

Co-operative Republic of Guyana



Ministry of Natural Resources

Guyana Oil and Gas Capacity Building Project (P166730)

TERMS OF REFERENCE

Consulting Services for Cost Recovery Audit and Validation of the Government of Guyana's Profit Oil Share

BACKGROUND

Guyana's petroleum sector has been advancing at a steady pace with first oil occurring in December 2019 and maximum levels of production from its first field, Liza 1, being achieved from in December 2020. The world-class discoveries and the rate of petroleum development within the country, coupled with ongoing assessments of new discoveries, has catapulted Guyana's status and importance to the global Oil industry and Petroleum investors. As such, there is an exigency to ensure that the Nation's interest and potential gains from the exploitation of its non-renewable resources are protected.

Now that Guyana is an emergent petroleum producing and exporting economy, the Government of Guyana has renewed its commitment to ensuring that the development of the nation's resources will engender maximum economic benefits. This will be manifested through improved levels of national prosperity, enhanced National Programs and Social Services and generally, elevated standards of living and equitable distribution of wealth.

In light of the foregoing, as part of the Expanded Low Carbon Development Strategy, the Government of Guyana will institute measures, systems and the requisite machinery needed to provide effective oversight of the Petroleum Sector to ensure that the country's oil and gas resources are prudently and transparently managed. Intrinsicly, this would require the formulation and consistent development of policies, legal framework, local institutions, and Governmental systems needed to regulate and oversee the sector. Further to these overarching considerations and mechanisms, an important tool at the Government's disposal to provide such assurances and enhance accountability is the execution of Cost Audits.

The Guyana Petroleum Resources Governance and Management Project (the 'Project') is supported by the World Bank and aims to enhance the Government's capacity to achieve its management goals for the petroleum sector through interventions focused on enhancing legal and institutional frameworks and strengthening the capacity of key institutions to manage the oil and gas sector in Guyana. Currently, this project also has the remit of coordinating the Cost Recovery Audits of the various Petroleum Blocks.

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OBJECTIVE

The objective of the assignment is to conduct an audit of the recoverable contract costs as determined by the Petroleum Agreement (PA), taking into consideration Accounting good practices, International Accounting Standards, as well as Auditing Procedures and Standards. The assignment will include the validation of the Government's share of profit oil for the period under review; while providing on-the-job training to the staff of the Guyana Revenue Authority (GRA), the Office of the Auditor General (OAG) and the Ministry of Natural Resources (MNR) [and other agencies as directed by the Government of Guyana] on the audit process.

SCOPE OF WORK

Under the present Terms of Reference, the Consultant is invited to fulfil the scope of works described below:

- 1) Pursuant to the Government's audit rights under the PA, the Consultant, working together with a designated joint MNR/GRA/OAG team, coordinated by the MNR and GRA, will audit, examine and verify all available documentation and records necessary for charges and credits relating to the Contractor's¹ activities under the applicable PA for the period January, 2018 to December, 2020; this includes all books of accounts, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other relevant documents. More specifically, the consultant will be responsible for:
 - a. Conducting a pre-audit analysis
 - b. Devising an effective Audit Plan inclusive of an appropriate methodology
 - c. Executing the Audit in adherence to the provisions of the PA, applicable laws, regulations, and procedures, as well as International Good practices and Standards to:
 - i. Ensure that costs are legitimate and are in compliance with the terms of the PA;
 - ii. Verify whether costs have been accurately assigned to the cost category and classified/ categorized in compliance with the terms of the PA;
 - iii. Authenticate and substantiate costs, including a comprehensive evaluation of expenditure, expenditure processes and cost allocation, and determine if costs are eligible for cost recovery;
 - iv. Provide valid basis and a complete written audit finding to justify the disqualification/disallowance of costs;
 - v. Determine whether transactions between related parties were done at arm's length and prices were established in accordance with arm's length principle;

¹ The Contractor will be determined by the Client.

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- vi. Determine whether costs were competitive for transactions between unrelated parties;
 - vii. Ensure that costs were aligned with industry norms, including those related to cost control and optimisation;
 - viii. Ascertain whether the Government of Guyana received value for money and assess risk to government revenue;
 - ix. Create a model(s) to benchmark costs incurred in Guyana to evaluate reasonableness and/or applicability of contractors' costs claims;
 - x. Confirm that the best procurement procedures, as applicable, were implemented, were well defined and followed;
 - xi. Verify that robust industry standard internal controls exist for the accounting systems of the Operator;
 - xii. Ensure that documents and records are kept in accordance with PSA;
 - xiii. Ensure expenditure is in line with the Annual Work Programme & Budget (WP&B) and Field Development Plan (FDP); and
 - xiv. Further to the above, conduct other activities deemed necessary to provide full assurance that the recoverable cost claims are true, fair, and reasonable.
- 2) Conduct verifications of the Crude Oil Valuation pursuant to the provisions of Article 13 of the PA for the Audit period as well as verify royalties remitted to the Government for the said period in accordance with Article 15 of the PA.
 - 3) Validate the accuracy of the total Government Share of Petroleum for the period under review.
 - 4) Assist the relevant authorities in communicating the findings of the audit to the Contractor and, if requested, represent, or accompany the relevant authorities in meetings with the Contractor.
 - 5) Assess the impact of the audit on future Profit Oil revenues.
 - 6) Provide on the job training to selected staff of the MNR, GRA, OAG [and other agencies as directed by the Government of Guyana], as they work jointly with the Consultant and other agencies aimed at building the capacity of these agencies.
 - 7) Also formulate and conduct seminar/workshop-based training prior to and after the execution of the audit. Training topics will include but are not limited to:
 - a) The audit protocol, procedures, and techniques to be employed

