



EXAMINING THE CRUDE DETAILS

Government Audits of Oil & Gas Project Costs
to Maximize Revenue Collection

Ghana Case Study

Ghana's first commercial oil discovery at Jubilee Field in 2007 created public expectations that the country would soon be flush with oil revenues. Ghana now has 17 petroleum agreements and produces 180,000 barrels daily, but cost audits have suffered from delayed starts, legal ambiguities, overlapping audit mandates, deficiencies in necessary expertise, and a lack of transparency. Ghana is taking steps to tackle these issues with an interagency committee, more frequent auditing, and additional staff, but should further strengthen accountability by publishing audits and reporting on audit activities and results, as well as by empowering oversight actors to play stronger roles, including monitoring the national oil company.

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This paper was written by Alexandra Readhead, Daniel Mulé, and Anton Op de Beke. The authors would like to thank the many people who contributed to this report, including those who provided insights in interviews and written correspondence. The authors are particularly grateful for the time that government representatives in Ghana, Kenya, and Peru accorded to this project and for their candor and cooperation. We also thank Ben Boakye, Jack Calder, Humberto Campodonico, Thomas Lassourd, Charles McPherson, Rob Veltri, and Charles Wanguhu for their excellent inputs. Special thanks are extended to Oxfam colleagues Francis Agbere, Miguel Levano, Gilbert Makore, Armando Mendoza, and Davis Osoro, for their dedication to ensuring the quality of the case study research. We share our appreciation for the contributions of other Oxfam staff, including Alejandra Alayza, Alex Ampaabeng, Andrew Bogrand, Kathleen Brophy, Nathan Coplin, Nadia Daar, Nick Galasso, Christian Hallum, Richard Hato-Kuevor, Joy Kyriacou, Max Lawson, Robert Maganga, Kevin May, Abdul Karim Mohammed, Joy Ndubai, Oli Pearce, Marta Pieri, Quentin Parrinello, Maria Ramos, Radhika Sarin, Claudia Sanchez, Robert Silverman, Kate Stanley, and Ian Thomson. Our deep gratitude is extended to those without whom this publication would not be possible, notably Ian Gary, Emily Greenspan, and Isabel Munilla for their early appreciation of the importance of this topic and for their unwavering support, and James Morrissey and Laurel Pegorsch for their tireless assistance and persistent attention to detail.

For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International in November 2018.
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

Cover photo: Oil tankers off the coast of Takoradi, the oil capital of Ghana (Ben Sutherland).

OIL AND GAS PROFILE

The Republic of Ghana is one of Africa’s newer oil- and gas-producing countries. Compared with the continent’s better-known petroleum producers like Angola and Nigeria, Ghana remains small, with a current output of 180,000 barrels per day (bopd).¹ Its output is expected to increase to 250,000 bopd when Aker’s DWT/CTP block comes onstream in 2021. The first commercial discovery was the Jubilee Oil Field in 2007—with an estimated 700 million barrels (MMbo) of oil and 800 billion cubic feet of gas (bcf)—which started production in 2010. The Twenneboa, Enyenra, and Ntomme (TEN) Fields (with an estimated 240 MMbo and 396 bcf of gas) came onstream in late 2016, and the Sankofa Field (with an estimated 500 MMbo and 1.45 trillion cubic feet of gas) began producing first oil in May 2017 and first gas in August 2018.²

AUDIT SNAPSHOT



Ghana

		Ghana
Petroleum Sector Context	Fiscal regime type	Tax and royalty regime; an additional oil entitlement (AOE) based on the project’s rate of return.
	Contract type	Petroleum agreements (PAs)
	Year of first oil production	2010: Jubilee Field (Tullow Oil)
	Number of PAs, PSCs or licenses	Production: 3 PAs Exploration/ pre-development: 14 PAs ¹³⁹
Utilization of Cost Audit Rights	Number of petroleum fiscal audits	<i>Field-based tax audit:</i> 2 PAs (Jubilee: 2011–2014; 2015–2017; and TEN: 2016–2017) 1 pre-production tax audit (Sankofa) <i>Desk-based tax audit:</i> All 17 PAs annually
	Audit results from the start of production	<i>Tax audit:</i> Approximately \$78 million has been assessed for 2015–2017



