.

**Recommendation 4:** *Establish clear and more defined control mechanisms on how corruption, fraud and generally malpractices are to be controlled especially to the major players within the process, covering the whole process of awarding contracts and licenses and strengthen follow-up to ensure its implementation. The Ministry should involve TPDC in such plans (Anti-corruption) for the effective results.*

Review of responses from MoE indicated that, the Ministry has developed the Petroleum (Corporate Integrity Pledge) Regulations, 2019 which address the issues of corruption, fraud and general malpractice in the oil and gas industry.

However, it was not further explained if the regulations clearly defined the control mechanisms; and there were no reports showing how the major players within the process should be controlled from the process of awarding contracts and licenses, despite the recommendation being issued three years back. Therefore, this recommendation is partially implemented.

**Recommendation 6:** *Establish policy which indicates the regular assessment/ evaluation of TPDC's operations and ex-post assessment of licensing process. Regular review of the performance of the procurement entity (TPDC) is an important area*

The Ministry responded to have developed the Petroleum (Reconnaissance and Tendering) Regulations published in 2019 which provide the requirements for regular assessment/ evaluation and ex-post assessment of licensing process. However, the Ministry has not implemented the requirement so far, hence the audit team regarded this recommendation as not being implemented to the fullest.

## **2.6 Specific Audit Conclusion**

Based on the analysis of the implementation status of the previously issued recommendations, the audit team concluded that PURA and the Ministry of Energy did not make enough efforts in implementing the issued recommendations. The Managements of all entities are advised to employ more efforts to ensure that all recommendations are implemented to the fullest.

## **2.7 Specific Audit Recommendations**

### **2.7.1 Recommendations to PURA**

The Petroleum Upstream Regulatory Authority (PURA) should:

- (i) Device a mechanism to ensure follow-up of all previously issued recommendations; and
- (ii) Ensure that all previous issued recommendations are fully implemented.

### **2.7.2 Recommendations to MoE**

The Ministry of Energy (MoE) should ensure all issued recommendations which have been partially or not implemented are fully implemented.



## **CHAPTER THREE**

### **PERFORMANCE AUDIT ON THE COMPLIANCE, MONITORING AND ENFORCEMENT OF POLICIES, LAWS AND REGULATIONS AS REGARDS TO PETROLEUM EXPLORATION ACTIVITIES IN TANZANIA**

#### **3.1 Background of the Audit**

Performance Audit Report on the Monitoring and Enforcement of Policies, Laws and Regulations as Regards to Petroleum Sector was tabled before parliament in April, 2016 and the main audited entity were the Vice President's Office (VPO) and National Environmental Management Council (NEMC).

The overall objective of the audit was to assess whether VPO through Directorate of Environment (DoE) and NEMC have effective processes to ensure compliance with environmental policies, laws and regulations as regards to the petroleum exploration activities in Tanzania, and if such processes are implemented.

#### **3.2 Audit Scope**

The audit focused mainly on monitoring compliance and enforcement of environmental policies, laws, and regulations on petroleum explorations activities in Tanzania. Areas audited include: planning system, implementation, coordination, monitoring and evaluation of environmental enforcement activities in the petroleum sector. It also focused on both off-shore and on-shore activities. The audit was based in Dar es Salaam, Mtwara, Lindi and Kigoma regions.

The audit covered five (5) financial years from 2010/11 up to 2014/15 so as to provide a clear and by then, the current picture of enforcement regarding the compliance with environmental policies, laws and regulations on petroleum explorations activities in Tanzania.

### **3.3 Main Audit Findings**

#### **Lack of Risk-based Inspection Plans**

NEMC has not developed risk-based inspection plans to conduct inspections in a Petroleum exploration. Despite the fact that petroleum exploration projects are very complex especially for the off-shore projects which may have impact on habitat organisms and air pollution, NEMC was expected to have inspection plans to identify specific projects/facilities based on risk factors or with high level of pollution to the environment. However, no inspections plans that were supposed to cover upstream petroleum exploration were mentioned in their respective annual work plans.

#### **Inadequate Database of Regulated Entities**

NEMC only maintained a list of all projects on which environmental impact assessments were conducted and supplied with Environmental Impact Certificates (EIA Certificates) and not a comprehensive data base on which environmental pollution data could be established and prioritized for the risk-based action planning.

#### **Inadequate Inspection Conducted by NEMC**

For the period under audit, NEMC carried out only three (3) inspections out of seventy one (71) registered projects to check whether petroleum exploration companies consistently complied with environmental requirements.

#### **Inadequate Records of Inspection Reports**

NEMC did not have adequate record management processes and system to ensure that information from inspections is captured, processed and used to monitor the compliance with environment requirements in the petroleum sector.

#### **Non Submission of Enforcement Reports by NEMC to VPO**

Contrary to the requirement of EMA 2004, NEMC neither prepared nor submitted these reports as required for the whole period under audit. This makes it difficult for the VPO to underscore the performance of NEMC and

NEMC itself has failed to establish whether its own performance meets its own objectives as set out in its Strategic Plan.

Thus for this reasons, environmental compliance level of the petroleum exploration facilities have not been reported so far.

#### **Insufficient Coordination Between NEMC, VPO, MEM and LGAs**

There was insufficient coordination between NEMC and its stakeholders due to the fact that no reports were submitted to NEMC for the whole period under review. Environmental inspectors and officers from the Local Government Authorities (LGAs) and MEM did not submit environmental reports on the petroleum exploration activities.

#### **Inadequate Sanctions were Imposed**

Due to poor enforcement by NEMC and other stakeholders in the petroleum sector, NEMC had managed to impose only a single sanction in terms of a stop order to a Supply Base Solutions Company located at Mtwara Mikindani. The sanction was demanding reallocation of the company's waste facilities to the alternative location due to complaints which were raised by the Mikindani residents regarding its tendency to polluting the water pond.

#### **Inadequate monitoring of NEMC's Performance by VPO**

VPO lacked a comprehensive plan for monitoring the performance of NEMC on the issues of enforcement of environmental compliance as stipulated in EMA 2004. The audit also found out that the Ministry, despite being the overall overseer of implementation of environmental enforcement, has not developed monitoring systems which could have been used as guidelines for monitoring the performance of NEMC, specifically in the petroleum sector.

### **3.6 Overall Audit Conclusion**

The Vice President's Office - Directorate of Environment (VPO - DoE) and the National Environmental Management Council (NEMC) did not have effective processes to ensure compliance and enforcement with the environmental requirements in the petroleum exploration activities in the country as mandated by the Environmental Management Act, 2004. Generally, NEMC failed to undertake compliance monitoring and enforcement in the petroleum exploration facilities despite the fact that it

is the agent which is fully responsible for undertaking the environmental enforcement activities in the county.

Moreover, VPO via Directorate of Environment failed to monitor NEMC's performance despite the fact that it is required to do the same as per EMA 2004. There were no enforcement strategies for the implementation of the environmental control systems in the petroleum sector. Planning tools including strategic plans and annual work plans did not indicate strategies for environmental compliance and enforcement in petroleum exploration activities.

### **3.7 Results of the Follow-up on the Implementation of the Recommendations**

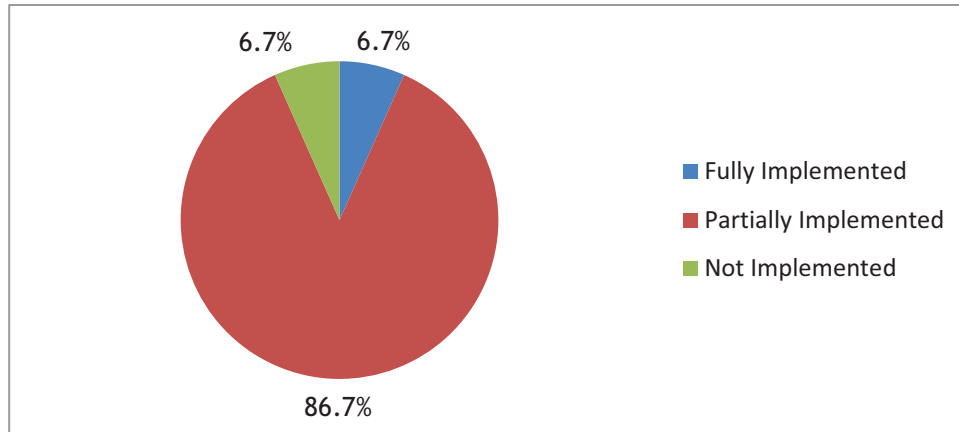
This part presents implementation status of the issued recommendations to Vice President's Office - Directorate of Environment (VPO-DOE) and National Environment Management Council (NEMC). Implementation status has been categorized in three categories namely, *recommendations that were fully, partially or not implemented*.

#### **3.7.1 Overall Implementation of the Issued Recommendations**

A total of fifteen (15) recommendations were issued in this particular audit. Four (4) of them were directed to VPO-DoE and eleven (11) directed to NEMC.

The overall follow-up results on the implementation of the issued audit recommendations indicated that out of fifteen (15) issued recommendations, one (1) recommendation (equivalent to 6.7 %) was fully implemented thirteen (13) recommendations (equivalent to 86.7 %) were partially implemented and one (1) recommendation (equivalent to 6.7 %) had not been implemented at all as shown in **Figure 3.1**.

**Figure 3.1: Level of Implementation of Recommendation by VPO-DOE & NEMC**



*Source: Auditors' analysis of responses from VPO-DOE and NEMC (2020)*

**Table 3.1** provides a detailed description of all recommendations showing the total number of recommendations issued to the specific audited entity, and specific number of recommendations which were fully implemented, partially implemented, as well as those which were not implemented.

**Table 3.1: Implementation status of Audit Recommendations**

Audited Entity	Number of Issued Recommendations	Level of Implementation of Recommendations					
		Fully implemented		Partially implemented		Not implemented	
		Number	%	Number	%	Number	%
VPO-DoE	4	1	25	3	75	0	0
NEMC	11	0	0	10	91	1	9
<b>Total</b>	<b>15</b>	<b>1</b>	<b>6.7</b>	<b>13</b>	<b>86.7</b>	<b>1</b>	<b>6.7</b>

*Source: Auditors Analysis of Responses from Audited Entities, 2020*

As shown in **Table 3.1**, a total of fifteen (15) recommendations were issued to both VPO-DoE and NEMC. VPO-DoE was issued with four (4) recommendations (26.6 % of all recommendations) while NEMC was issued with eleven (11) recommendations equivalent to 73.3 % of all the issued recommendations.

Out of the fifteen (15) issued recommendations, one (1) recommendation (equivalent to 6.7 %) was fully implemented, thirteen (13) recommendations

(equivalent to 86.7%) were partially implemented and one (1) recommendation (equivalent to 6.7%) was not implemented.

VPO-DoE Partially implemented three (3) recommendations and one (1) recommendation was fully implemented. NEMC partially implemented ten (10) recommendations and one (1) recommendation was not implemented.

Further analysis of the issued recommendations per each cluster or category was made; the analysis made was based on the recommendations which were not implemented. **Table 3.2** provides clusters of all issued recommendations and **Table 3.3** indicates recommendations that were not implemented for each cluster.

**Table 3.2: Category of Recommendations issued to Vice President's Office and National Environment Management Council and their Implementation Status**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category		
		Fully implemented	Partially Implemented	Not implemented
Coordination	2	0	2	0
Performance Measurement	6	0	5	1
Development	3	1	2	0
Monitoring and Evaluation	3	0	3	0
Decision Making	1	0	1	0
<b>Total</b>	<b>15</b>	<b>1</b>	<b>13</b>	<b>1</b>

*Source: Analysis of Implementation status, 2020*

**Table 3.3: Category of Recommendation Not Implemented**

Category of Recommendation	Total number of issued recommendations	Number of recommendation not implemented	
		Number	%
Performance Measurement	6	1	16.6

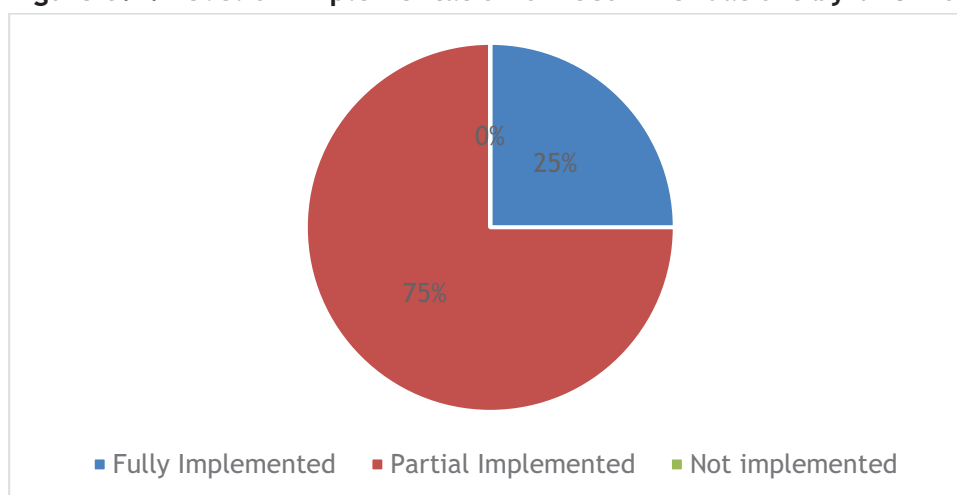
*Source: Analysis of Implementation status, 2020*

**Table 3.3** shows that only one (1) out of fifteen (15) issued recommendations (equivalent to 6.7 %) was not implemented up to the time of this follow-up. This recommendation was under the category of Performance Measurement.

### 3.7.2 Level of Implementation of Audit Recommendations Issued to Vice President's Office - Division of Environment (VPO-DoE)

The audit team noted that VPO-DoE fully implemented one (1) recommendation (equivalent to 25%), partially implemented three (3) recommendations (equivalent to 75 %) as shown in **Figure 3.2**

**Figure 3.2: Level of Implementation of recommendations by VPO-DoE**



*Source: Auditors' analysis of responses from VPO-DoE, 2020*

**Figure 3.2** reveals that VPO did not successfully implement all issued recommendations, however it was only able to fully implement one (1) recommendation out of four (4) issued recommendations.

