

THE REPORT ON ACTIVITIES OF THE WORKING GROUP ON AUDIT OF EXTRACTIVE INDUSTRIES SINCE LAST MEETING: 2014 TO DATE:

PRESENTATION TO THE 2ND ANNUAL MEETING: 21st to 23rd September, 2015, OSLO, NORWAY: BY OGENTHO POUL MAXWELL, DIRECTOR/HEAD OF WGEI SECRETARIAT, SAI UGANDA

- The Chair of this Session also Chair-INTOSAI Working Group on Audit of Extractive Industries,
- Distinguished Delegates,
- Ladies and Gentlemen,
- All protocol observed.

On behalf of the staff of the secretariat of the Working Group, both in Kampala and Oslo, I welcome you to this 2nd Annual meeting of the Working Group. I hope you still have fresh memories of Kampala, Uganda.

I want to begin my presentation with a quotation from the April 2015, International Journal of Government Auditing editorial; Copyright ©2003-2015 INTOSAI

"The extractive industry presents great opportunities for the impact of SAIs' work on the lives of citizens to be realized, due to this sector's significant potential and, when it is properly managed, its considerable revenue contribution." —John F. S. Muwanga, (2015).

❖ **Introduction:** the presentation will cover

- Scope of WGEI
- Scope of the report
- WGEI Secretariat update
- Community of Practice (CoP)
- Selected EI activities and events since 2014-2015 basing on approved WGEI objectives covering:
 - Knowledge Enhancement
 - Sensitization on SAIs' role in Extractive Industries
 - Examples of EI-related audit reports produced

❖ Report Scope

- This report **covers a selection of activities** undertaken by the INTOSAI WGEI Secretariat, Working Group members and partners since the last meeting in August 2014 in Kampala.
- The report is **intended to inform members** on the variety of on-going work and to highlight opportunities that exist for mutual exchange and learning in the area of Extractive Industries.
- The report **does not represent a complete overview** of all on going activities on Extractive Industry but picks only some aspects.
- The report also **includes updates on activities and audits initiated without the direct involvement** of the Working Group but have a bearing on the Working Groups' activities and objectives.

❖ INTRODUCTION:

- The Working Group on Audit of Extractive Industries (**WGEI**) **was established** at the XXI International Conference of Supreme Audit Institutions (INCOSAI) held in Beijing China, October 2013 assigning SAI Uganda as its Chair.
- The main **objective** for the establishment of the new Working group was to; "**promote audit of extractive industries within the INTOSAI community in order to support good governance and sustainable development for the UN post 2015 agenda**".
- This Working Group was formed to address a number of **challenges being faced by SAIs in auditing of extractive industries**, among others, technical complexity of the sector, need for capacity building, need for retention of specialized staff and limitations in mandate of SAIs to undertake the extractive Industries audit.

❖ SCOPE OF WGEI

- The scope of the Working Group on Audit of Extractive Industry, as agreed by members, covers: Oil, Gas and Solid minerals.(1st WGEI, Kampala, 2014)

A. WGEI SECRETARIATE ACTIVITY UPDATE:

- The major role of WGEI secretariat is to support WGEI Chair in order to perform his roles as required under INTOSAI Working group. Some key update I bring to your attention are:
- **Membership:** as evidence of continuity of operations, the working group **membership** has increased since the last meeting **30** to **34**. These new members are: SAI USA, Egypt, Libya and Trinidad & Tobago.
- **Steering Committee of WGEI** is now operation. The committee held their 1st electronic meeting in May 2015 which approved a number of planning documents. The 2nd committee meeting is slated for 23rd September 2015 here in Oslo to discuss priority tasks for the WGEI in the years to come.
- **The WGEI website** is fully functional and was revamped, updated and re-launched in July 2015 giving a facelift and providing new resources of better functionality.
- **A WGEI newsletter** was also launched in August 2015 with the 1st issue released; followed by the 2nd edition in mid-September 2015. Within this short time, over 120 readers registered to read from all the INTOSAI regions. The secretariat requests members to volunteer articles for the monthly newsletter.
- WGEI Secretariat undertook **mapping to identify previously conducted audits and existing audit reports in the Extractive Industries** done in the various countries. EI related audits from

several countries were identified, and a number of reports have, during the year, been made available on the WGEI website categorized by EI value chain, a very useful informative arrangement.

- The secretariat distributed a **small survey requesting SAIs to report on their audits** and activities undertaken in EI area. The survey disclosed several audits and Extractive Industry audits that has been undertaken and reported since the establishment of WGEI.