LAWS

Cost-auditing rights

Four sources of law govern cost-auditing rights in Ghana:

- Section 36 of the Revenue Administration Act (2016) gives the Ghana Revenue Authority (GRA) the right to audit oil and gas companies for tax purposes. The time limit for audit is six years.
- Section 16 of the Petroleum Income Tax Law (PITL) (1987) gives the GRA the right to assess every person chargeable with tax for any year of assessment, provided that is no later than four years from the end of the year or quarterly period to which the assessment relates.
- Section 18.5 of the Model Petroleum Agreement (2000) gives the Ghana National Petroleum Corporation (GNPC) the right to review and approve all financial statements submitted by the company. Section 18.6 gives the GNPC the right to, at its sole expense, have an independent national auditing firm carry out an audit of the financial information of the company relating to the petroleum operations within two years from the contractor's submission of any report or financial statement. The PAs in force have adopted this provision.
- Section 51(b) of the Petroleum Exploration and Production Act (PEPA) (2016) gives the Petroleum Commission (PC) the right to supervise or inspect petroleum activities to ensure they are carried out in accordance with the act. Specifically, it may inspect, test, or audit the works, equipment, operations, records, registers, and financial accounts of a licensee, contractor, subcontractor, or the corporation that is related to or used in petroleum activities. The PEPA is complemented by the Petroleum (Exploration and Production) (General) Regulations enacted in June 2018, which provide additional detail about contractor (and GNPC) recordkeeping requirements and reporting obligations, among other items.
- Generally, changes to the governing laws since the 2000 Model PA might not be reflected in older PAs. An active licensing round launched in 2018–2019 will, however, allow Ghana the opportunity to clarify any discrepancies between the Model PA and the current legal framework for the sector for new projects, and potentially incorporate terms that better protect the country's interest in effective cost auditing.³

Eligible costs

Because Ghana operates a tax and royalty regime, the common problem of aligning recoverable and tax-deductible costs does not occur.

Notwithstanding, there are three sources of guidance with respect to

expenditures eligible for tax deduction:

- The Accounting Guide in Annex Two of the Model Petroleum Agreement (2000) outlines all of the exploration, development, and production costs eligible for deduction as “shared costs.”⁴
- Section 31 of the PITL (1987) includes all the costs under the Model PA, plus additional costs that relate exclusively to income tax at the partner level—i.e., interest expense, proprietary costs (office and staff costs), marketing costs, and bank guarantees.
- Section 67 of the Income Tax Act (ITA) (2015) includes a list of costs eligible for tax deduction.

The only difference between the ITA and the PITL regarding eligible costs is that Section 67(2)(B)(i) of the ITA specifies that deductions will be allowable only to the extent that they relate to a source of income in Ghana. This is to prevent companies from using costs incurred elsewhere to offset income in Ghana. The PITL does not specify this.

Penalties

There are no special penalties for ineligible or inflated costs. The standard penalty rate for failure to pay tax on the due date is 10 percent, plus an additional 10 percent of unpaid tax depending on the delay. In the event of a fraudulent tax return, the penalty is double or triple the underpayment of tax. Interest is charged at a rate of 5 percent on the tax and penalty that remains unpaid.⁵ All penalties associated with corporate income tax (CIT), royalties, and land use payments (“surface rentals”) are paid into the Petroleum Holding Fund, and penalties associated with withholding and payroll taxes go into the general Consolidated Fund for the Ghanaian treasury.⁶ Penalties are not tax deductible.