#### (i) Recommendation that was Fully Implemented by VPO-DoE

The audit team noted that out of four (4) issued recommendations to VPO-DoE, one recommendation was fully implemented. The recommendation was:

***Recommendation 4: Sets up clear policies and enforcement guidelines that will be tailor made specifically to the monitoring of the petroleum sector in the country.***

The team noted that VPO has developed National Environmental Policy (NEP), January, 2020. It has also developed EIA guidelines for oils and gas since October, 2016. Both the draft NEP and guidelines for Oil and Gas were presented for verification. Furthermore, it was noted that these documents were disseminated to LGAs through the Regional Administrative Officers in the respective Regions for their implementation.

Furthermore, it was noted that the Environmental Management Policy of 1997 has identified six (6) key environmental challenges including pollution, which may arise from various sources including petroleum sector. The Environmental management Act of 2004 and its Regulations (Environmental Impact Assessment and Audit Regulations of 2005; and Fees and Charges Regulations of 2008 have put in place the enforcement procedures to be adhered to in implementation of projects, including petroleum projects. EIA guidelines have been prepared and pollution from petroleum projects has been captured as well.

NEMC and Local Government Authorities (LGAs) are mandated to ensure enforcement of pollution issues including those arising from the petroleum sector. Further, the Ministry of Energy (through PURA) is responsible for petroleum issues and is required by law to ensure all petroleum projects are implemented in safe environment by conducting regular monitoring exercises.

#### **(ii) Recommendations that were Partially Implemented**

The audit team noted that out of four (4) recommendations issued to VPO-DoE, three (3) recommendations were partially implemented. These recommendations were:

***Recommendation 1: VPO should ensure that Environmental enforcement activities which are carried out by NEMC, Sector Ministries and LGAs are properly coordinated, harmonized and that all stakeholders establish a firm reporting line of environmental matters***

During the review of responses and evidence presented by VPO to the audit team, it was noted that VPO has prepared the National Environmental Action



Plan (NEAP) for years 2013 to 2018. It was further noted that on 8<sup>th</sup> December, 2015 VPO sent a notification letter with reference number BA 78/276/02 to Sector Ministries and Regional Administrative Secretaries requesting them to submit State of Environment Reports to VPO. On 12<sup>th</sup> February, 2018 and 15<sup>th</sup> November, 2019, reminder letters with reference numbers CB 4/276/01 was sent to the same reminding them to submit annual state of environment reports.

Auditors also noted that there were some responses which were received by VPO on the matter. VPO received a total of eleven (11) responses from the regions of Iringa, Njombe, Singida, Shinyanga, Kagera, Lindi, Mara, Pwani, Mwanza, Simiyu and Kilimanjaro; and only seven (7) responses were from sector Ministries (Health, Livestock, Internal affairs, Water, Land, Education, and Works). However, the reason noted for failure by some Regional Offices and Sector Ministries to respond was lack of follow-up of responses and reports by VPO.

However, NEMC bi-annual reports which were to be submitted to VPO-DoE were not presented to the auditors by VPO-DoE for verification, and therefore it was agreed that the recommendation was partially implemented but satisfactorily.

***Recommendation 2: VPO should ensure that a general environmental status report on petroleum sector in the country is prepared annually. An annual compilation of reports on environmental enforcement roles in the petroleum sector as carried out by other government departments are made available and used for assessing enforcement of performance annually and be basis for further improvements***

Analysis of responses and interviews held with officials at VPO-DoE indicated that EMA, 2004 requires DoE to prepare country's State of the Environment Report which has to be tabled before the National Assembly after every two (2) years. Also, it was noted that State of the Environment Report No.3 (August,2019) contained all environmental issues in the country including oil and gas.

In this regard, Sector Ministries and Local Government Authorities were requested through letters to submit to DoE information related to environmental issues from the respective sectors (i.e. Annual State of Environment Reports). It was also noted that, the States of Environment

Reports are made available for public consumption through hard copies or soft copies uploaded in the internet.

On the other hand, According to Environment Management Act 2004, NEMC and Environment Officers in the Local Government Authorities are mandated to carry out enforcement and compliance on environmental issues including petroleum sector in the country. As mentioned in the above sections, the implementation reports were required to be submitted to DoE for compilation.

Upon review of evidence presented by VPO, the audit team noted that DoE had prepared and established a State of the Environment Report No. 3 dated August, 2019. The report covered all general environmental issues, however, there were no petroleum sector specific issues. Also VPO-DoE wrote to Sector Ministries via letter dated 15<sup>th</sup> November, 2019 with reference number CB 4/276/01/A/98 requesting them to prepare their respective annual environmental reports.

The review of reports from eleven (11) LGAs and seven (7) Sector Ministries, revealed that, issues regarding petroleum sector were not addressed in the reports but rather general environmental issues.

Despite the fact that DoE wrote to the Regions and Sector Ministries, their responses with regards to reporting requirements were low. This was attributed to lack of close follow-up by VPO-DoE. Therefore, this recommendation was considered to be partially implemented but not satisfactory.

***Recommendation 3: VPO-DOE should monitor NEMC's performance on the enforcement of the implementation of environmental control systems in the Petroleum sector by regularly reviewing its performance as well as improving NEMC's capacity in meeting its overall enforcement objectives***

Evidence presented indicated that EMA did put in place environmental control mechanisms through Environmental Impact Assessment (EIA), Environmental Audit and Strategic Environmental Assessment (SEA). Also Division of Environment (DoE) approves these reports once the reports have been prepared by proponents.

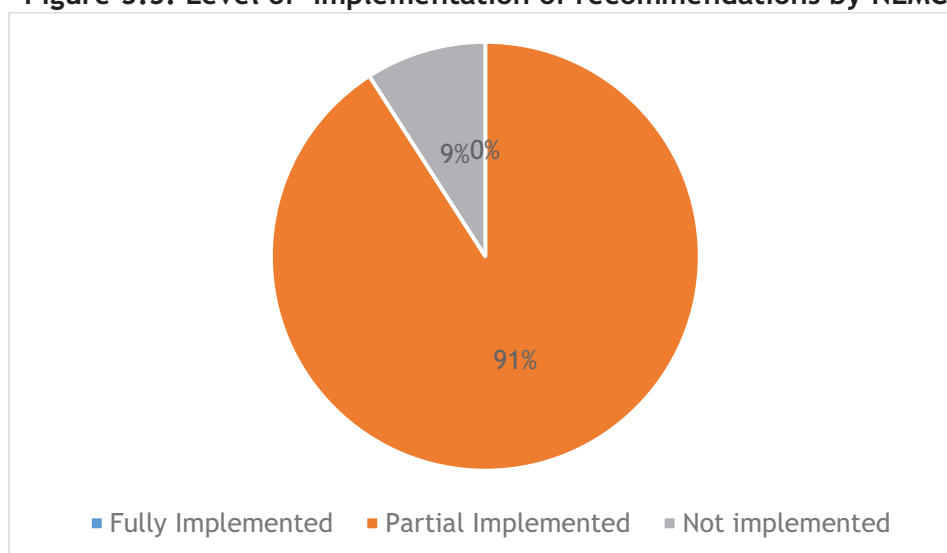
The audit team noted that, October, 2016 VPO has been able to develop EIA guidelines in oil and gas. However, it did not demonstrate how they

monitor NEMC's performance with regards to its enforcement roles in the petroleum sector (e.g. through monitoring plans, Key Performance Indicators or monitoring reports). Thus, the recommendation was marked as partially implemented but not satisfactory.

### 3.7.3 Level of Implementation of Audit Recommendations Issued to National Environment Management Council (NEMC)

The audit team noted that NEMC partially implemented ten (10) recommendations (equivalent to 91 %) and one (1) recommendation (equivalent to 9 %) was not implemented as presented in **Figure 3.3**.

**Figure 3.3: Level of Implementation of recommendations by NEMC**



*Source: Auditors analysis of NEMC responses, 2020*

**Figure 3.3** shows that NEMC did not implement one (1) issued recommendation out of eleven (11) recommendations. However, there was no recommendation that was fully implemented since all remaining recommendations were partially implemented.

#### (i) Recommendations that were Partially Implemented

The audit team noted that out of eleven (11) recommendations issued to NEMC, ten (10) recommendations were partially implemented. These recommendations are as detailed below:

***Recommendation 1: NEMC should undertake proper analysis to establish performance profiles of those exploration projects whose enforcement is vital with the view of establishing the compliance level of each of the exploration projects and use such information as the basis for planning enforcement***

The evidence presented to the Audit Team and interviews held with NEMC officials indicated that EIA/EA database is currently in place. EIA/EA online system of projects registration, screening and further steps of certification is also in place (on trial at the moment with the Eastern Zone Office). The system is hosted by e - government (eGA) and uses government url: eia.nemc.or.tz.

The system will enable NEMC to track all registered projects through normal environmental audits but also through submission of environmental management plans and annual environmental compliance reports through the EIA/EA system database. As such NEMC will be able to assess performance of each registered projects with regards to environmental compliance and subsequently be able to develop performance profiles for each categories of registered projects.

However, the audit team noted that responses show that NEMC has developed a database of oil and gas which however is in excel spreadsheet format. But, this database could not be used to establish compliance level of exploration projects as the recommendation directed. This is because the database only bears the details of the projects such as proponent name, cost of projects and EIA reports. Furthermore, the interviews with officials responsible with systems database and review of NEMC's response indicated that oil and gas online system/correspondences with e-GA on preparation of system requirements were not in place at the time of the verification.

Accordingly the recommendation is considered as partially implemented but not satisfactorily.

***Recommendation 2: NEMC should establish performance standards or parameters for enforcement activities including carrying out risk assessment, developing enforcement manuals, guidelines, and setting timeframes for each enforcement activity in the petroleum sector***

The recommendation required, among others, NEMC to establish clear performance standard parameters for enforcement activities by carrying out risk assessment and establishing enforcement tools.

Interviews held with NEMC officials suggested that tolerance limits for industrial effluents discharged into land and receiving water bodies – Oil and gas industry was in place since 2019 (though in draft stage). In 2018 Environmental Impact Assessment Guidelines was established. It was further established that, since 2016, Environmental Inspection and Investigation Manual; Criteria for Risk Compliance Monitoring and Inspection; and NEMC's Risk register were in place as well.

However, evidence presented before the Audit Team indicated that, although guidelines were in place, these guidelines did not address the petroleum sector. On the other hand, Tanzania Bureau of Standards issued standards on environment for petroleum sector, but were still in draft stage and have not been approved to date. Also there was no specific environmental risk register for petroleum sector.

As such the Audit team marked this recommendation as partially implemented but not satisfactorily.

***Recommendation 3: NEMC should institute systems to ensure consistent enforcement of Environmental control systems by carrying out routine, timely and prompt inspections and enforcement activities rather than depending on working on ad-hoc based on reported incidents***

The recommendation required NEMC to carry out systematic and consistent inspections and enforcement activities rather than ad-hoc inspections. The interview with NEMC officials suggested that NEMC has developed National Environmental Inspection and Investigation Manual of 2016; and Criteria for Risk Compliance Monitoring of 2016. Also it has conducted Joint Compliance Audit on Maurel and Prom at Mnazi Bay. It is also implementing Medium Term Expenditure Framework (MTEF) for the Financial Years 2020 /2021 to 2022/23. These would be used as tools for enforcement activities in environmental compliance including the petroleum sector.

Evidence presented to the Audit team showed that a National Environment Investigation manual as well as criteria for risk compliance monitoring and inspection are in place. However, NEMC did not demonstrate how routine and timely inspections and enforcement are conducted. The current

developed MTEF of 2020/2021 to 2022/23 is also out of the implementation timeframe set out during the audit period.

Therefore, accordingly this recommendation is considered partially implemented but satisfactory.

***Recommendation 4: Establish inspection performance information system of which most of its data will be sourced from NEMC petroleum environmental database (Central Environmental Information System)***

The recommendation required, among other things, NEMC to establish an inspection performance information system from which most of the environmental compliance data would be sourced.

Interviews held with NEMC officials indicated that NEMC has established EIA/EA online system of projects registration, screening and further steps of certification. The system is hosted by eGA.

However, review of evidence presented to the Audit Team showed that the established system seemed to be under construction as it does not contain any data and the link is not active. The responses reflected project registration and screening but not inspection performance information from the petroleum sector. Furthermore, correspondences between NEMC and eGA are showing status of the system could not be verified.

Accordingly, based on the adequacy of evidence presented to the Audit Team for verification, this recommendation is considered as partially implemented but not satisfactorily.

***Recommendation 5: NEMC should establish standard inspection/auditing template which can be used nationwide tailored for auditing the petroleum sector***

Review of documents and interviews with NEMC officials indicated that NEMC has developed guideline for Environmental Inspection and Investigation Manual, and it was in place since 2016. It has also issued Site-Specific Inspection Procedures for Environmental Inspectors since 2008. Environmental Inspection and Investigation Manual was issued together with Inspection Forms which was supported by Compliance Agreement Form.

Evidence presented to Audit team indicated that standard guidelines for environment inspection and auditing were in place. However, the guidelines are not specific to petroleum sector. On the other hand, it was noted that VPO developed an EIA guideline for oil and gas in October 2016, but it is still in draft stage.

Accordingly, based on the evidence presented to the Audit Team, this recommendation was marked as partially implemented but satisfactorily only to the extent that the developed guidelines should satisfactorily address environmental issues in petroleum sector.

***Recommendation 6: NEMC should ensure that the sanctions imposed reflect the cost of actual destructions and restoration rather than just estimation of the destruction made by the defaulters***

NEMC responded that the implementation of this recommendation depends on the nature of the violation. Sanctions are executed in accordance with Environmental Management Act, 2004 as amended by Written Laws (Miscellaneous Amendments) (No.3) of 2016 and its subsequent Regulations. Also Section 151 of the Environmental Management Act, 2004 gives power to Council to issue Restoration Orders to any person in respect to any matter related to the environmental management.

Evidence presented before the Audit Team indicated that NEMC's responses did not show or demonstrate what has been done with regards to the extent to which NEMC ensure sanctions are reflective of actual cost of destructions and restoration other than the citing provisions of the environmental legislation.

Auditors were interested in what was actually done to implement the issued recommendations based on cited Act and Regulation. As such, further clarifications and evidence regarding implementation part could not be established by the evidence provided. Therefore, this recommendation is considered as partially implemented but not satisfactorily.