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- b) Understanding the methodology applied in conducting the audit
 - c) Interpreting the findings of the audit
 - d) Communicating findings to the Contractor
 - e) Managing future audits, particularly post exploration activities such as:
 - i. Auditing operating costs and lifts
 - ii. Monitoring lifting entitlements
 - iii. Calculating the Minister's share of petroleum
- 8) Provide support to the MNR in related areas such as:
- a) Structuring of Annual Work Programmes and Budget
 - b) Structuring / executing lifting agreements
 - c) Structuring oil and gas marketing agreements
 - d) Structuring petroleum handling agreements

DURATION OF ASSIGNMENT

The duration of this assignment is expected to be four (4) months, commencing **June 2021**. The Consultant's physical presence will be required, as agreed by the Client for at least thirty (30) days of the four (4) months and as set out in the Implementation arrangements.

The consultant is requested to present its proposal with a timeline allocation for the assignment and any assumptions made regarding the level of effort indicated in this TOR. The contract payment will be on a lump sum basis and the selected Consultant will be required to complete the necessary works for the payment of the sum contained in their proposal to be made.

DELIVERABLES

The core deliverables for this assignment are the provision of advice and assistance to the Client as required in executing the Scope of Work. These advisory services shall be carried out with a participatory approach and involve local counterpart staff in all stages of the activities. In addition, the Consultant will be required to prepare and deliver:

Deliverables	Indicative Submission Deadlines
Pre-Audit Analysis and the Audit plan inclusive of the methodology and risk assessment checklist	2 weeks after contract effectiveness
Initial Audit Findings and proposed training program and timeline	7 weeks after contract effectiveness

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Deliverables	Indicative Submission Deadlines
Intermediate Audit Report and Recommendations, including risk assessment findings	12 weeks after contract effectiveness
Final Audit Report and Recommendations <i>(NB: This activity is dependent on the receipt of the Auditee's response- further to the provisions of Annex C, Section 1.5 of the Petroleum Agreement, the contractor is allowed a response period of sixty days, as such, the project timeline may be adjusted accordingly)</i>	15 weeks after contract effectiveness
Audit guide and Account of the Audit Process	15 weeks after contract effectiveness
Recommendations for the Government of Guyana, with particular focus on lessons learned from the previous and current audits and proposals for future work on cost recovery. These must include applications to: laws, agency coordination, risk management, institutional capacity building, information sharing and protection, timeframe, and accountability.	16 weeks after contract effectiveness
Training Materials	16 weeks after contract effectiveness
Report on Training Activities	16 weeks after contract effectiveness

The deliverables schedule is to be agreed prior to contracting with the MNR and GRA. All deliverables must comply with the deadlines established.

The Consultant together with the MNR and GRA will organize two (2) separate two-day workshops for GRA/OAG and all other respective agencies within 5 days following the submission of the intermediate and the final audit reports. In addition, the Consultant will be expected to prepare responses in writing, as needed, to queries from MNR/GRA/OAG [and any other agencies as directed by the Government of Guyana].

All deliverables in electronic and printed copies will be required in English and will be submitted to the MNR/GRA/OAG teams for review and approval. It is expected that certain

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deliverables may require several drafts to incorporate comments by the World Bank, the Client, and relevant stakeholders before they are determined to be final.

IMPLEMENTATION ARRANGEMENTS

- 1) The Consultant selected for this assignment will work under the direction of the MNR and GRA, or other designated official within the MNR and GRA, and will work closely with other government agencies involved in the oil and gas sector as required.
- 2) The MNR and GRA will designate respective Focal Points to work with the Consultant. The Focal Point will provide existing documentation regarding the Project and support the coordination and execution of the Consultant's tasks and activities, including arranging meetings with the Operator(s) as needed; nevertheless, the Consultant will be responsible for obtaining all the necessary public information required to perform the tasks included in this TOR.
- 3) These cost audit services shall be carried out with a participatory approach and involve specifically designated local counterpart staff in all stages of the activities.
- 4) The Consultant's physical working presence is required by the client for a minimum of thirty (30) days over the duration of the consultancy. Additional in country days will be required for the implementation of training program activities.
- 5) The Consultant shall make its own arrangements for carrying out its services, including but not limited to accommodation, transport, health insurance, document(s) translation/reproduction, etc.