B. COMMUNITY OF PRACTICE (COP)

- The **Kampala meeting approved the creation of WGEI Community of Practice coordination office (COP)** as a platform for SAIs, stakeholders and others of like interest to share best practices, resources and contacts with the aim of strengthening audit of the extractive industries.
- The long awaited community of practice coordinator was **recruited and reported in August for the 1st contract period of three Months to November 2015.**
- This person was **seconded from the Norwegian Refugee Council's (NRC) roster of experts i.e. NORCAP.**
- This secondment was **financed by SAI Norway (OAGN)**, while a more sustainable solution is yet to be sought by WGEI members for this key function.
- **A number of positive achievements** have since been made by the Coordinator Community of practice within this one month. Details will be presented in a separate presentation later tomorrow.
- A **challenge** though remains in this area regarding the **needed funds to extend operations of COP to at least one full year.** (A full presentation shall be made in regard to COP later)

C. SELECTED ACTIVITIES AND EVENTS IN EXTRACTIVE INDUSTRIES IN THE PERIOD OF 2014-2015 SINCE 1ST MEETING

1. KNOWLEDGE ENHANCEMENT:

- i. In line with the 3rd objective of **WGEI i.e. to research and develop guidance including methodology** in audit of Extractive Industries, SAI South Africa and SAI Uganda posted on the WGEI Website research in EI undertaken by their staff.
- ii. **AFROSAI developed toolkit** for overall risk assessment of EI sector, based on AFROSAI-E Audit considerations for EI audit. An Instructors' guide on how to facilitate SAI risk assessments and selection of EI audit topics was also developed.
- iii. **SAI Netherlands initiated mapping of Value Chain stakeholders**, mapping the stakeholders in the Dutch gas value chain, separating between executive, consulting and supervising entities. SAI Netherlands will present the results of this initiative latter in this 2nd WGEI meeting.
- iv. **SAI Norway is developing basic training material for transfer pricing and Transfer Pricing audit**
 - a. This is based on various workshops and trainings held with partner SAIs.
 - b. The existing presentations and raw material is available and the complete material will be shared on the WGEI web site when ready.
- v. **SAI Zambia seminar on extractive industry audit with focus on mining sector:**
 - o This seminar was conducted in March 2015 by AFROSAI-E assisted by SAI Norway.

- The purpose of the seminar was to build sector competence and establish a common understanding through mapping of risks in the area.

vi. SAI Tanzania sector and risk mapping

- As part of the tripartite collaboration between SAI Tanzania, SAI Netherlands and SAI Norway, a seminar was conducted in April 2015 in Dar-es-Salaam.
- The seminar brought together both financial and performance auditors from SAI Tanzania and facilitators from SAI Netherlands and SAI Norway. Through mapping of the petroleum sector and role of government in Tanzania, several actors, key transactions, risks and possible audit topics were identified.
- In addition, the group collectively gathered and documented sector knowledge. The seminar laid the grounds for future organization of petroleum audits in SAI Tanzania.

vii. SAI Uganda environmental audit seminar:

- An environmental audit seminar (including environmental aspects of EI) was conducted in Kampala, Uganda in April 2015.
- Facilitators from SAI Norway contributed in the execution of this seminar.
- The purpose of the seminar was to equip participants with a general understanding of basic environmental concepts and the environment sector in Uganda, to equip participants with criteria and methods to audit environmental risks and to enable participants to identify and assess environmental risks through systematic risk profiling.

- The output of the seminar was a completed risk assessment and development of project proposals for VFM audits in the environment sector in Uganda.

viii. Activities external and regional seminars:

- AFROSAI-E and IDI organised a series of parallel performance audits on the topic of National Content in the oil and gas sector. The participating SAIs was Ghana, Kenya, Nigeria, South Africa, South Sudan, Tanzania and Uganda.
 - The original purpose of the project was to help SAIs identify risk areas in the Extractive Industries area and help them formulate an audit approach that they could execute.

ix. GIZ regional training and workshop on enhancing SAIs capacity in auditing the extractive industry sector

- This seminar addressed key stakeholders from Anglophone countries in Africa responsible for budget/finance control with a special focus on the extractive industries sector.
- Based on the Anglophone pilot, GIZ conducted an 8-day training in Germany in June 2015, where the SAIs enhanced their knowledge on sector characteristics e.g. EI value chain, licensing and contracting processes, specific monitoring needs of the sector and the application of different audit methodologies and audit types. Participants were from SAIs Ghana, Kenya, Malawi, Mozambique, Tanzania, Uganda and Zambia.
- This initiative was intended to complement regional and global initiatives in audit of Extractive industries, such as the work of AFROSAI-E and the INTOSAI Working Group on Extractive Industries. It was further coordinated with the bilateral

partnership programs established between the SAIs in Uganda, Ghana, Zambia and the SAI of Norway to strengthen the audit of the sector.

- A regional workshop was also done this month of September 2015 in Uganda, where the participants continued building on the knowledge acquired and the conclusions drawn from the training in a regional setting and discussed common factors and strategies for improving the oversight of the Extractive Industry sector in the various countries.