***Recommendation 7: NEMC should make sure that information from MoE and TPDC regarding non-compliance of environmental standards are received timely and acted upon accordingly***

In responding to this recommendation, Review of NEMC's response suggested that NEMC was receiving information on compliance to environmental

standards from petroleum companies with regard to flaring updates - (SongoSongo, PanAfrican Energy Tanzania Limited); updates on Environmental and Social Management Plans, Monitoring Plans, Waste Management Plan and Emergence Preparedness and Response Plan for Songo Songo wells (work overs notification) - (SongoSongo, PanAfrican Energy Tanzania Limited); and updates on expansion capacity for Ubungo Power Plant (Songas Limited).

Based on the interviews with NEMC officials and review of evidence submitted to the Audit Team, it was noted that NEMC has not established the mechanism of receiving information from MoE and TPDC. Correspondences between NEMC, MoE and TPDC regarding compliance in the petroleum sector were not evident, hence they could not be verified.

However, NEMC has been partially receiving compliance reports from few petroleum companies as mentioned above when compared to its database of petroleum companies operating in Tanzania. Therefore, this recommendation is considered as not implemented.

***Recommendation 8: Initiate the review process of all out-dated laws and regulations to enable effective enforcement of environmental standards in the petroleum sector***

NEMC responded that initiation of review process of the out-dated laws/regulations with respect to Petroleum Sector is strictly done by the Vice-President's Office - Division of Environment (VPO-DoE) and the Ministry of Energy (MoE). Since NEMC is an implementing entity, it has been involved in the review of Petroleum Act of 2015; National Environment Policy of 1997 (still in review process); and The Environmental Management (Hazardous Waste Control and Management) Regulations, 2019.

Evidence submitted and interviews held with NEMC officials indicated that NEMC did not demonstrate evidence of environmental review process if it was really done by VPO-DoE e.g. roles and functions in formulation of laws and regulations. This would also go hand in hand with the determination whether NEMC was actually involved in the review of the laws mentioned in the responses. Due to lack of this evidence, but based on the fact that the National Environmental Policy draft was presented, this recommendation is marked as partially implemented but not satisfactorily.



***Recommendation 9: NEMC to ensure that Directorate of Environmental Impact Assessment (DEIA) establish a data base system which will be updating the Directorate of Environmental Compliance and Enforcement (DECE) with the information about petroleum exploration companies that have undertaken EIA or EA or exploration companies without EIA certificate***

NEMC responded that EIA/EA database was in place and EIA/EA online system of projects' registration, screening and further steps of certification was established (currently on trial at the moment with the Eastern Zonal Office).

Upon interviews and review of evidence presented by NEMC to the Audit Team, it was noted that EIA/EA database was not automated and was still in excel-sheet and not systematically integrated between DEIA and DECE. Furthermore, EIA/EA system (online system) was not active as it has no details as regards to petroleum sector projects or information.

The Audit Team insisted that NEMC needed to demonstrate how the system is integrated between DEIA and DECE with regards to petroleum companies which have undertaken EIA or EA or those without the same. Due to lack of evidence of such automation this recommendation was marked as partially implemented but not satisfactorily.

***Recommendation 10: NEMC ensure that it establishes and approves monitoring and evaluation indicators for enforcement of environmental control systems in the petroleum sector, periodic monitoring and evaluation of enforcement activities is done accordingly and the results are used as the basis for further improvements***

NEMC was of the view that it has established tolerance limits/parameters for industrial effluents discharged into land and receiving water bodies including oil and gas industry. Guideline on Environmental Monitoring for Environmental Inspectors was also in place. NEMC has established Site Specific Inspection Procedures for Environmental Inspectors as well as Performance Indicators for Environmental Compliance and Enforcement.

Review of submitted evidence and interviews held with NEMC indicated that parameters and indicators issued by TBS are still in draft stage. The above parameters set tolerance limits for industrial effluents discharged into land and receiving water bodies for oil and gas industry. However, there was no evidence on the use of monitoring results to measure performance was

presented to the Audit Team, such as follow-up reports or monitoring reports.

Based on the adequacy of evidence presented to the Audit Team, it is suggested that this recommendation is partially implemented but not satisfactorily.

***Recommendation 11: All reports resulting from environmental enforcement activities from zonal offices, LGAs or other sector ministries as received are properly scrutinized to determine deficiency and provide feedback to the concerned officials for corrective actions and further improvements***

Responding to this recommendation NEMC said that reports from environmental enforcement activities are received from zonal offices and that there was good coordination system of providing feedback between the HQ (Planning Unit) and Zonal Offices.

Also, Task Force to identify ways of strengthening working relationships between the Environmental Management Officers in the LGAs and VPO/NEMC Officers/Inspectors for efficient implementation of EMA, 2004 and its Regulations was held in Morogoro on September 10-15, 2019.

Whilst reviewing the evidence presented to support NEMC's arguments, the Audit Team noted that NEMC produced scrutiny reports to be verified on sample basis either in quarterly, semi-annual or annual basis. It also has been able to form a task force to identify ways of strengthening working relations between NEMC, LGA and VPO.

Due to these efforts, although the reports were not entirely addressing the petroleum sector, this recommendation is considered as satisfactorily partially implemented.

### **3.8 Specific Audit Conclusion**

Based on the analysis of the implementation status of the previously issued recommendations, the audit concluded that VPO-DoE and NEMC did not make adequate efforts in implementing the issued recommendations. The Managements of all entities are advised to employ more efforts to ensure that all recommendations are implemented to the fullest.

### **3.9 Specific Audit Recommendations**

#### **3.9.1 Recommendations to Vice President's Office - Directorate of Environment (VPO-DoE)**

1. Ensure all issued recommendations are fully implemented; and
2. Follow-up of Implementation Issued to NEMC and monitor their Implementation Status from time to time.

#### **3.9.2 Recommendations to National Environment Management Council (NEMC)**

The National Environment Management Council (NEMC) should:

Devise a workable mechanism for follow-up of all previously issued recommendations to ensure that all previously issued recommendations are fully implemented.

## **CHAPTER FOUR**

### **PERFORMANCE AUDIT ON IMPLEMENTATION OF LOCAL CONTENT PROVISIONS AND VERIFICATION OF RECOVERABLE COST IN THE PRODUCTION SHARING AGREEMENTS**

#### **4.1 Background of the Audit**

Performance Audit Report on Implementation of Local Content Provisions and Verification of Recoverable Cost in the Production Sharing Agreements was tabled before Parliament in April, 2016 and the main audited entity was the Ministry of Energy (MoE) and Tanzania Petroleum Development Corporation (TPDC).

The objective of the audit was to assess whether the Ministry of Energy and Minerals (MEM) and the Tanzania Petroleum Development Corporation (TPDC) ensures that the implementation of Local Content provisions in the Production Sharing Agreements (PSAs) and verification of recoverable costs are adequately done. Currently Function of TPDC regarding Local Contents and verification of cost recovery is executed by Petroleum Upstream Regulatory Authority (PURA).

#### **4.2 Audit Scope**

The audit focused on the local content provisions covering training of Tanzanian experts in the oil and gas sector; procurement of Tanzanian local goods and services; and provision of employment to Tanzanians in the oil and gas sector. The audit also covered verification of the recoverable costs incurred by the IOCs during the exploration of oil and gas.

#### **4.3 Main Audit Findings**

**Key findings related to the implementation of local content provisions were as follows:**

- (i) The Government did not established a sufficient legal, regulatory and institutional framework to adequately manage the implementation of local content provisions in the PSAs by IOCs;

- (ii) TPDC and MEM did not put in place concrete measures to ensure that IOCs adequately implement the Local Content provisions in the PSAs;
- (iii) MEM did not take action to facilitate TPDC to actively participate in the oil and gas business;
- (iv) Provisions to ensure employment of Tanzanians in the oil and gas industry as required by the PSAs were not adequately implemented due to lack of assessments to identify opportunities of employment of Tanzanians in the oil and gas industry;
- (v) Lack of strategic plans to ensure employment of Tanzanians by the IOCs and their sub-contractors;
- (vi) Lack of guidelines and proper procedures for employment of foreign workers;
- (vii) Provisions for procurement of local goods and services were not adequately implemented by IOCs. TPDC did not develop tender procedures governed by Tanzanian laws that were to be used by IOCs as required in the PSAs; this led to the IOCs not advertising most of their tenders. As a result, the IOCs denied the local companies opportunities to apply for different tenders from the IOCs;
- (viii) There were no actions taken by MEM to develop local companies and build their capacities so as to be able to meet the requirements which were specifically spelt out in the PSAs for the oil and gas industry;
- (ix) MEM failed to prepare guidelines and procedure to guide the use of training fees from IOCs. Lastly, there was lack of coordination and communication strategy between MEM, TPDC and other stakeholders on Local Content issues in oil and gas industry; and
- (x) TPDC did not conduct monitoring and evaluation of the implementation of local content provisions by IOCs. MEM had a monitoring and evaluation strategy, but the key performance indicators in the strategy did not include local content issues.

### **Key findings related to the verification of recoverable costs**

- (i) There were large sums of recoverable costs which had not been verified by the TPDC. About US\$ 1.5 billion were unverified recoverable costs for the year 2011 and 2012. Verification of the amount of recoverable cost was not conducted by the end of 2016, the total unverified amount was US\$ 2.6 billion by then;
- (ii) Verification of recoverable cost was based on the provisions in the PSAs. The Government was yet to establish a policy, regulations, and guidelines which supported and enforced the verification of recoverable costs;
- (iii) The Directorate of Internal Audit at TPDC was responsible for verification of recoverable cost, in addition to their usual responsibility of conducting the internal audit on control systems and expenditures of TPDC activities. TPDC's scheme of service of 2013 did not mention about verification of recoverable costs nor did it put the activity of verification of recoverable costs under the Directorate of Internal Audit or under any other Directorate at TPDC; and
- (iv) TPDC did not set clear measures to ensure that verification of recoverable costs incurred by IOCs were done on time as per the PSAs requirements. There was no M&E framework for reviewing and improving the activity of verification of recoverable costs at the TPDC. Also MEM did not conduct any M&E on the activity of verification of recoverable costs as performed by TPDC.

### **4.4 Overall Audit Conclusion**

Based on the audit findings, TPDC and MEM have not adequately enforced the implementation of local content provisions in the PSAs. This is likely to prevent Tanzanian citizens from participating actively and benefit from the opportunities in the oil and gas industry such as employment and provision of goods and services to the industry.

TPDC does not adequately conduct the verification of recoverable costs. verification of recoverable costs is meant to maximize benefits to the government that are expected to be accrued from the profit of the oil and gas after deducting the investments made by the IOCs during exploration. The weaknesses in the verification process are likely to make the IOCs earn

more money than they deserve since their cost of investments during exploration is not properly verified.

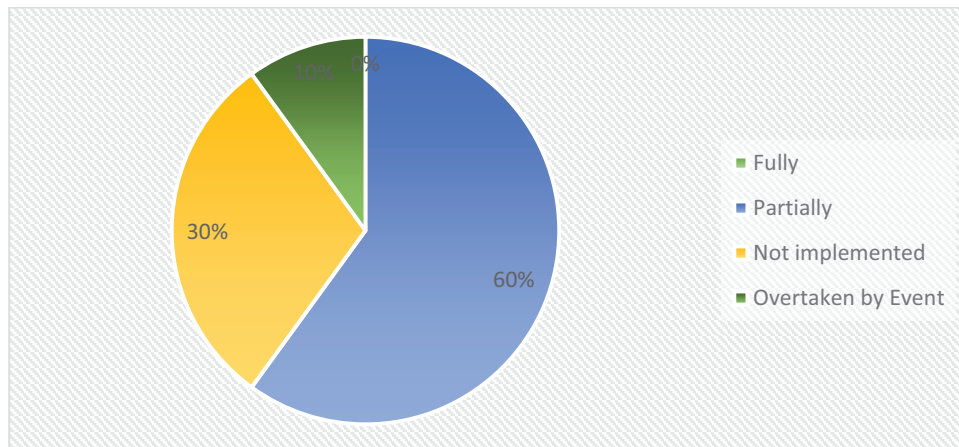
#### 4.5 Results of the Follow-up on the Implementation of the Issued Audit Recommendations

##### 4.5.1 Overall Implementation of Issued Recommendations

A total of ten (10) recommendations were issued in this particular audit. Three (3) of them were directed to MoE and seven (7) directed to TPDC and are now being implemented by PURA .

The overall follow-up results indicated that, out of ten (10) issued recommendations, six (6) (equivalent to 60 %) were partially implemented, three (3) (equivalent to 30 %) were not implemented, one (1) (equivalent to 10 %) was overtaken by event and none of recommendation was fully implemented as shown in **Figure 4.1**.

**Figure 4.1: Percentage of Implementation of Recommendation by ME and PURA**



*Source: Auditors analysis of PURA responses (2020)*

**Table 4.1** below provides a detailed description of all recommendations by indicating the total number of recommendations issued to specific audited entity, and the specific number of recommendations which were fully implemented, partially implemented, not implemented as well as those which were overtaken by event.

**Table 4.1: Implementation status of Audit Recommendations**

Entity	No. of Recommendations	Level of Implementation of Recommendations							
		Fully		Partially		Not implemented		Overtaken by event	
		No.	%	No.	%	No.	%	No.	%
MoE	3	0	0	1	33	1	33	1	33
PURA	7	0	0	5	71	2	29	0	0
<b>Total</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>60</b>	<b>3</b>	<b>30</b>	<b>1</b>	<b>10</b>

*Source: Auditors analysis of ME & PURA responses (2020)*

As seen in Table 4.1, a total of ten (10) recommendations were issued to both MoE and PURA. MoE was issued with three (3) recommendations (equivalent to 30 % of all recommendations) while PURA was issued with seven (7) recommendations equivalent to 70 % of all issued recommendations. Out of the ten (10) issued recommendations, six (6) recommendations (equivalent to 60 %) were partially implemented, three (3) (equivalent to 30 %) were not implemented, one (1) (equivalent to 10 %) was overtaken by event and none of recommendation was fully implemented.

Furthermore, MoE implemented one (1) recommendation partially, one (1) recommendation was not implemented at all, one (1) was overtaken by event and none was fully implemented. PURA partially implemented six (6) recommendations, three (3) recommendations were not implemented and none was fully implemented.