Safeguards for taxpayers

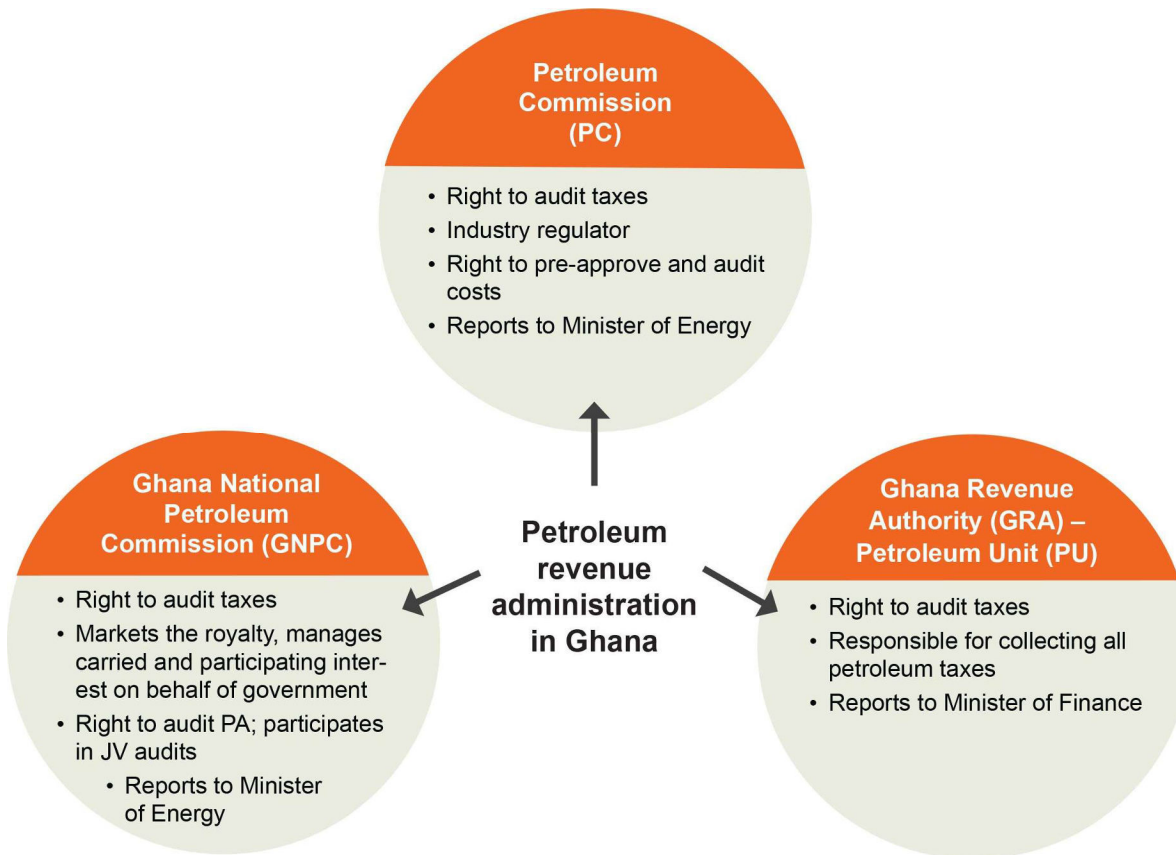
Part IVA of the Revenue Administration Act (2016) sets up the Taxpayer Appeals Department. According to this provision, taxpayers can appeal any of the assessments under the relevant laws relating to revenue. “Relevant laws” include the ITA, as well as all sector-specific laws that cover petroleum taxes.



COORDINATION

The roles and responsibilities of the various government agencies involved in cost auditing are clearly specified, but there is considerable overlap.

Petroleum revenue administration in Ghana⁷



Based on the Revenue Administration Act (2016) and the PITL (1987), the Petroleum Unit (PU) of the GRA is responsible for collecting all petroleum taxes. While this unit is focused on petroleum revenues, questions have been raised about how committed the PU and the GRA are to collecting petroleum taxes given that these go into a separate Petroleum Holding Fund rather than the Consolidated Fund (at least initially); petroleum revenues therefore do not contribute to GRA's overall performance targets. This possible question of incentives could have practical impacts on revenue collection from the sector.

The GNPC was established in 1983.⁸ It has gone through many iterations, largely owing to changes in the political environment. According to research by the Oxford Energy Institute, positions in the GNPC, particularly the role of chief executive, have always been allocated to people close to the president and are among the most

prestigious roles in government.⁹ At present, the GNPC nominally receives the royalty, carried interest, and participating interest on behalf of the government, but the proceeds are collected by the GRA and transferred to the Petroleum Holding Fund. Thus, the GNPC's current role in collecting revenue is quite limited. However, according to the Model PA (2000), it is exclusively responsible for regulating the sector. Occasionally, the GNPC shares information with the GRA—for example, in relation to the calculation of surface rentals and the location of companies—but this is not systematic.¹⁰ It is possible that the GNPC feels unable to share information because of Section 24(2) of the Petroleum Commission Act (2011), according to which, “six months after the commencement of this Act, the GNPC shall cease to exercise any advisory function in relation to the regulation and management of the utilization of petroleum resources and the coordination of policy in relation to that function.” While this does not preclude the GNPC from sharing information, it may create some resistance. The Petroleum Commission may wish to revise the provision so as to expressly require GNPC to share JV audit reports, as well as other relevant information.