2. ACTIVITIES ON SENSITIZATION ON SAIS' ROLE IN EXTRACTIVE INDUSTRIES

- i. There has been increase in outreach and strategic liaison and partnering with actors central to achieving the WGEI and Community of Practice objectives, these are governments, revenue authorities, private sector, development partners and civil society actors identified as priority in the WGEI work plan. In the first year, the WGEI Secretariat, SAI Uganda and SAI Norway maintained dialogue with colleagues in the World Bank, OECD, and NORAD Oil for Development, the Extractive Industries Transparency Initiative and Publish What You Pay Norway.
- ii. It is also believed that outreach to external stakeholders is being undertaken by SAIs in respective countries. This area of work is envisaged to become more important and systematic as the Working Group consolidates its operational grip.
- iii. It is suggested that the work plan for 2015-2016 highlights key tools and resources to be developed for this purpose, including presentations and fact sheet on the role of SAIs in the audit of the extractive industries.

- iv. **SAI South Africa** participated in a training organised by National Resource Governance Institute (NRGI) in Budapest.
- v. The **SAI Mongolia** participated in training on oil and gas audit organized by the SAI of Kuwait in March 2015

3. EXAMPLES OF EXTRACTIVE INDUSTRY RELATED AUDIT REPORTS PRODUCED BY VARIOUS SAIs

- i. A lot of challenge was experienced in effort to obtain complete overview of audit reports produced by various. An attempt has been made to highlight both recent and more dated audit reports already published in the Extractive Industry area. For example:
- ii. **Brazil, Colombia and Peru** conducted a cooperative audit on Oversight of public revenues from oil and natural gas production (2014)
- iii. **SAI Brazil** through its regular audits of Brazil's state owned company in the oil sector, Petrobras, identified irregularities, and is, alongside other public institutions, involved in supervision of the company.
- iv. **SAI Estonia** completed performance audits on Activities of state in organizing treatment of oil shale mining and processing waste (2015) and the state's role in development of the oil shale exploitation (2014)
- v. **SAI Estonia** had also carried out performance audits on the areas of National arrangement of mining mineral resource used in construction (2009) and on Exploitation of peat resources (2005)

- vi. **SAI Netherlands** published a report on the revenues generated from the Groningen natural gas fields since 1960 and how the money was spent (2014).
- vii. **SAI Netherlands** did an investigation called a gas hub benefits, need and risks (2012)
- viii. **SAI Norway** published a report covering an investigation of the authorities' effort to improve oil recovery from mature areas on the Norwegian continental shelf (2015)
- ix. **SAI Norway** had published several performance audit reports in various areas.
- x. **SAI Tanzania** completed a performance audit on Enforcement of Environmental Control Systems in the mining sector in Tanzania and has also audited Local Content and Recoverable Costs.
- xi. **SAI South-Africa** reported an audit on the Petroleum Oil and Gas Corporation of South Africa (2014).
- xii. **SAI Uganda** conducted a performance audit on Local Content (2015) and another on Waste management (2014). SAI Uganda also completed several audits on Production Sharing Agreements and recoverable costs.
- xiii. **SAI Uganda** had published a Performance Audit on Regulation and Monitoring of Drilling Waste Management in the Albertine Graben (2013)
- xiv. **SAI USA** conducted several audits on the area of coal, hard rock, oil and gas.
- xv. **SAI USA** had conducted an audit in 2008 on Mineral Revenues: Data Management Problems and Reliance on Self-

Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk

- xvi. **SAI Zambia** conducted an audit on Management of Environmental Degradation related to mining (2014).
- xvii. **SAI Vietnam** conducted financial audits on entities responsible for managing extractive industries.
- xviii. **SAI Vietnam** did an audit of managing, extracting and trading Mineral resources of some state-owned groups, corporations and companies.
- xix. **SAI Vietnam** had also conducted an audit of issuing mining license and governmental management of extractive mineral resources in the period from 2009-2012.
- xx. **SAI India** finalised a performance audit in 2011 on hydrocarbon exploration efforts of Oil and Natural Gas Corporation Limited (ONGC)
- xxi. **SAI Mongolia** conducted audits in the area of mining and oil, both financial, compliance and performance auditing
- xxii. And many others we are yet to know of.

D. CONCLUSION:

- These are only selections of activities undertaken by the INTOSAI WGEI Secretariat, Working Group members and partners since the last meeting in August 2014.
- This report, therefore, was not a complete overview of all on going activities in Extractive Industry but just only some aspects.

I want to conclude with another quotation from the January 2015, International Journal of Government Auditing editorial; Copyright ©2003-2015 INTOSAI

"..... it is now that all responsible representatives of SAIs have to take action to raise awareness of relevant stakeholders—national and international—in order to successfully finalize our efforts to include the independence of Supreme Audit Institutions, related capacity building, and the improvement of accounting systems as essential elements of the Post-2015 Development Agenda, which will essentially contribute to the strengthening of sustainable development.

- Dr. Josef Moser

President, Austrian Court of Audit and Secretary General, INTOSAI

THANK YOU FOR YOUR ATTENTION