Further analysis of the issued recommendations per each cluster or category was made; the analysis made was based on the recommendations which were not implemented. **Table 4.2** provides clusters of all issued recommendations and **Table 4.3** indicates the recommendations that were not implemented for each cluster.



**Table 4.2: Category of Recommendations issued to the MoE and PURA and their Implementation Status.**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category			Overtaken by Event
		Fully implemented	Partially Implemented	Not implemented	
Monitoring, evaluation and supervision	1	0	0	1	0
Decision making	4	0	2	1	1
Development	5	0	4	1	0
<b>Total</b>	<b>10</b>	<b>0</b>	<b>6</b>	<b>3</b>	<b>1</b>

*Source: Analysis of Implementation status, 2020*

**Table 4.3: Category of Recommendations Not Implemented**

Category of Recommendations	Total number of issued recommendations	Number of recommendations not implemented
Monitoring, Evaluation and Supervision	1	1
Decision Making	4	1
Development	5	1
<b>Total</b>	<b>10</b>	<b>3 (30%)</b>

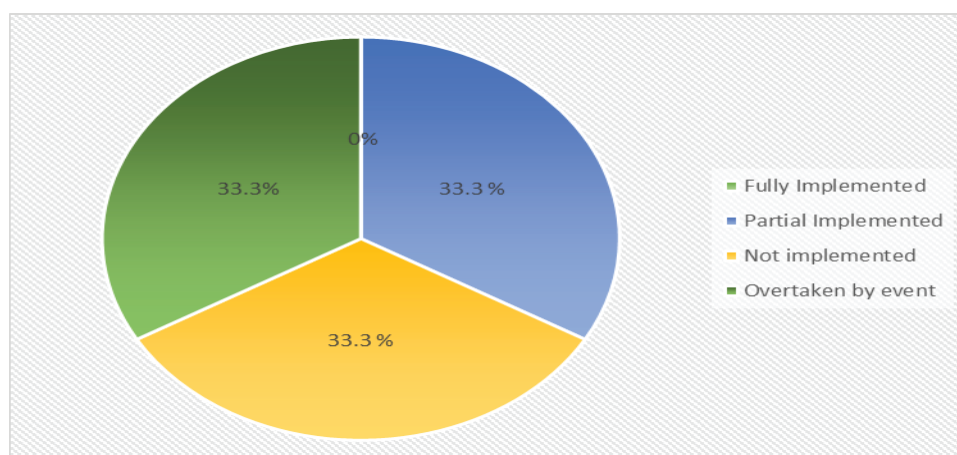
*Source: Analysis of Implementation status, 2020*

Tables 4.2 and 4.3 show that, a total of three (3) out of ten (10) issued recommendations (equivalent to 30 %) were not implemented up to the time of follow up. These recommendations were under categories of monitoring and evaluation, decision making and development.

#### **4.5.2 Level of Implementation of Audit Recommendations Issued to the MoE**

The audit team noted that out of the three (3) issued recommendations, MoE partially implemented one (1) recommendation (equivalent to 33.3 %), one (1) recommendation was overtaken by event (equivalent to 33.3 %) and one (1) recommendation (equivalent to 33.3 %) was not implemented at all.

**Figure 4.2: Percentage of Implementation of Recommendation by MoE**



*Source: Auditors analysis of ME responses (2020)*

**Figure 4.2** reveals that MoE did not successfully implement the issued recommendations as indicated by the fact that none of the issued recommendations was fully implemented as explained below:

**i. Recommendation that was not implemented by MoE**

The audit team noted that out of three (3) issued recommendations to MoE, one recommendation was not implemented. This recommendation was:

**Recommendation 1:** In collaboration with the Ministry of Finance and Planning, MoE should set strategic measures to raise capital for TPDC to participate in the oil and gas business in the commercial production stage.

Review of Responses from the MoE, it was revealed that, Revenue Management Act of 2015 provided basis and strategies on how oil and natural gas activities should be managed. The provision stipulates that, funds equivalent to 0.1 % of the GDP ring-fenced annually into the Revenue Saving Account of the Fund for National Oil Company strategic investment to be spent through the normal budgetary process. The Ministry further explained that, they submitted a letter to the Ministry of Finance and Planning to remind them to implement section 17 (1) (e) (iii) of the Act.

Furthermore, the Ministry responded that, the preparation of Cabinet paper and Government Negotiation is ongoing to raise capital of TPDC so as to participate effectively in the oil and gas business. Also, MoE responded that, since 2015 TPDC is fully allowed to participate and access various source of capital to undertake effectively the business.

We concluded that, this recommendation is not implemented due to the fact that, at the time recommendation was issued in 2016, Oil and Gas Revenue Management Act was in place. Also, it is more than three years since this recommendation was issued, still the the preparation of Cabinet paper and Government negotiation is ongoing, hence there are no established strategies by MoE to ensure the said legal framework is implemented.

Although, the Ministry of Energy has responded to communicate with the Ministry of Finance and Planning, but there is no evidence provided to auditors to prove that communication was made and there was no follow up on the matters regarding implementation of section 17 of Oil & Gas Revenue Management Act 2015.

**ii. Recommendation that was Partially Implemented by MoE**

The audit team noted that out of three (3) issued recommendations to MoE, one (1) recommendation was partially implemented. This recommendation was:

***Recommendation 1:*** Formulate relevant guidelines and procedures for the use of training fee received from International Oil Companies (IOCs), so as to ensure the funds are used to build the capacity of more experts in the oil and gas sector.

Review of responses from MoE noted that, draft Regulations of Petroleum (Upstream Fees and Bonuses) is in place waiting for internal approval prior stakeholder consultation. The draft Regulation demonstrates on how training fees and bonuses will be allocated among key stakeholders in the oil and gas industry.

We concluded that, since it is still a draft, this recommendation is partially and unsatisfactorily implemented, given the fact that it is four years since this recommendation was issued.

### iii. Recommendation that was overtaken by Event at MoE

The audit team noted that out of three (3) issued recommendations to MoE, one (1) recommendation was overtaken by event. The recommendation was:

**Recommendation 1:** Fast-track the process of formulating the local content policy; facilitate enactment of Local Content Regulations; and regularly issue guideline which will guide the implementation of local content issues in the oil and gas industry.

The recommendation asked MoE to develop Local Content policy and streamline the preparation of Local Content Regulations and Guidelines. Review of responses from MoE noted that, MoE had already developed the National Energy Policy, 2015. Section 3.3 of the Policy together with other regulations provide basis on how nationals will participate in the oil and natural gas sector.

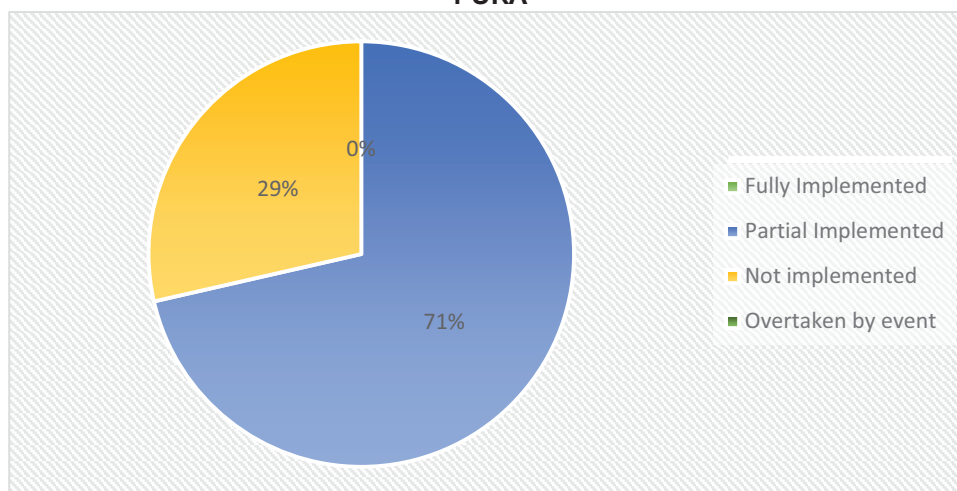
Review of the National Energy Policy, 2015 showed that, Local Content in Petroleum and Gas Sub Sector is one of the three (3) policy issues and statements. Through this policy, MoE managed to enacted Petroleum Act which included Local Contents issues, also there is Local Content Regulation 2017. Through this Act and Regulation, currently, PURA is preparing draft guidelines for Local Content.

Therefore, based on the above explanations it is concluded that, this recommendation is overtaken by event.

#### 4.5.3 Level of Implementation of Audit Recommendation issued to PURA

The audit team noted that, PURA partially implemented five (5) recommendations (equivalent to 71 %) and two (2) recommendations (equivalent to 29 %) were not implemented.

**Figure 4.3: Percentage of Implementation of Recommendations by PURA**



*Source: Auditors analysis of PURA responses (2020)*

**Figure 4.3** reveals that PURA did not successfully implement the issued recommendations because none of the recommendation was fully implemented by MoE.

**(i) Recommendations that were not implemented by PURA**

The audit team noted that out of seven (7) recommendations issued to PURA, two (2) recommendations were not implemented. These recommendations were:

***Recommendation 1: Develop guidelines which will be used by the authority to facilitate and guide the exercise of verification of recoverable costs.***

Recommendation required the authority to prepare guidelines that will guide verification of cost recovery on Profit Sharing Agreement (PSA). Review of Responses from PURA showed that, Guidelines for Petroleum Cost Recovery Accounting will be prepared by 2020/21. In the interviews, PURA told the audit team that, delays to implement the recommendation were due to the fact that the approved organizational structure of economic analysis and performance monitoring section has not been implemented. However, the recruitment process was undergoing to facilitate its implementation. Therefore, in absence of the head section limited the preparation of guidelines for cost recovery accounting.

Furthermore, PURA revealed that, the Petroleum (Cost Recovery Accounting) Regulations, 2019 that was published in December, 2019, is used in the exercise of verification of recoverable costs.

We concluded that, this recommendation not implemented since the guidelines are not in place.

***Recommendation 2: Set up Monitoring and Evaluation framework which will monitor and evaluate the activity of implementation of local content provision in the PSAs and verification of recoverable costs, for the activities as performed by the Ministry itself, PURA and TPDC.***

The recommendation asked PURA to prepare Monitoring and Evaluation framework that will facilitate monitoring of PSAs and verification of recoverable costs. Review of Responses from PURA showed that, the Petroleum (Cost Recovery Accounting) Regulations, 2019 and the Petroleum (Local Content) Regulations, 2017 are in place to provide guidance for monitoring and evaluation during implementation of local content.

However, the audit team reviewed a reports of monitoring and evaluation; and minutes on the implementation of local content by IOC's; it was noted that, based on the requirements of the issued recommendations, the M&E framework was not in place. The reference made PURA i.e. Petroleum (Cost Recovery Accounting) Regulations, 2019 and the Petroleum (Local Content) Regulations, 2017 are at higher level which need to be defined for proper implementation.

Therefore, we concluded that, this recommendation is not implemented because the M&E report produced did not indicate key performance Indicators (KPI) and extent of achieving identified indicators.

***(ii) Recommendation that was Partially implemented by PURA***

The audit team noted that out of seven (7) issued recommendations to PURA, five (5) recommendations were partially implemented. These recommendations were:

***Recommendation 1: Develop local content guidelines to facilitate the implementation of local content provisions in the Production Sharing Agreements (PSAs).***

Review of Responses from PURA revealed that, Local Content Regulations were published on Government Gazette No. 197 on 5th May, 2017. Draft of Local Content Guidelines have been completed and deliberated through stakeholders' consultation meeting which was held in September 2020.

In the interviews with officials from PURA, it was revealed that internal stakeholders' consultation was held as scheduled, waiting for internal approval prior external stakeholders' consultation. Furthermore, interviewed officials explained that, delay in preparation of guideline was attributed to delays in approval of PURA organization structure, the approved structure started to be implemented on July, 2020.

We concluded that, the issued recommendation is partially addressed because there were draft Local Content Guidelines waiting for finalization. Furthermore, the National Energy Policy, 2015, Petroleum Act of 2015, Local content Regulations 2017 are also in place which facilitate the implementation of the issued recommendation.

***Recommendation 2: Establish standard procurement procedures to be followed by IOCs which are governed by Tanzanian laws with a view to enhance transparency and create opportunities for local companies.***

Review of Responses from PURA showed that, Section 15(1) and 31 of Local Content Regulations, 2017 requires contractor, sub-contractor, licensee, or any other person to ensure that preference is given to works, goods and services provided that they are manufactured or locally available in Tanzania in accordance with the provisions of the Act and these Regulations.

It was further indicated that, draft of Procurement Guidelines in Oil and Gas Upstream Operations have been completed and it is waiting for the internal approval by the Board of Directors. Interviewed officials from PURA said that, they know the process was delayed but this was out of their control since it was attributed by delays in the approval and implementation of PURA organizational structure, which started to be implemented July, 2020

Based on the above explanation, the audit team concluded that, the issued recommendation is partially but satisfactorily addressed because preparation of guidelines was at final stages for approval.

***Recommendation 3: Set up coordination and communication framework with relevant agencies and institutions which in one way or another play***

*part in the oil and gas industry, such as VETA, TCU, TPDC, Immigration Department, Ministry of Labour, OSHA, NEMC and Local Universities.*

Review of PURA's responses revealed that draft Communication Strategy for Tanzania's Oil and Gas Sector is in place waiting for internal scrutiny and approval prior to external stakeholders' consultations. The approval process delayed due to delays in the approval of PURA organizational structure which was approved in July, 2020.

We conclude that, this recommendation is partially implemented because the Communication Strategy is yet to be finalized.

***Recommendation 4: Set measures with other relevant government institutions to ensure that local companies are developed so as to be able to meet the requirement and standards in the oil and gas industry.***

PURA's responses showed that, the development of Local Content Regulations, 2017 has addressed the issued recommendation. The regulation requires foreign Contractors to enter into agreement with local companies as a strategy to empower nationals to participate in the oil and natural gas sector. In addition to that Section 19 of the Local Content Regulations, 2017 provides basis on how technology will be transferred from multinational cooperation to local companies.

Furthermore, in the interview, PURA told the audit team that, on 9<sup>th</sup> October, 2020 they conducted meeting with local companies and other stakeholders regarding requirement and standard needed in the oil and gas industry.