EXPECTED EXPERIENCE AND REQUIRED QUALIFICATIONS

To be eligible for the assignment, the Consultant shall be an internationally recognized accounting and audit firm with extensive experience in contract compliance review, joint venture audits, auditing petroleum costs under production sharing contracts and other petroleum agreements and its fiscal implications. The Consultant must have completed at least three (3) similar assignments during the past five years.

The Consultant may propose the best team combination to achieve the overall goal. To be considered for the assignment, proposed team members should have in-depth international expertise, local and regional knowledge, access to benchmarking for comparable deep-water environments and the following minimum qualifications (though consultants are invited to propose further skills as deemed appropriate for meeting the needs of the assignment). The Audit Team must consist of professionals who are:

- i. Transfer pricing specialists

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- ii. Tax lawyers
- iii. Cost accountants
- iv. Crude Oil valuation experts
- v. Chartered accountants
- vi. Certified Public Accountants
- vii. Certified Fraud Examiners
- viii. Procurement and contracts experts
- ix. A partner who specializes in Natural Resources/Risk Management
- x. A partner with expertise in cost recovery audits in oil and gas

Team and Assignment Coordination Leader

The team leader with at least a Post-Graduate Degree in Finance, Economics, Business, Accounting, and other relevant degrees with a minimum of fifteen (15) years' experience.

The team leader should demonstrate experience in the following areas: auditing oil and gas costs for cost recovery eligibility; oil and gas field design; engineering and cost estimation; experience with cost estimating tools/software; experience in developing, reviewing development plans and cost estimates (facilities and infrastructure); development of cost models in upstream infrastructure development.

The team leader should have a track record of team leadership with a demonstration of experience working with versatile teams and excellent planning, organizational and communication skills with the ability to guide multi-disciplinary teams.

Petroleum Engineer

With at least a post-graduate degree in Petroleum Engineering, Engineering, or other relevant disciplines with a minimum of ten (10) years of experience in the following: cost Optimization through improved CAPEX and OPEX discipline; upstream cost study in Cost Modeling and Benchmarking Field design, engineering and cost optimization CAPEX/OPEX analysis and bench-marking; understanding of upstream value chain; exploration activities and costs component, and experience in regional (Latin America) Exploration and Production.

Financial Expert

With at least a post-graduate degree in Finance, Management or Business related discipline with a minimum of ten(10) years' experience in upstream oil and gas companies with the following relevant experience: production sharing contracts and their fiscal terms; joint venture operations; cost classifications and categorization; international procurement and procurement

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benchmarks; budgets and analysis of Financial Statements and cost schedules; cost allocations, taxation, transfer pricing; financial and economic modelling in upstream petroleum operations; different types of models and software's, and understanding of IFRS and other accounting standards.

Legal Expert

With at least a degree in Law from an internationally recognised institution with a minimum of ten (10) years of experience as a practicing attorney-at-law working in upstream oil and gas sector with a focus on cost audits and related matters. Should be conversant with all relevant legislation, including tax laws and the petroleum law, governing the upstream sector in Guyana since they will determine the cost allowability.

In addition, the expert should have the following relevant experience: interpretation of relevant Petroleum Laws; Experience in Production Sharing Contracts; Joint Venture Operations; Upstream Agreements and Negotiations; and local content policies.

To be considered for the assignment, proposed team members should submit their respective CV's. The key members of the Consultant's team shall not change throughout the duration of the contract with the Government of Guyana and should be readily available to offer their services in fulfilment of the contractual obligations. Any staff changes will require the Government of Guyana's written approval. The Consultant's recommendations must be consistent with the World Bank's safeguard policies.

LOCAL PARTICIPATION

Local firms with the required skills, qualifications and experiences are encouraged to apply for this consultancy. Wherever necessary the eligible partnership that exists between a local and international firm that can perform these tasks should be expressed in an application.

CONFLICT OF INTEREST

The Consultant is required to disclose any potential conflicts of interest arising out of other assignments. Where the Consultant currently represents any party or potential stakeholders that would create a conflict of interest or to the extent any conflict of interest would or could arise in the future, the Consultant shall detail any measures that may be required to avoid such conflicts of interest in connection with the implementation of this assignment.

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CONFIDENTIALITY

The Consultant shall be required to keep confidential all information received, gathered, or communicated, directly or indirectly, from relevant authorities, agencies, ministries, the World Bank, or other stakeholders as well as all copies or analyses that the Consultant has made, or that have been made by third parties, on the basis of such information (collectively, the Material). The Consultant shall use the Material exclusively for the purpose of providing the services described in these Terms of Reference. The confidentiality obligations shall not apply to information already in the public domain.

The consultancy team will be required to agree and sign a Non-Disclosure Agreement on all working tasks for the Government of Guyana.

All reports and work products from the Consultant will be only delivered to specifically designated representatives within the government of Guyana.