The Petroleum Commission Act of 2011 established the PC as the regulator of all upstream activities. The main activities performed by the PC include reviewing and monitoring the Plan of Development and Plan of Work. There have been reports, however, that the PC lacks autonomy and is bypassed by the Ministry of Energy in decision-making, particularly when new PAs are signed.¹¹ The PC has a better working relationship with the GRA than with GNPC. The GRA has noted that in the past it has occasionally requested the PC to break down costs claimed by companies so it can better determine the appropriate tax treatment.¹²

Companies have expressed frustration with the lack of coordination between the GRA and the PC when it comes to auditing costs and requesting information from companies. Often similar information is requested in different formats from different entities, while at the same time government agencies do not always share information with each other (e.g., the PC has not always shared geophysical cost data with the GRA).¹³ This situation appears to be improving with the introduction of a new interagency taskforce—the Multi-Agency Petroleum Revenue Committee (MAPERC)—which comprises the GRA, the PC, the Ministry of Finance, the Ministry of Energy, and the Bank of Ghana.

The aim of MAPERC is to coordinate and share information according to each institution's mandate. The Ministry of Finance is the lead agency.¹⁴ The committee is required to meet quarterly. An online platform is being set up to facilitate information sharing. Part of the process of designing the platform is to harmonize reporting templates. The committee has met only a couple of times so far, and while it may be too early to conclude whether it is effective, initial indications suggest that it has promoted improved coordination, though it could be strengthened with committed funding and formal legal status. MAPERC is currently being driven by the UK aid-funded Ghana Oil and Gas for Inclusive Growth (GOGIG) program, which has continued funding until the end of 2019; thus, there is a risk that the committee may not be sustainable over the longer term.¹⁵



CAPACITY

Staff numbers and expertise

The PU at the GRA has a total of 19 staff; 3 are administrative; 1 is a petroleum chemist, and the rest are qualified accountants.¹⁶ It has received trainings sponsored by the World Bank, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ, the German development cooperation agency), GOGIG, and the Integrated Social Development Centre (ISODEC), a public policy research and advocacy organization.¹⁷ Notwithstanding, the PU struggles to keep up with technical changes in the industry and lacks benchmark data to verify costs. The deputy commissioner for the Large Taxpayer's Office (LTO) is currently looking for consultants to work alongside the unit.¹⁸

The PC has some expertise; even so, experts suggest that the PU has been reluctant to accept the PC's assistance or involve it in joint audits, for example.¹⁹ The GNPC is said to have competence and strong knowledge of the sector but is less transparent than the other institutions involved in petroleum cost auditing in Ghana.²⁰ The GNPC unfortunately declined to be interviewed or provide comments on this study.

Risk-based audit strategies

The GRA's Large Taxpayer Audit Manual includes a risk matrix for selecting taxpayers for tax audits. Some of the indicators include filing rate, payments, and frequency of audit, as well as substantive issues such as director's fees and technical fees.²¹ In future, the PU plans to develop a sector-specific framework for risk assessment.²² In principle, the PU has capacity to conduct desk-based audits of all the companies each because as they are few in number, making risk assessment is less critical. Risk assessment will become increasingly important, however, as the sector grows and there is a need to prioritize limited audit resources.



INFORMATION

The GRA and PC have the power to request information from companies. The ITA imposes penalties for failing to maintain and submit a tax return. The GRA recently transitioned to automated tax returns, which should make risk assessment much easier. According to Sections 54 and 55 of the PEPA Act (2016), the PC has authority to request regular reporting and period information they want at different intervals. It is expected that the new regulations will elaborate on these powers.

According to Ghana’s Transfer Pricing Regulations (2012), all taxpayers must keep transfer-pricing documentation and make it available to the GRA upon request. In addition, taxpayers are required to automatically submit an annual transfer-pricing return form detailing any transactions between related parties, along with their annual tax return. This approach balances the need for regular oversight of related-party transactions with the need to prevent the GRA from being overwhelmed by unnecessary information.