Therefore, based on the above, this recommendation is partially implemented, but not at the satisfactory level despite the fact that this recommendation has been addressed in the Local Content Regulation of 2017. However, there was no strategy in place regarding dissemination of key requirements and standard to local companies so as to ensure they participate effectively in the oil & gas industry.

***Recommendation 5: Set procedures and guidelines for the employment of foreign experts in the IOCs and their sub-contractors with a view to create more employment opportunities for the citizens. Involvement of MEM in the process of issuing work permits need to be emphasized.***



PURA responded that, the first schedule of the Local Content Regulations, 2017 provides minimum requirements for the nationals to be employed by the international oil companies, failure to that is regarded as an offence that requires penalty. Also the regulations require contractors and companies to prepare and submit staff succession plan for the approval. Ministry of Energy and Minerals was involved in the process of awarding working permits to the foreign experts.

In the interview, PURA told the audit team that, when conducting verification of cost recovery, the element of foreign experts working in the oil and gas industry was critically reviewed in order to cut unnecessary cost incurred for paying foreign expert. For example, in February 2019 PURA penalized one foreign company USD 330,651 for non-compliance with Local content requirements in this areas.

This recommendation is partially implemented but not satisfactory, because there was no guideline in place to guide employment of foreign experts in the IOCs and their sub-contractors.

#### **4.6 Specific Audit Conclusion**

Based on the analysis of the implementation status of the previously issued recommendations, the audit concluded that PURA and the Ministry of Energy did not make enough efforts in implementing the issued recommendations. The Managements of all entities are advised to deploy more efforts to ensure that all recommendations are implemented to the fullest.

#### **4.7 Specific Audit Recommendations**

##### **4.7.1 Recommendations to MoE**

The Ministry of Energy should:

1. Device a mechanism for follow-up of all previously issued recommendations; and
2. Ensure all issued recommendations are implemented to the fullest.

##### **4.7.2 Recommendations to PURA**

The Petroleum Upstream Regulatory Authority (PURA) should:

1. Ensure that all previous issued recommendations are implemented to the fullest.

## **CHAPTER FIVE**

### **PERFORMANCE AUDIT ON MANAGEMENT OF GEOPHYSICAL AND GEOLOGICAL DATA FOR OIL AND GAS IN TANZANIA**

#### **5.1 Background to the Audit**

Performance Audit Report on Management of Geophysical and Geological Data for Oil and Gas in Tanzania was tabled before Parliament in April, 2016.

The overall objective of the audit was to determine whether the Ministry of Energy and Minerals (MoE) and Tanzania Petroleum Development Corporation (TPDC) have effective mechanism for managing<sup>1</sup> geophysical and geological data for oil and natural gas in Tanzania.

#### **5.2 Scope of the Audit**

The audit examined the management of geophysical and geological data applied by Tanzania Petroleum Development Corporation (TPDC) as a mandatory custodian of geophysical and geological data and its related records. The audit also assessed the operations by the Ministry of Energy and Minerals with regard to the management of geophysical and geological data as the overseer of TPDC's operations.

The audit covered a period of five (5) financial years from 2010/2011 to 2014/2015, and was mainly focused on the operations and practice of the management of seismic data and geological samples for both off-shore and on-shore

#### **5.3 Main Audit Findings**

The audit came up with the following key findings:

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<sup>1</sup>Data Management is a group of activities relating to the planning, development, implementation and administration of systems for the acquisition, storage, security, retrieval, dissemination and archiving of data

### **5.3.1 Key Findings at Tanzania Petroleum Development Corporation (TPDC)**

The following were the findings addressed to TPDC:

#### **Absence of Geophysical and Geological Data Management Policy and Framework to govern the management of Geophysical and Geological data**

TPDC had not yet formulated a framework to govern management of Geophysical and Geological data. The audit noted that failure to have data management policy was one of the factors that contributed to the absence of framework. It was found that the presence of data management policy was an important tool towards effective Geophysical and Geological data management activities.

#### **Inadequate assignments of Roles and Responsibilities to the extent that TPDC has failed to demarcate roles and responsibilities for management of Geophysical and Geological data**

The audit found that there was inappropriate allocation of roles and responsibilities that were performed by data managers and IT personnel. This was contributed by unclear identification of roles from TPDC scheme of service.

#### **Lack of necessary skills to Operate software**

The audit found-out that, Data management personnel lacked necessary skills to enable them operate the available software. Misallocation of personnel to deal with data management issues contributed into misallocation of personnel for training. It was found that in some cases personnel dealing with data management issues tended to attend IT courses due to unclear division of responsibilities of IT and Data management staffs.

#### **Weak Mechanisms for restricting access to Geophysical and Geological database**

It was found that, TPDC Mechanisms for restricting access to geophysical and geological database by unauthorized personnel were weak. It was revealed that TPDC had not yet put in place system software that was capable of restricting access to unauthorized personnel.

### **Unfavorable Geological Data storage facilities**

The audit found that, data storage facilities were not favorable to meet the requirements. The data storage facilities at TPDC Headquarters were observed to have leakages from the roof to the geological samples. This might damage samples and in the long-run change the geo scientific properties of those samples, and thus leading to inaccurate results when processed.

### **5.3.2 Key Findings at the Ministry of Energy (MoE)**

The following were the findings addressed to MoE:

#### **Absence of internal policies to ensure integrity of geophysical and geological data**

It was noted that, MoE had not put in place the internal policies to ensure integrity of geophysical and geological data. The Act requires MoE to make regulations prescribing all matters including exploration activities. MoE had not developed the internal policies necessary for ensuring integrity geophysical and geological data.

#### **Inadequate personnel for monitoring of geophysical and geological data management**

ME had inadequate personnel to perform different activities pertaining to geophysical data management. The MoE's marshal plan showed that there was a great deviation for the number of personnel required and available staffs. Furthermore, the audit noted that MEM had no clear defined procedures on dealing with received reports from TPDC regarding the daily performance of data management activities.

#### **Absence of independent Review for the upstream activities**

It was found that, MEM did not conduct independent review that covered upstream activities that would identify the weaknesses and alert for improvement. It was further noted that independent reviews conducted mostly covered in-depth downstream and midstream.

## **5.4 Overall Conclusion of the Audit**

The overall conclusion of this audit was that geophysical and geological data for oil and natural gas in Tanzania are ineffectively managed since

there were ineffective control and weak mechanism for assessing the acquisition, processing storage, accessibility, and ownership. Specific plans that govern geophysical and geological data management were not in place. Geophysical and Geological data are important because they are used to determine the availability and amount of oil and natural gas available in the areas under exploration. Their key application is the prospecting of natural resources including oil and Natural Gas under the ground.

## **5.5 Results of the Follow-up on the Implementation of Recommendations**

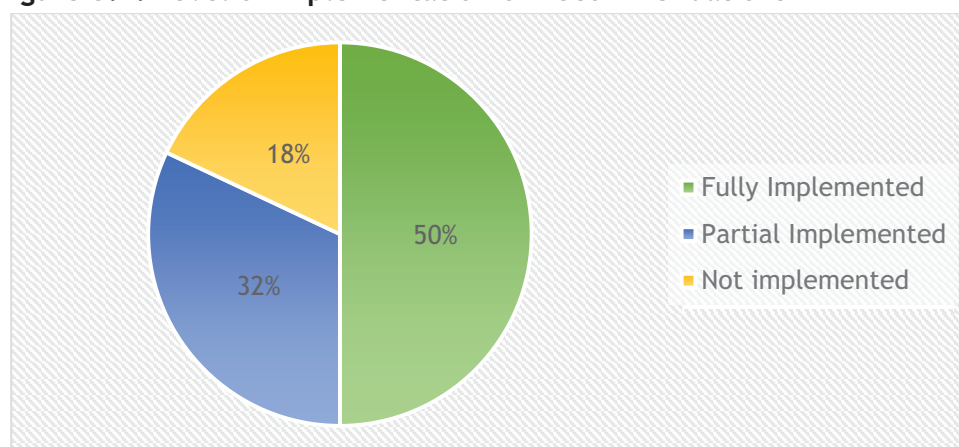
This part presents the implementation status of the issued recommendations on the Management of Geophysical and Geological Data for Oil and Gas in Tanzania. The Recommendations were issued to the Ministry of Energy and Minerals (MEM) currently known as Ministry of Energy (MoE) and Tanzania Petroleum Development Corporation (TPDC) whose functions have been moved to Petroleum Upstream Regulatory Authority (PURA). Implementation status has been categorized into three categories namely, fully, partially and not implemented.

### **5.5.1 Overall Implementation of Issued Recommendations**

A total of sixteen (16) recommendations were issued in this particular audit. Five (5) were directed to MoE and eleven (11) directed to TPDC and are now being implemented by PURA.

The overall follow-up results on the implementation of the issued audit recommendations indicated that out of sixteen (16) issued recommendations, eight (8) recommendations (equivalent to 50 %) were fully implemented, five (5) recommendations (equivalent to 32 %) were partially implemented and three (3) recommendations (equivalent to 18 %) were not implemented as shown in **Figure 5.1**.

**Figure 5.1: Level of Implementation of Recommendations**



*Source: Auditors' analysis of responses from MoE and TPDC (2020)*

**Table 5.1** below provides a detailed description of all recommendations by indicating the total number of recommendations issued to specific audited entity, and the specific number of recommendations that were fully implemented, partially implemented, and not implemented.

**Table 5.1: Implementation Status of Audit Recommendations**

Audited entity	Number of issued recommendations	Level of implementation of recommendations					
		Fully implemented		Partially implemented		Not implemented	
		No	%	No	%	No	%
PURA	11	7	64	3	27	1	9
MoE	5	1	20	2	40	2	40
<b>Total</b>	<b>16</b>	<b>8</b>	<b>50</b>	<b>5</b>	<b>32</b>	<b>3</b>	<b>18</b>

*Source: Source: Analysis of Implementation status from MoE and TPDC, 2020*

As seen in **Table 5.1**, a total of sixteen (16) recommendations were issued to both MoE and PURA. MoE was issued with five (5) recommendations while PURA was issued with eleven (11) recommendations. Out of the 11 recommendations issued to PURA, seven (7) recommendations (64 %) were fully implemented, three (3) recommendations (27 %) were partially implemented and one (1) recommendation (9 %) was not implemented. Meanwhile, out of five (5) recommendations issued to MoE, one (1) recommendation (20 %) was implemented, two (2) recommendations (40 %) were partially implemented and two (2) recommendations (40 %) were not implemented at all.

Further analysis of the issued recommendations per each cluster or category was made; the analysis made was based on the recommendations which were not implemented. **Table 5.2** provides clusters of all issued recommendations and **Table 5.3** indicates the recommendations that were not implemented for each cluster.

**Table 5.4: Category of Recommendations issued to the MoE and PURA and their Implementation Status**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category		
		Fully implemented	Partially Implemented	Not implemented
Monitoring, evaluation and supervision	2	0	0	2
Decision making	6	1	4	1
Development	7	6	1	0
Planning	1	1	0	0
<b>Total</b>	<b>16</b>	<b>8</b>	<b>5</b>	<b>3</b>

*Source: Analysis of Implementation Status, 2020*

**Table 5.5: Category of Recommendation Not Implemented**

Category of Recommendations	Total Number of Issued Recommendations per category	Number of recommendation not implemented	
		Number	%
Monitoring, evaluation and supervision	2	2	100
Decision making	6	1	17

*Source: Analysis of Implementation Status, 2020*

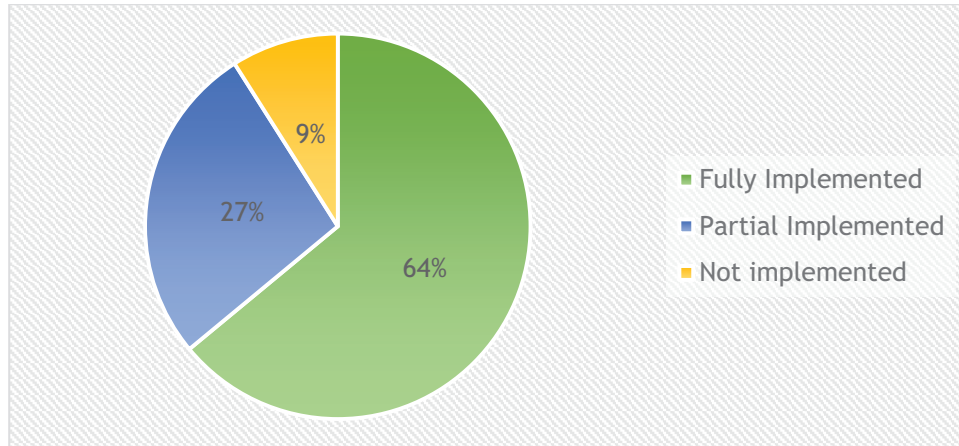
**Tables 5.2 and 5.3** show that, a total of three (3) out of twelve (16) issued recommendations (equivalent to 18 %) were not implemented up to the time of follow up. All these recommendations were under the categories of Monitoring, Evaluation and Supervision and decision making.

#### 5.5.2 Level of Implementation of Audit Recommendations Issued to PURA

The audit team noted that TPDC had fully implemented seven (7) recommendations out of eleven (11) (equivalent to 64 %), three (3) recommendations (equivalent to 27 %) were partially implemented and one (1) recommendation (equivalent to 9 %) was not implemented at all as presented in figure 5.2.



**Figure 5.2: Percentage of implementation of recommendation by PURA**



*Source: Auditors analysis of TPDC responses (2020)*

**Figure 5.2** reveals that PURA has shown efforts in implementing the issued recommendations because seven (7) recommendations (equivalent to 64 %) were fully implemented while 36 % were either partially or not implemented.

**(i) Recommendations that were fully implemented by PURA**

Seven (7) out of eleven (11) (equivalent to 63 %) of the issued recommendations were fully implemented. This was verified during the interviews held with officials from PURA na TPDC and review of various documents.

**Recommendation 1:** *Formulate data management policy that will act as a road map towards effective and efficient geophysical and geological data management.*

This recommendation is fully addressed, because PURA has already developed Data Management Policy which lays down a framework for effective data management as recommended. The Policy guides PURA in performing various exploration and production activities in a systematic manner. Key issues covered by the Policy include: Role of geochemistry in petroleum exploration; sample collection and handling at wells site; handling of samples; screen methods/analysis; fieldwork or surface sampling; samples from exploration wells and shallow boreholes; biostratigraphic analyses and drilling operations etc.

The reviewed Data Management Quarter One Report of 2019, Quarter Three Report of 2020 and Training Program of 2015 indicated that, PURA has been following the procedures addressed in data management policy.

***Recommendation 2: Develop guidelines for geophysical and geological data management, its data base structures and supporting systems.***

This recommendation is fully addressed, because PURA sampling Guidelines; and oil and Gas exploration and production Operation manual is in place for easy management of geographical data in its data base structures and supporting systems.

The review made by the audit team noted that, in November, 2019 PURA developed Guidelines; and oil and Gas exploration and production Operation manual. The review of Data Management first Quarter to forth Quarter Reports 2019 and the same for the financial year of 2020 indicated that, from December, 2019 PURA started to use the developed guidelines. The Guidelines have key issues which include: Procedures for data collection and management; Data submission and formats; Data validation and storage; Access, manipulation and modification of data; and data reporting. Other issues are data security and confidentiality; data viewing and copying; and data sharing.

***Recommendation 3: Conduct effective periodic independent reviews on the informations and organization records for Geophysical data.***

This recommendation is fully implemented. This has been noted through the review of PURA Action Plan 2020 and Data Management Quarterly Reports for financial year of 2020 and 2019. It has been further indicated that, PURA has narratively set program on Geophysical and Geological data management.

***Recommendation 4: Design and maintain a framework that reflects its Geophysical and Geological data requirements, management, documentation, disaster management plan and back up system.***

This recommendation is fully implementation, because PURA through TPDC developed a policy which describes the responsibilities of each personnel that deals with data management. Also, during physical verification audit noted that, TPDC had allocated an automatic data back up at Kinyerezi.

**Recommendation 5:** *Develop a monitoring system for assessing completeness and accuracy of geophysical and geological data once received from IOCs as well as ensuring that geophysical and geological data are adequately protected against manipulation, theft and loss.*

This recommendation is fully implemented. It has been revealed through the review of PURA Action Plan 2020 and Data Management Quarterly Reports for financial year of 2020 and 2019 that PURA through TPDC receives and conduct data verification by loading the data into a software to make sure that it is in a format that can be accessible in their platform before it is stored into TPDC servers. Accordingly, the interviews with TPDC and PURA staff revealed that, through this process geophysical and geological data are being adequately protected against manipulation, theft and loss.

Also, for the purpose of verification the audit team visited the geophysical and geological data storage rooms at Mikocheni. It was observed that, there was a computerised system for receiving, processing and verification of geological data and Geophysical and geological data storage cabinet as shown in **Photo 3.1**.



**Photo 3.1: Geophysical and geological data storage cabinet**

**Recommendation 6:** Improve the storage of geological samples in the TPDC's storage rooms to allow easy tracing of samples as well as safety and develop coding system that will easily assist in the identification of geological samples.

This recommendation has been full implemented because PURA through TPDC has improved the storage room as it was observed upon physical verification. Also the samples have been put in such a way that it is easier

to trace the kind of geology sample needed. Furthermore TPDC had developed coding system that assists the identification of geological samples(refer Photo 3.2).

**Photo 3.2: Improved storage rooms at TPDC**



**Recommendation 7:** Establish of offsite storage facilities which will serve as back up in the event of disaster.

This recommendation is fully addressed, because during physical verification the audit observed backup centre at Kinyerezi, in Dar es Salaam.

**(ii) Recommendation that was not implemented by PURA**

The audit team noted that out of eleven (11) issued recommendations to TPDC, one (1) recommendation was not implemented at all. The recommendation was:

**Recommendation 1 :** conduct effective periodical independent reviews on the information systems and organization records for geophysical and geological data management and the results of the reviews are used to improve TPDC's performance.

The recommendation required TPDC to invite an independent entity/ expert to conduct effective periodical reviews on the information systems and organization records for geophysical and geological data management and the results of the reviews were expected to be used to improve TPDC's

performance. Upon interviews with TPDC Officers it was pointed out that, that TPDC undertakes a periodic visit to all data storage facilities (both hard and soft) and produce quarterly reports. Also, TPDC pointed out that PURA regularly monitors all data activities. However, the recommendation aimed at having independent entity/ expert to conduct independent review.

Based on this, it is concluded that this recommendation is not implemented because, during the audit, the commitment was to have an independent entity/expert to review their activities on management of geophysical and geological data which has not been implemented to date and it is four (4) years now since this recommendation was issued.

### **(iii)Recommendations that were partially implemented by PURA**

Three (3) out of eleven (11) recommendations issued to PURA were partially implemented. The recommendations were:

***Recommendation 1: Prepare specific and comprehensive plans that govern activities of geophysical and geological data and ensure that they are followed and the results of its implementation are regularly reported to the Ministry of Energy.***

The audit noted that, TPDC prepared an action plan each year. However, the audit team did not find any documents that evidenced TPDC reported the results of its implementation to the Ministry of Energy.

Since the plans that govern activities of geophysical and geological data are prepared every year but there is no records if they are implemented accordingly. Moreover, there are no reports showing whether they are regularly reported to the Ministry of Energy, therefore, this recommendation is regarded as partially implemented.

***Recommendation 2: Design and maintain a framework that reflects its geophysical and geological data requirements, management, documentation, disaster management plans, and back-up system for geophysical and geological data.***

Review of Responses from TPDC revealed that, the framework is incorporated in the data policy and it describes the responsibilities of each personnel that deals with data management.

To ensure data security, TPDC has set up data access control to all data servers and data are maintained in a conducive environment and there is a standby generator at the data center in case of power interruptions.

However, there was not evidence availed to auditors regarding the issues of documentation and back - up system for geophysical and geological data. Furthermore, the audit team noted that up to the time of this audit the disaster management plan was at draft stage expected to be approved at the end of 2020. Therefore, based on the above explanation this recommendation was regarded to be partially implemented.

***Recommendation 3: Ensure that its core personnel dealing with geophysical and geological data management are well trained.***

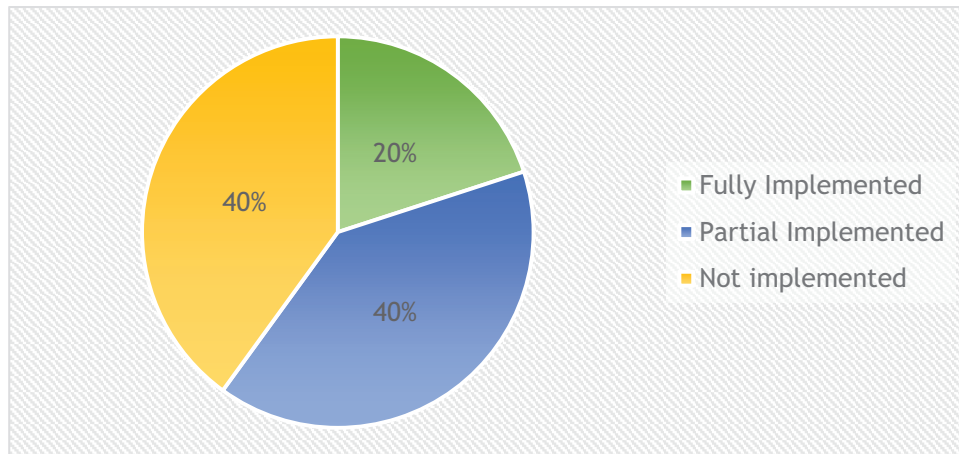
In the review of responses from TPDC, the audit team noted the presence of staff training program and budget which highlighted different types of courses aimed at equipping the staff with different knowledge particularly enhancing knowledge on geophysical and geological data management. However, it was difficult for the auditors to track the progress of implementing the set training programme as there was no training report prepared by TPDC that detailed the implementation of the training programme.

The audit team is of the view that, this recommendation is partially implemented as it gives more information on developed training program without its implementation status. Therefore, it is difficult to establish if the intended objective of ensuring core personnel dealing with geophysical and geological data management are well trained.

### **5.5.3 Level of Implementation of Audit Recommendations Issued to the Ministry of Energy (MoE)**

The audit team noted that the Ministry of Energy was issued with five (5) recommendation. Two (2) recommendations (equivalent to 40 %) were partially implemented, two (2) recommendations (equivalent to 40 %) were not implemented and one (1) recommendation ( equivalent to 20 %) was fully implemented as present in **figure 5.3**.

**Figure 5.3 shows the implementation status of recommendations issued to MoE**



**Source:** Auditors analysis of MoE responses (2020)

#### **(iv) Recommendations that were not implemented by MoE**

The audit team noted that out of five (5) issued recommendations to MoE, two (2) recommendations were not implemented at all. The recommendations were:

**Recommendation 1:** *Develop a monitoring and evaluation system that will allow tracking of progress of TPDC's management of geophysical and geological data for oil and natural gas.*

The Ministry of Energy responded that, when a contractor submits data, a transmittal notice is signed as an evidence that data has been received and data verification has been conducted by loading the data into software to make sure that it is in a format that can be accessible in their platform before it is stored into TPDC servers.

MoE through written responses also pointed out that, physical data are checked and verified by TPDC before stored. Furthermore, during data acquisition TPDC personnel are attached to the project for execution and monitoring of the quality as per agreed standards. MoE pointed out that data are encrypted when shared from TPDC to third parties and vice versa to ensure security.

The Audit Team categorized this recommendation as not implemented because it required the MoE to have a monitoring and evaluation system that will allow MoE to track the progress of TPDC's management of geophysical



and geological data for oil and natural gas, however, the responses given are more of what is done by TPDC on how they manage geophysical and geological data.

***Recommendation 2: Develop a system/mechanism that will ensure that TPDC is providing MEM with adequate assurance that the procedures for managing geophysical and geological data and databases have been followed and are working well.***

The audit expected MoE to have developed a system/mechanism that will ensure that TPDC (PURA) is providing MEM with adequate assurance that the procedures for managing geophysical and geological data and databases have been followed and are working well. However, the audit team noted that MoE has not developed the aforesaid system as per.

The MoE through written responses pointed out that, PURA prepared the Guidelines that are included in the DEPD operational manual. Also, TPDC prepared a database for Tapes (raw seismic data) and cores/sample.

However, through the analysis of the submitted responses and supporting evidence which were then followed by interviews, the audit team concluded that, this recommendation is not implemented. On this, responses from the Ministry of Energy did not provide information on the developed system/mechanism that ensure that PURA is providing MEM with adequate assurance that the procedures for managing geophysical and geological data and databases have been followed and are working well.

#### **(v) Recommendations that were partially implemented by MoE**

***Recommendation 1: Develop key performance indicators to be used to monitor the status and effectiveness of geophysical and geological data management activities;***

The recommendation aimed at having the performance indicators that will be used by MoE to assess the performance of PURA on achieving the objective of geophysical and geological data management. Therefore, the audit team expected MoE to have developed the aforesaid performance indicators specifically for measuring the performance of PURA on implementing geophysical and geological data management activities.



Through the review of MoE responses, it was noted that, currently, the Ministry has developed the draft key performance indicators (KPIs) for PURA to manage data. These will be incorporated in the draft Guidelines for (Exploration and Production) Data Management. Furthermore, TPDC is undertaking the development of action plans and preparing data management quarterly reports.

The audit team reviewed the submitted draft that entails key performance indicators, however, up to time of this audit the draft was not in use. Therefore, the audit team assessed this recommendation as partially implemented.

***Recommendation 2: Put in place policies that would ensure the integrity of geophysical and geological data for oil and natural gas and ensure that those policies are properly controlled, maintained, and safeguarded;***

The audit team expected the MoE to have in place policies that would ensure the integrity of geophysical and geological data for oil and natural gas and ensure that those policies are properly controlled, maintained, and safeguarded.

The MoE through written responses pointed out that, PURA has prepared draft guidelines which outline Exploration and Production (E&P) data management.

The Audit Team categorized this recommendation as partially implemented since the developed guidelines are in draft form and there was no document showing the way MoE monitors the implementation of the aforesaid policy.

## **5.6 Specific Conclusion**

Based on the analysis of the implementation status of the previously issued recommendations, the audit concluded that PURA and MoE are advised to deploy more efforts to ensure that all recommendations are implemented. This is because only half (eight (8) out of sixteen (16)) of the issued recommendations were fully implemented while the rest were either partially or not implemented at all.

## **5.7 Specific Recommendations to the MoE and PURA**

### **5.7.1 Recommendations to MoE**

The Ministry of Energy (MoE) should:

1. Ensure that all issued recommendations are implemented to the fullest ; and
2. Device a mechanism for follow-up to ensure all previously recommendations issued to PURA are fully implemented.

### **5.7.2 Recommendations to PURA**

PURA should:

1. Ensure all issued recommendations are full implemented.

## CHAPTER SIX

### PERFORMANCE AUDIT ON MANAGEMENT OF HUMAN CAPITAL DEVELOPMENT IN OIL AND NATURAL GAS

#### 6.1 Background to the Audit

Audit Report on Management of Human Capital Development in Oil and Natural Gas was tabled before Parliament in April, 2016 and the main audited entity was the Ministry of Energy (MoE).

The main objective of this audit was to examine whether MEM has put in place effective mechanisms for ensuring availability and sustainability of human capital for engaging in the natural gas industry in Tanzania.

#### 6.2 Scope of the Audit

The audit focused on development of human capital in skilled and semi-skilled, short- and long-term capacity building interventions at both professional and technical levels in the natural gas value chain. The audit covered a period of four (4) financial years, that is, from 2011/12 up to 2014/15.

#### 6.3 Main Audit Findings

The main audit findings were as follows:

##### **Set-up Human Capital Development(HCD) strategies and plans are not adequate and sustainable**

The set human capital development plans and strategies are not adequate and sustainable. This is due to the fact that they do not reflect actual needs of the government and industry as a whole in engaging in the exploration and development of oil and natural gas industry in the country. The skills gap analysis conducted by MEM did not address some crucial professions required in the oil and natural gas value chain. This was also caused by weak coordination among stakeholders in the development of the plans and strategies.