Ghana signed the OECD Convention on Mutual Administrative Assistance in Tax Matters in 2011. This should mean it can access country-by-country reports—a reporting format established by the OECD requiring multinational companies to break down their financial results for each jurisdiction they operate in. So far, the GRA has not exchanged tax information with other countries (i.e., “Exchange of Information”), but it has signed a Tax Information Exchange Agreement with Liberia and has 17 Double Tax Agreements that include information exchange provisions.




TIMEFRAME

There have been two comprehensive, field-based tax audits of the Jubilee Field (Tullow Oil) in 2014 (for 2010 to 2014), and 2018 (2016 to 2018) and one of the TEN Field (Tullow Oil) in 2018.²³ The Sankofa Field (ENI) has not yet been subject to a field-based tax audit given that production started only in 2017.²⁴ However, the GRA has audited its pre-production costs as required by Section 65 of the Income Tax Act. All other PAs are in either the exploration or pre-development phase and have been subject to annual desk-based tax audits so far.

According to the PU, all tax audits in the oil sector have resulted in adjustments, primarily related to costs. The table that follows sets out the total amount of corporate income tax paid by upstream oil and gas companies between 2015 and 2017. This amount is broken down between companies’ self-assessed tax payments and the additional amount assessed by the GRA as a result of auditing, as well as any interest charged.²⁵ It is not known how much of the assessed tax has been collected, although an experienced petroleum tax expert in Ghana said it is usually 45–50 percent.²⁶

Assessed tax in Ghana's oil sector (2015 to 2017)²⁷

	2017	2016	2015
 Direct payments (self-assessed)	\$3,601,912	\$2,232,550	\$11,730,107
Audit assessment (to be collected)	\$42,103,579	\$27,314,273	\$8,680,725
Interest charged on deferred amount	\$4,740,099	—	—
TOTAL CIT PAID	\$50,445,590	\$29,546,823	\$20,410,832

The PU raised some additional preliminary assessments, but these were resolved and hence are not reflected in the table above. For example, the PU sought to limit the oil and gas companies' amount of debt relative to equity according to the 2:1 ratio in the Internal Revenue Act (2000). The companies claimed this rule did not apply because under Section 41 of the PITL (1987), they could seek an exemption.²⁸ According to the PU, the companies had not sought an exemption, which would have required parliamentary approval.²⁹ Ultimately the political leadership intervened,³⁰ and GRA and the JV partners settled the audit issues amicably,³¹ allegedly by not applying the limit under the Internal Revenue Act (2000) for prior years but confirming that starting in 2016 companies must comply with the rule in the Income Tax Act (2015), which increased the debt-to-equity cap from 2:1 ratio to a 3:1 ratio.³²

While the PU has been carrying out tax audits, civil society is concerned that these are too infrequent and reactive and has also stressed the potential value of auditing as a deterrent to corporate tax avoidance. According to a civil society representative, "You don't audit because you see problems. You audit to make sure things are going as planned...and so companies know you're not sleeping."³³ The IMF agrees, saying, "There is significant scope to make potentially large revenue gains from enforcing current legislation, for example by executing costs audits to detect possible profit shifting by companies in these sectors."³⁴ There have been significant audit delays. For example, the GRA only completed the 2011 to 2014 tax assessment of Tullow Oil in 2016. However, given that it was the first comprehensive tax audit in the oil and gas sector and that it raised interpretation issues regarding ring-fencing (i.e., the allocation of costs between different fields controlled by the same contracting parties), it is perhaps unsurprising that it took additional time. The GRA has noted that resolving the issues in that audit was an iterative process, but that now that the process is complete, new tax audits will begin soon.³⁵