### **Implementation of the human capital development' strategies and plans were not adequately**

The audit noted that the set plans and strategies for human capital development in natural gas sub-sector were not adequately implemented as planned. This is because of lack of coordination between MEM and key stakeholders, lack of HCD progress assessment and prioritization. Consequently, the Ministry of Energy and Minerals failed to meet the HCD implementation targets as they attained only 13 % of the set goals for the long-term capacity building programs. This means that more than 80 % of those who were supposed to receive various long-term capacity building interventions did not get that opportunity.

### **Monitoring, evaluation and performance reporting mechanisms of HCD activities are not effective**

The audit team noted that mechanisms for monitoring, evaluating and performance reporting on the implementation of human capital development strategies and plans are not effective. This is due to lack of monitoring, evaluation and performance reporting plans for human capital development in oil and natural gas industry. The Ministry gave priority to other activities such as finalizing the preparation of gas utilization master plan. Consequently, there were no performance reports for implementation of the HCD plans and strategies.

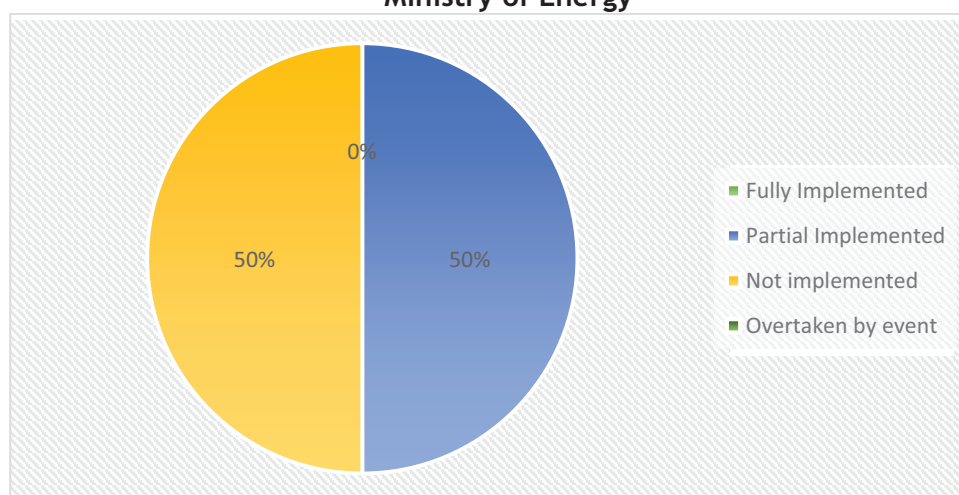
## **6.4 Overall Audit Conclusion**

General conclusion of the audit was that the Ministry of Energy and Minerals has HCD plans and strategies which are not effective for ensuring availability and sustainability of the human capital for engaging in the natural gas industry in Tanzania. This resulted into failure by the Ministry to achieve its target of ensuring that Tanzanians are well trained to engage in the natural gas sub-sector by either being employed in the International Oil Companies (IOCs) and government institutions or engaging in other activities related to natural gas value chain.

## 6.5 Result of the Follow Up on the Implementation of Recommendations

A total of ten (10) recommendations were issued in this particular audit to the Ministry of Energy. The overall follow-up results on the implementation of issued audit recommendations indicated that out of ten (10) issued recommendations, five (5) recommendations (equivalent to 50%) were partially implemented, five (5) recommendations (equivalent to 50 %) were not implemented and none of recommendations was either fully implemented or overtaken by event as shown in **Figure 6.1**.

**Figure 6.1:Percentage of Implementation of Recommendation by Ministry of Energy**



*Source: Auditors analysis of ME responses (2020)*

**Table 6.1** below provides a detailed description of all recommendations by indicating the total number of recommendations issued to the specific audited entity, and the specific number of recommendations which were fully implemented, partially implemented and those which were not implemented.

**Table 6.1: Overall Level of Implementation of recommendations to the Ministry of Energy**

Entity	Number of Issued Recommendations	Level of Implementation of Recommendations					
		Fully implemented		Partially implemented		Not implemented	
		Number	%	Number	%	Number	%
MoE	10	0	0	5	50	5	50

*Source: Auditors analysis of ME responses (2020)*

As seen in **Table 6.1**, a total of ten (10) recommendations were issued to MoE. Out of ten (10) issued recommendations, five (5) recommendations (equivalent to 50 %) were not implemented, five (5) recommendations (equivalent to 50 %) were partially implemented and none was either fully implemented or overtaken by event.

Further analysis of the issued recommendations per each cluster or category was made; the analysis made was based on the recommendations which were not implemented. **Table 6.2** provides clusters of all issued recommendations and **Table 6.3** indicates recommendations that were not implemented for each cluster.

**Table 6.2: Category of Recommendations issued to the MoE and PURA and their Implementation Status**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category		
		Fully implemented	Partially Implemented	Not implemented
Planning	1	0	0	1
Development	1	0	0	1
Decision making	4	0	4	0
Monitoring, evaluation and supervision	4	0	1	3
<b>Total</b>	<b>10</b>	<b>0</b>	<b>5</b>	<b>5</b>

*Source: Analysis of Implementation status from MoE (2020)*

**Table 6.3: Category of Recommendation Not Implemented**

Category of Recommendations	Number of recommendations not implemented	
	Number	% (%)
Planning	1	20
Development	1	20
Monitoring, evaluation and supervision	3	60
<b>Total</b>	<b>5</b>	<b>100</b>

*Source: Analysis of Implementation status from MoE (2020)*

**Tables 6.2** and **6.3** show that, five (5) out of ten (10) issued recommendations (equivalent to 50 %) were not implemented up to the time of follow up. Most of these recommendations were under the categories of Monitoring and Evaluation, other categories namely planning, and development have one recommendation each.

More detail about status of implementation of the issued recommendations are explained hereunder:

**(i) Recommendations that were not implemented by MoE**

The audit team noted that out of ten (10) issued recommendations to MoE, five (5) recommendations were not implemented. These recommendations were:

***Recommendation 1: Prepare a specific and comprehensive Human Capital Development Plans and Strategies which would address all disciplines needed at each level of oil and natural gas value chain and ensure that they are followed and the results of their implementations are regularly communicated to stakeholders.***

In December 2017, the Ministry of Energy through submitted responses responded that, Training Need Assessment was under preparation, however there were some delays as it was supposed to be completed by July, 2017. It was further explained that upon its completion, the need assessment report is expected to address skills/professions required in oil and natural gas sector.

The review of responses from the Ministry of Energy further explained that, Government in collaboration with various development partners provided supports for capacity building to Tanzanians in order to allow them to participate in the development of the oil and natural gas sector. Amongst them include Chinese sponsorships, Energy Sector Capacity Building Project(ESCBP) and development of oil and natural gas curriculum for local training institutions.

Furthemore, the Ministry informed the audit team that, currently the scope of of conducting Training Needs Assessment from all energy institutions was adjusted to two (2) institutions namely MoE and TANESCO. Also it was noted that due to time constraint, the Ministry decided to continue implementing the Marshal plan for human capita development under this sector.

It was further established that, training needs assessment for other institutions in energy sector was not conducted. The institutes not covered with the training need assessment include Energy and Water Utilities Regulatory Authority (EWURA), Tanzania Extractive Industries Transparency

Initiatives (TEITI), Tanzania Geothermal Development Company (TGDC), NEMC, OSHA, TPDC and PURA.

Based on the explanations above, it is concluded that, this recommendation was not implemented. Because, the Marshal plan was a short term plan dealing with implementation of Capacity Building in the industry from 2012 to 2016. It was also noted that, despite the presence of Marshal plan at the time of conduct of this audit in 2015/16, the audit noted weaknesses which included miscalculated human capital needs.

***Recommendation 2: Develop a coordination system/mechanism that will ensure that MoE is coordinating well with key stakeholders in the HCD by involving them in identifying needs, skills gap, developing intervention plans and strategies, implementing those strategies and provide them with performance reports regarding HCD activities in the oil and natural gas industry.***

Review of submitted responses and evidence from the Ministry of Energy show that, development of coordination mechanisms was expected to be completed by March, 2018. Upon finalization of the Coordination Mechanism, the Ministry expected to improve coordination mechanisms for implementation of human capital development activities in oil and natural gas sector after receiving final inception report from consultancy.

However, during interview, with officials from the Ministry of Energy it was revealed that, consultancy service was not conducted due to adjustment of scope in Energy Sector Capacity Building Programme. Further, interviews with officials from the Ministry of Energy, it was explained that, it was not known when the development of Cordination Mechanism would be finalized.

Therefore, we concluded that, this recommendation not implemented and it is likely to affect coordinating efforts with other key stakeholders in the HCD.

***Recommendation 3: Make priority of the skills which require immediate intervention during implementation of HCD plans and strategies in order to ensure strategic participation in the oil and natural gas value chain.***

Review of 2016 responses submitted to audit team, the Ministry responded that, strategies and plan for human capital development in oil and natural gas were planned to be prepared by considering skills that require



immediate intervention such as Oil and gas Economics, Petroleum Engineers, Oil and Gas Contract Negotiations, Petroleum Geologists, and Environmental Officers.

Further review of 2020 responses submitted to audit team, revealed that, all priority skills that require immediate intervention such as oil and gas Economic, Petroleum, Community Development Officers, Engineers, Oil and Gas Contract Negotiations, Geologist and Environmental Officers were outlined in Marshall Plan.

During the interview with officials from the Ministry, it was explained that key skills identified in Marshal plan are enough to all matters regarding HCD in oil and gas industry, hence there is no need to come out with strategies and other plans.

We concluded that, this recommendation was not implemented because the Marshal Plan was there during the conduct of this audit and it was assessed by the respective audit team and noted weakness with regard to priority skills. Furthermore, Marshal plan was a short term plan involved in the implementation of Capacity Building in oil and gas industry from 2012 to 2016 meaning that it is no longer in use.

***Recommendation 4: Prepare monitoring and evaluation plan which will provides guidelines on how to monitor, evaluate and report performance on the implementation of the human capital development activities and ensure that those M&E plans are followed.***

Review of 2016 responses from the Ministry of Energy revealed that, monitoring and evaluation plan for HCD was planned to be developed after completion of need assessment in oil and gas sector. The monitoring and evaluation plan was expected to be completed by April, 2018.

During this follow up, the Ministry responded that, monitoring and evaluation plan for all activities was prepared. In interview, the Ministry further explained that, monitoring and evaluation is done quarterly and it checks the implementation of all planned activities within the Ministry.

The audit team concluded that, this recommendation was not implemented, because Monitoring and evaluation plan which was reported to be in place was not submitted to audit team for verification despite several follow up. Therefore, the audit team could not assess to what extent the developed

overall monitoring and evaluation plan provides guidelines on how to monitor, evaluate and report performance on the implementation of the human capital development activities .

***Recommendation 5: Develop performance indicators to monitor and evaluate the status and effectiveness of Human Capital Development activities for natural gas sub-sector in the country.***

On 2016, the Ministry through the responses submitted to NAOT office responded that, lack of performance indicators was also among of areas identified from draft Inception Report submitted by consultancy. Therefore, the consultancy is improving the Inception Report to include the noted weakness which including developing performance indicators.

The Ministry further explained that, number of graduates/beneficiaries of trainings shown in Marshall plan are used as performance indicators to assess performance on the implementation of human capital development in oil and natural gas sector.

During the interview with officials from the Ministry of Energy, they informed the audit team that, consultant did not finalize the consultancy services, because the project phased out in 2018; and there was no any other intervention carried out.

Therefore based on this, it is concluded that, this recommendation was not implemented because the performance indicators to monitor and evaluate the status and effectiveness of Human Capital Development activities for natural gas sub-sector was not developed as required. However, there are no further explanation on when it will be implemented.

## **(ii) Recommendations that were Partial implemented by MoE**

The audit team noted that out of ten (10) issued recommendations to MoE, five (5) recommendations were partial implemented. These recommendations were:

***Recommendation 1: Carry-out intensive skills gap analysis in collaboration with key stakeholders which would reflect real needs of Human Capital in government institutions and industry as whole.***

The recommendation called for MoE to identify skills gap analysis in oil and gas sector. On their responses, MoE provided that, the skill gap analysis was

completed. However, the scope of this assignment has been adjusted from its original intention to focus on two key institutions namely; the Ministry of Energy and TANESCO.

In interviews, the Ministry's officials informed the audit team that, in 2018 they planned to conduct intensive skills gap analysis during the implementation of Energy Sector Training Needs Assessment and Capacity Building Projects. However, there were delays in issuing no objection by financier, which attributed to the Ministry to focus on the two institutions only i.e. MoE itself and TANESCO.

Accordingly, it is concluded that, this recommendation was partially, but unsatisfactorily implemented. This is because, recommendation required to carry out intensive skills gap analysis in collaboration with key stakeholders in the Government and industry as a whole, however, only two entities namely; MoE and TANESCO were involved and the Report for the Intensive Skills Gap Analysis was not availed to the audit team.

***Recommendation 2: Carry out assessment and evaluation on the progress of the implementation of set human capital development strategies and plans.***

On 2017, the Ministry through their responses on the implementation of this recommendation provided that, it expected to carry out specific assessment on implementation of human capital development plan in the oil and natural gas by December, 2018. The assessment was planned to involve stakeholders and would be carried out according to need assessment supposed to be submitted by the consultant.

Furthermore, the Ministry provided that, it carried out the annual review of its operations including human capital development in the oil and natural gas activities whereby the number of beneficiaries is used as the performance indicator.

During this follow up activity, the Ministry provided that, the assessment of all energy activities were carried out including human capital development through joint energy sector review. Review of report indicated that, from 2007 to 2014 joint energy sector review was being carried out annually. However, from 2015 there was no report on carried out review until 2019.

Therefore, it is concluded that, this recommendation was partially, but unsatisfactorily implemented. Because, human capital development strategies and plans are not in place as provided in recommendation number one (1) above. In absence of these documents, its assessment could not be done. Furthermore, after reviewing the joint energy sector report, it was indicated that there was no information relating to HCD which was directly obtained from MoE. Instead, the use of secondary source of data to assess the HCD was preferred.

***Recommendation 3: Develop a monitoring and evaluation system that will allow tracking of progress of MEM in implementing Human Capital Development activities for natural gas sub-sector in the country.***

The recommendation called for the Ministry of Energy to develop Monitoring and Evaluation System. On the responses submitted to NAOT in 2016, the Ministry planned to prepare monitoring and evaluation mechanisms for implementation of human capital development plans in the oil and natural gas sector. Furthermore, the Ministry explained that, it carries out monitoring and evaluation of its operations including human capital development in oil and natural gas activities whereby the number of beneficiaries is used as the performance indicator.