Pre-approval of expenditures

There are procedures for government pre-approval of companies' expenditures. Section 27 of the PEPA Act (2016) states that where a discovery is declared commercial, the company must submit to the Ministry of Energy (in practice, the PC) a plan of development and operation, including detailed information on proposed expenditures. The company cannot proceed without approval from the PC. The right to pre-approve costs is a valuable opportunity to revise or disallow expenditures before they would be incurred rather than later during auditing. For example, the PC refused to approve a second floating, storage, and production offshore (FPSO) unit for Tullow Oil. (Tullow disputes this characterization of the role of the Petroleum Commission in the decision to avoid a second FPSO and maintains that the decision was based on work Tullow carried out as the operator that did not support the business case for a second FPSO, rather than on the work of the Petroleum Commission or GNPC.³⁶) Instead the PC suggested that the operator tie back the Mahogany, Teak, and Akasa Field to the existing FPSO at Jubilee Field. This approach saved \$1 billion in costs, representing \$300 million in additional corporate income tax.³⁷



ACCOUNTABILITY

Regulation of the national oil company

Currently, the GNPC is a partner in several upstream joint ventures but not as an operator in its own right. One day it may become a contractor, and at that time, per Section 11 of the PEPA, it will be taxed and audited just as other companies are.³⁸ Currently the GNPC pays payroll taxes but not corporate income tax or royalties.³⁹ The reason is that it holds the carried and additional equity interests in name of the government and therefore has no income of its own; it is financed by budgetary transfers. It is, however, audited by the Auditor General (see Ghana Audit Service discussion below), which has limited knowledge of the GNPC's operations and outsources the audit to an accounting firm.

Oversight institutions

The Ghana Audit Service is Ghana's supreme audit institution. It has a mandate to monitor all government auditing, including cost auditing, but in practice lacks the capacity. Based on the 2016 audit report, it seems the Audit Service is limited to verifying whether transfers of petroleum revenues between government funds were correctly recorded,⁴⁰ although staff say they also reconcile production figures and the revenues reported by the GRA with what comes into the annual budget.⁴¹ Going forward, the Ghana Audit Service intends to build its extractive industry capacity; it has begun setting up an Extractive Industries Unit and received initial training from the International Organization of Supreme

Audit Institutions (INTOSAI) Working Group on the Audit of Extractive Industries (WGEI). In the future, it would like to examine companies' payments to government rather than just the transfers of government revenues, in collaboration with the Ghana Extractive Industry Transparency Initiative (GHEITI)⁴² as well as the GRA and the PC.

Parliament could potentially provide additional oversight for the sector, but one prominent lawyer who has closely followed the oil sector's development said that Parliament lacks the technical expertise to adequately monitor petroleum revenue administration.⁴³ This view was endorsed by a local NGO, which said that the Parliamentary Subcommittee on Mines and Energy has low capacity, never discusses financial information, and does not conduct studies but relies on government agencies and civil society organizations.⁴⁴

Fortunately, Ghana does have a Public Interest and Accountability Committee (PIAC), an independent statutory body mandated to promote transparency and accountability in the management of petroleum revenues in Ghana, which can also inform Parliament. The Committee was set up in 2011 under Section 51 of the PRMA. PIAC produces a semi-annual and annual report that covers production, revenue collection and management, and distribution and use of petroleum revenues.⁴⁵ PIAC does not audit costs, but it has the power to review the performance of the GRA and other agencies in the context of assessing revenue collection and management. There is no public reporting by any government agency of cost-auditing activity or results.

RECOMMENDATIONS



	Recommendation	Responsible Actor
 LAWS	Publish practice notes on specific aspects of petroleum tax law on which there may be confusion or ambiguity among taxpayers (e.g., the calculation of AOE), thereby improving cooperative compliance and speeding up the audit process.	GRA
	Expressly exclude regulatory changes affecting oversight from the application of any future fiscal stabilization clauses, including in upcoming licensing rounds.	Ministry of Energy
 COORDINATION	As a key agency participating in MAPERC, the GRA should ensure there is sufficient political support and budget to sustain the interagency coordination mechanism after donor funding has finished.	GRA
	Work with MAPERC to harmonize and streamline reporting and documentation requirements across government agencies. This could include a uniform accounting template, ideally supported by an online platform to assemble the data each agency collects, along with real-time information from companies.	GRA
	Strengthen MAPERC with a secure budget for the near term, and develop a plan to ensure its continuation in the medium term.	International development partners, GOGIG, DFID
 CAPACITY	Strengthen cooperation with the PC, including establishing systems for regular exchange of information (including cost data) and possible joint audits (with more time devoted to collaborative field audits).	GRA
	Continue to build a team with technical knowledge of the petroleum sector, including through increased allocations of human and financial resources.	GRA
	Complete the fiscal audit manual for the oil and gas sector, including a sector-specific risk assessment framework. It should include risk assessment as a performance target for auditors.	GRA
	Make reports of technical assistance provided to the Ghana government publicly available, so that stakeholders, including other technical assistance providers, can better understand the support that has been provided.	International development partners