During the conduct of this follow up activity to assess the implementation status of issued recommendations, the Ministry's officials provided that, assessment of all energy activities was carried out including human capital development through joint energy sector review in financial year 2019.

The Ministry officials further provided that, at the time this audit was conducted in 2015/16, there were high expectations on the matters relating to HCD in the oil and gas industry contrary to the current situation. This situation, therefore, affected the implementation of most of the activities planned in 2016.

We, therefore, conclude that, this recommendation to be partially, but unsatisfactorily implemented, due to lack of system with clear key performance indicators to monitor HCD activities.

***Recommendation 4: Have clear sources of funds for smooth implementation of human capital development plans and strategies in oil and natural gas industry.***

The Ministry provided that, every financial year, the Ministry prepared training programme according to the need of the specific period. Its implementation depends on the various source of fund such as from the government and development partners. Also, the Ministry provided that, the government budget depends on ceiling provided by the Ministry of Finance and Planning.

Furthermore, review of section 17(1)(a)(i)(a) of Oil and Gas Revenue Management Act No.22 of 2015 noted that, in any fiscal year, at most an amount equal to 3 % of the Gross Domestic Product (GDP) is transferred to the Consolidated Fund for budgetary use and at least 60 % of such transfer is dedicated to expenditure, including human capital development, particularly in the area of science and technology.

The audit team concluded this recommendation to be partially and satisfactorily implemented because, financing of HCD is legally ring fenced however, lack of HCD plan and strategies affects the implementation of activities relating to HCD.

***Recommendation 5: Coordinate with Higher Learning Institutions through the Ministry of Education and Vocational Training to ensure that various training programmes, on highly needed professions and certifications including Health Safety and Environment (HSE) in oil and natural gas, are initiated and conducted by those institutions in the country.***

The Ministry of Energy provided that, it has improved coordination with the Ministry of Education and Vocational Training as well as other stakeholders in the oil and natural gas sector. In addition, the Ministry provided that, through Mineral Resources Institute they have developed and implemented curriculum of oil and natural gas at certificate and diploma level. Also, they have collaborated with VETA to develop curriculum for vocational training in the area of oil and gas.

In interviews with officials from the Ministry of Energy, it was revealed that, various communication with higher learning institutions was done to ensure smooth coordination.

Therefore, we have concluded this recommendation as partially implemented because, no evidence was provided by MoE to verify any communication with the Ministry of Education and Vocational Training regarding to HCD in the oil and gas industry. Also, there was no evidence regarding to inputs in curriculum development of higher learning institutions in the area of oil and gas industry.

## **6.6 Specific Conclusion**

Based on the analysis of the implementation status of the previously issued recommendations, the audit team is concluding that the Ministry of Energy did not make enough efforts in implementing the issued recommendations as none of the recommendation is implemented to the fullest. The Managements of the Ministry of Energy is advised to deploy more efforts to ensure that all recommendations are adequately implemented.

## **6.7 Specific Recommendation**

The Ministry of Energy (MoE) should:

1. Ensure all issued recommendations are fully implemented.

## CHAPTER SEVEN

### GOVERNANCE ARRANGEMENTS FOR THE IMPLEMENTATION OF PERFORMANCE AUDIT RECOMMENDATIONS

#### 7.1 Introduction

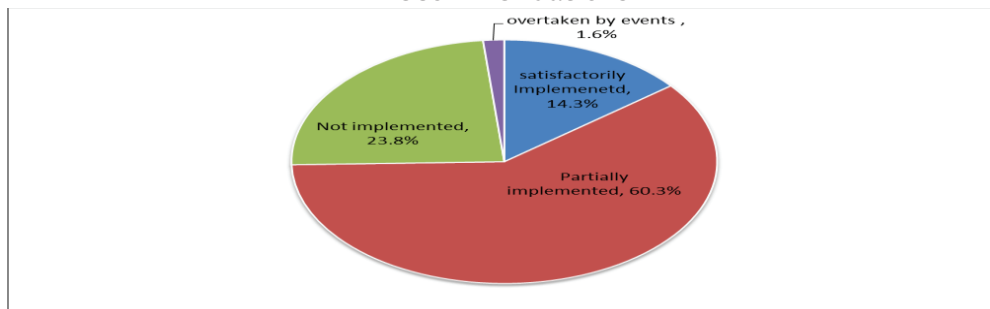
This chapter provides an analysis of the governance arrangements within the audited entities on how to implement the performance audit recommendations. It provides details on how the existing governance arrangement has contributed to inadequate implementation of the issued audit recommendations.

#### 7.2 Level of Implementation of the Audit Recommendations in Audited Entities

A total of sixty three (63) recommendations were given for all five (5) audit reports. As at the date of the follow-up, ten (9) recommendations were fully implemented, thirty eight (38) were partially implemented, fifteen (15) were not implemented while one (1) was overtaken by events.

The overall status on the implementation of the issued recommendations indicated that only 14.3 % of all recommendations issued were satisfactorily addressed; 60.3 % partially implemented; and 23.8 % not implemented at all. Moreover, 1.6% were overtaken by events see (Figure 7.1).

**Figure 7.1: Overall status on the Implementation of the Recommendations**



*Source: Auditors' Analysis based on Responses received from Audited Entities*

Generally, recommendations issued to audited entities fall under seven (7) categories which are: monitoring, evaluation and supervision; decision

making; development; planning; coordination; performance measurement; and data management. 53 out of 63 recommendations (which is equivalent to 84.1%) covered planning; decision making; development; and supervision, monitoring and evaluation.

However, 11 out of 18 recommendations (61%) on monitoring, evaluation and supervision were not implemented at all. On the other hand, the planning, performance measurement, development and decision making categories had about 63.6% to 83.3% of the recommendations at least partially implemented (see Table 7.1).

**Table 7.1: Categories of Recommendations Issued to Audited Entities**

Category of Recommendations	Total Number of Issued Recommendations per category	Level of implementation per category			
		Fully implemented	Partially Implemented	Not implemented	Overtaken by Event
Coordination	2	0	2	0	0
Data Management	2	2	0	0	0
Decision making	11	0	9	1	1
Development	13	1	10	2	0
Monitoring, evaluation and supervision	18	2	5	11	0
Performance Measurement	6	0	5	1	0
Planning	11	4	7	0	0
Grand Total	63	9	38	15	1
	100.0	14.3	60.3	23.8	1.6

*Source: Auditors' Analysis (2021)*

### 7.3 Reasons for Inadequate Implementation of the Issued Recommendations

As presented in Figure 7.1, the level of implementation of the issued recommendations was not promising as only 14.3 % of the issued recommendations were implemented to the fullest. It was noted that, the reason for non implementation of all other issued recommendations was due to insufficient governance arrangements which is attributed to non prioritizations on implementing the performance audit recommendations, as explained below:



### **7.3.1 Unclear Responsibilities and Reporting Arrangements for Monitoring the Implementation of Issued Recommendations**

During the follow up on the implementation of the issued recommendations, it was noted that, entities had weakness in allocating responsibility and reporting arrangements for monitoring results on the implementation of the issued recommendation. This was evidenced by:

#### **Absence of Unit or Section Responsible for Overseeing the Implementation of Recommendations**

The audit team observed that, in all five (5) audited entities namely; Ministry of Energy (MoE), Vice President Office - Directorate of Environment (VPO-DoE), Petroleum and Utility Regulatory Authority (PURA), Tanzania Petroleum Development Corporation (TPDC) and National Environment Management Council (NEMC) had no section or unit or department responsible for overseeing the implementation of the issued performance recommendations. For VPO-DoE and NEMC, the situation is repetitive since it was reported in the followup report of 2020.

This implies that, after tabling of five (5) Audit reports in April 2016, management did not assign to anyone the task of ensuring the issued performance audit recommendations were effectively implemented.

During the verification process, it was noted that individual section or department as per the nature of audit within the audited entities worked on those recommendations and consolidated their implementation status.

#### **Weak Reporting Mechanisms on the Implementation Status of Recommendations**

It was noted that the audited entities lack good reporting mechanisms for reporting the implementation status of the given recommendations. In all five (5) audited entities, there was no specific report that was produced showing the implementation status of the issued recommendations. When audited entities wanted to discuss issued recommendations, they used the implementation matrix prepared by the National Audit Office of Tanzania and submitted to the same when they were requested to provide feedback on the level of implementation of the issued performance audit recommendation. This implies that there was no effort done by audited entities to further report on the implementation within their organizations.

Furthermore, the audit found that there was no report submitted either to the top management, or the Audit Committee meetings of the audited entities to discuss the matters regarding the implementation of the performance audit recommendations.

Absence of a good reporting mechanisms hindered the ability of the audited entities' management to monitor and track the level of implementation of the recommendations. Despite the requirement that the audit recommendations need be discussed in the management meeting upon their receipt, there was no arrangement within the audited entities to make follow up on how the recommendations have been implemented.

#### **Audited entities' Process for Managing the Implementation of Performance Audit Recommendations were Not Properly Defined**

It was noted that, the audited entities' processes for managing the implementation of performance audit recommendations were not properly defined and not known to some staff within those audited entities. During the exit meetings between the National Audit Office and the Management of the audited entities, the audited entities received the audit recommendations and came up with preliminary implementation plans.

In those preliminary plans, the audited entities came up with broad activities and timelines from which the recommendations were expected to be implemented.

However, it was noted that, apart from the preliminary plans that were prepared during exit meetings, there were no other plans prepared by the audited entities to further guide and allocate responsibilities to the specific units that can follow up the status of implementation.

Another reason for not seriously preparing implementation status report was the lack of the recommendation registers to capture all performance audit recommendations. This was observed in all five (5) audited entities.

#### **7.3.2 Inadequate System for Monitoring the Implementation of Issued Recommendations**

The audit team evaluated the adequacy of the systems for monitoring the implementation of the given recommendations. Through the said

evaluation, the audit team noted that the system for monitoring the implementation of issued recommendations within the audited entities was not well functioning and contributed to a large extent to unsatisfactory implementation of the issued recommendations.

It was noted that, the system for monitoring was lacking monitoring plans and performance indicators that could be used to assess the level of implementation of the given recommendations. Entities lacked focal persons or section that would lead and track the implementation status.

Due to insufficient monitoring, the following weaknesses were noted: (1) failure to capture all issued recommendations in the recommendations register hence audited entities lacked good knowledge of the recommendations to be addressed; (2) failure to include the issued recommendations in the audited entities' plans and budget as well as activities; (3) failure to regularly establish implementation status of the recommendations; (4) insufficient reporting and sharing of implementation status; and (5) unsatisfactory implementation of the audit recommendations although four years had elapsed since the recommendations were issued.

## **CHAPTER EIGHT**

### **CONCLUSION AND RECOMMENDATIONS**

#### **8.1 Introduction**

This chapter provides the conclusion on the implementation status of the previously issued recommendations as presented in Chapters Two to Six. The conclusion is based on the overall objectives of the follow-up on the implementation of recommendations as presented in Chapter One of this report.

Similarly, this chapter contains overall recommendations to the Government Ministries, Independent Departments, Agencies and Local Government Authorities on what should be done to improve the situation.

#### **8.2 Overall Conclusion**

The analysis of the follow-up results provides the reason to conclude that, generally, the efforts taken by the audited entities in implementing the previously issued performance audit recommendations were insufficient. .

The overall conclusion of this follow up is that, efforts taken by entities to implement CAG recommendations were not promising. The implementation of the issued recommendation was not satisfactory because only nine (9) out of sixty three (63) (14.3%) recommendations were fully implemented, thirty eight (38) (60.3%) were partially implemented, fifteen (15) (23.8 %) were not implemented at all and one (1) (1.6%) was overtaken by event. Therefore, 84.1% of the issued performance audit recommendations were either partially or not implemented at all.

Given the above noted situation, it can be stated that the main reason for that is insufficient governance structure within each of the audited entities, which is demonstrated by lack of clearly established responsibilities and reporting arrangements; and inappropriateness of audited entities' processes and system for monitoring the implementation of issued recommendations.

In this regard, the audited entities are still operating without having a specific section or individuals that have a responsibility to coordinate the implementation of the performance audit recommendations; lack of updated recommendation register, and lack of detailed plans for

implementation of the issued recommendations. This contributed to insufficiency in the implementation of the audit recommendations.

### **8.3 Specific Conclusions**

#### **The Audited Entities have Not Satisfactorily Implemented a Large Number of the Audit Recommendations Issued by NAOT**

Many issued audit recommendations have not been implemented by the audited entities. Only nine (9) of sixty three (63) issued performance audit recommendations (equivalent to 14.3%) were fully implemented, while the rest of the issued recommendation were either partially or not implemented at all contrary to the expectation of the audit office.

Failure to implement the issued recommendations, to a large extent denied the audited entities the opportunity for enhancing quality of the services they are providing and ultimately denying people to receive high quality services which are supposed to be rendered to them by the audited entities.

#### **The Audited Entities Lack Working Governance Systems for Monitoring NAOT's Performance Audit Recommendations**

The audited entities lack a well-functioning working governance system for monitoring NAOT's performance audit recommendations even though all audited entities have internal audit functions, audit committees, and perform periodical management meetings.

Unfortunately, those structures were not extensively used to address performance audit recommendations. They were mainly focusing on the recommendations from financial audit only. For example, the Audit Committees of all audited entities have never received any performance audit reports for their deliberation.

The reporting of the level of implementation of the issued audit recommendations has been a challenge. There was no documented information or reports which could have been used to track and document the level of implementation of the issued recommendations to ensure the implementation status is periodically updated.

#### **8.4 Overall Recommendations**

The Prime Minister's Office should ensure that all Ministries, Independent Departments, Agencies and Local Government Authorities establish the appropriate working governance structure for monitoring NAOT's performance audit recommendations by:

1. Establishing a specific section/ unit or individual staff for coordinating all the issued performance audit recommendations;
2. Ensuring that recommendation(s) registry is in place and has to be updated to appropriately capture all issued performance audit recommendations;
3. Developing a detailed plan to ensure incorporation and implementation of the issued performance audit recommendations in the respective responsible entities; and
4. Establishing a system that will allow regular development of implementation status from the issued performance audit recommendations.