 INFORMATION	<p>Request that the GNPC share the results of joint venture audits, which would expand the pool of available benchmarking data for risk assessment and cost verification. The PC and GNPC data for risk assessment and cost verification. The GNPC should consider using its right to request an independent auditor.</p>	GNPC
	<p>Amend section 24(2) of the Petroleum Commission Act (2011) to include a specific requirement that the GNPC share JV audit reports, as well as any other relevant information, with the Petroleum Commission, or ensure that subsequent regulations allow for this.</p>	Parliament and/or Ministry of Energy
 TIMEFRAME	<p>Ensure that petroleum cost audits are done in a timely fashion. To catch up and build capacity, the GRA might want to engage an external, independent audit firm in a co-sourcing relationship while continuing to build the PU's capacity through on-the-job training.</p>	GRA
 ACCOUNTABILITY	<p>Publish audits an annual report on petroleum revenues, including aggregated information on audit activities and results.</p>	GRA
	<p>Require that the GNPC publish its annual audit reports, as well as financial statements and accounts.</p>	Ministry of Energy
	<p>Continue to build technical knowledge of the petroleum sector—including through increased allocations of human and financial resources—in order to audit the auditing functions of the GRA and Petroleum Commission.</p>	Ghana Audit Service
	<p>Urge the Ghanaian government to report publicly on the use of audit results, complementing other efforts to promote transparency, including the new register of petroleum agreements.</p>	Civil society
	<p>Strengthen existing accountability mechanisms to monitor cost auditing, including by engaging with the Ghana Audit Service, the Parliament, and/or GHEITI on this issue, and including women's participation in oversight.</p>	Civil society
<p>Report on the scrutiny to which tax payments have been subjected, including any audits and their outcomes.</p>	Oil and gas companies	

NOTES

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- ¹⁷ Ibid.
- ¹⁸ Interview with Petroleum Unit of the Ghana Revenue Authority, February 23, 2018.
- ¹⁹ Interview with Ghana Petroleum Commission, February 22, 2018.
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- ³⁶ Email correspondence with Tullow, November 2018.
- ³⁷ Interview with expert in petroleum taxation in Ghana, February 26, 2018.
- ³⁸ Republic of Ghana, *Petroleum (Exploration and Production) Act, 2016 (Act 919). Section 11* (Accra, 2016), p. 11, [http://www.petrocom.gov.gh/assets/Petroleum\(Exploration%20and%20Production\)Act2016.pdf](http://www.petrocom.gov.gh/assets/Petroleum(Exploration%20and%20Production)Act2016.pdf)
- ³⁹ Interview with Petroleum Unit of the Ghana Revenue Authority, February 23, 2018.
- ⁴⁰ For more information on petroleum revenue management in Ghana, see PIAC (Public Interest and Accountability Committee), *Simplified Guide to the Petroleum Revenue Management Law in Ghana* (Accra, 2017), http://www.piacghana.org/portal/files/downloads/simplified_guide_to_ghana%27s_petroleum.pdf
- ⁴¹ Interview with Ghana Audit Service, February 21, 2018.
- ⁴² For suggestions on how supreme audit institutions and EITI can bolster each other, refer to D. Wilkins and E. Osei-Appiah, "Four Ways Supreme Audit Institutions and EITI Can Bolster Each Other," EITI blog, February 21, 2018, <https://eiti.org/blog/four-ways-supreme-audit-institutions-eiti-can-bolster-each-other>
- ⁴³ Interview with attorney with experience in Ghana's petroleum sector, March 1, 2018.
- ⁴⁴ Interview with civil society representative engaged in extractive industries governance, February 21, 2018.
- ⁴⁵ Public Interest and Accountability Committee (PIAC), PIAC Reports, <http://www.piacghana.org/portal/5/25/piac-reports>



Photo: Oxfam staff review a public revenue and expenditure board in Shama, Ghana. (Andrew Bogrand).

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