

# Format minutes for 3rd WGEI meeting in Mombasa 24th to 26th August 2016

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Wednesday 24<sup>th</sup> 2016

## **Welcome and official opening of the workshop**

*Speakers: AG SAI Kenya, Edward Ouko; AG SAI Uganda John F.S. Muwanga, Principal Secretary Ministry of Mining Kenya Dr. Ibrahim Mohamed*

All the country delegations were introduced by the Chair AG of South Sudan Mr. Steven Wundu.

### **Key issues raised during presentations:**

*AG SAI Kenya Mr. Edward Ouko:*

AG of SAI Kenya Mr. Edward Ouko welcomed all participants to the third meeting of the WGEI. Ouko stressed the relevance of the topic by referring to the recent discovery of oil in Northern Kenya. Kenya National Audit Office has just established a dedicated unit which is tasked with auditing the management of extractive industries in Kenya. Mr. Ouko hopes that the input and experiences shared during the meeting will also build capacity to SAI Kenya.

Mr. Ouko pointed to some risks related to the extractive industries sector.

- Loosing government staff to the industry after they are trained
- Lack of policy guiding the development of the extractive industries
- Access to information from actors who are non-governmental
- The recoverable costs are a matter of concern, ensuring that they are valid and accurate.

*AG John F.S. Muwanga (Chair of WGEI):*

AG of SAI Uganda Mr. John Muwanga also welcomed the participants before he explained the history of WGEI and the factors which motivated the establishment of the working group. He mentioned that there are currently 36 member SAI and that the WGEI report to the Knowledge Sharing Committee, which is chaired by SAI India.

Mr. Muwanga thanked Mr. Ouko for sharing the WGEI meeting in Mombasa.

Mr. Muwanga explained about the resource curse and measures needed to be taken to avoid it. SAIs play a key role in this endeavor, and achieves this by interacting with each other within forums such as the WGEI.

*Principal Secretary Ministry of Mining Kenya Dr. Ibrahim Mohamed:*

Even though countries are greatly endowed with rich mineral deposits, many citizens remain in deep poverty. Mr. Mohamed acknowledged the key role of SAIs in making sure that the management of extractive industries contributes to sustainable growth.

Kenya has done great efforts in changing the legal framework and policies. The old mining act was outdated, being approved in 1940. Recently, in 2016 Kenya approved one of the most progressive and modern mining acts of the world. Benefit sharing of royalties is now included. A mining policy has just been approved, and a comprehensive extractive industries policy is in the pipeline. Outreach to key stakeholders, including Parliament and regional government, have been done, explaining the new legal framework.

## **Session 1: Key Note address**

*Speaker: Mr. Boniface M. Kitili, Officer in Charge and Programme analyst, UNDP*

### **Key issues raised during presentation:**

Audit of Extractive Industries has received increased attention in the last years. UNDP recognize this development as very positive. UNDP shared the highlights of the 3-year history of WGEI.

Only independence and professional SAIs can ensure accountability and transparency. UNDP deems it important that SAI independence and staffing terms are guaranteed. SAIs should review and audit the legal framework and policies with regard to extractive industries. This requires SAI independence.

The new mining act in Kenya has just been enacted and the Ministry of Mines is working on developing regulations which will operationalize the act. It will be important for SAI Kenya to follow up on this.

Keeping in mind the positive results achieved by WGEI there is room for improvement. The WGEI secretariat is slim with only three full time staff. The main bulk of WGEI members are from Anglophone Africa, so there is a need to attract more members from Asia and Latin-America. Also for SAIs there are challenges. They struggle with the technical complexity of the EI sector, difficulties in retaining trained auditors, sometimes weak mandate and difficulties in reporting EI audit results publicly.

In 2013, UNDP Kenya, development an EI project aimed on improving governance. There were three pillars: Participatory decision making, having public institutions on board and lastly contribute to developing a robust legal framework. The project was a two-year pilot starting in 2013, and it was later extended to the end of 2016.

UNDP calls for governments to implement legal framework that ensures that SAIs can freely audit the EI sector and make credible reports. Building capacity and help retain staff is also important. The extreme secrecy of the sector needs to be tackled.

UNDP wished WGEI and the members SAIs good luck in this endeavor.

## **Report on WGEI and CoP activities since last**

*Speakers: Mr. Edward Ssali, Coordinator Community of Practice and Maxwell Ogentho, head of WGEI secretariat/Director corporate services SAI Uganda*

### **Key issues raised during presentation:**

#### **Update on Community of Practice (CoP) activities:**

- The Secretariat now has 2 full time staff;
- The activity plan adopted in 2015;
- CoP became operational in Aug 2015;
- 6 Newsletters issued since (with 947 subscribers);
- 73 new resources have been uploaded to the WGEI page under “Tools & Resources”;
- SAI USA taken lead in coordinating the elaboration of audit guidelines;
- Training needs assessment has been carried out – needs include transfer pricing, local content, EI performance audit, mining audit, risk assessment, EI audit strategy;
- Webinars conducted – with NRGi guideline on transfer pricing; with CCAF guidelines;
- Trainings facilitation with AFROSI-E April, Strategic plan development with Zambia & Uganda;
- Networking with EITI, OECD, University and benchmarking exercise with Estonia;
- **Future prospects** – increase use of webinars, blogging, workshops and trainings, regular interaction, benchmarking.

#### **WGEI Secretariat assessment of whether the Working Group is moving towards the WGEI targets**

- There is now a functioning WG;
- The increase of WGEI member countries was illustrated;
- There has during the year been a continued interest by SAIs;

- In the context of the updates presented the head of the secretariat posed the question: "Should we continue with WGEI or not"?

#### **Discussions and contributions from audience:**

**S/Sudan AG-** WGEI should continue the since the work is progressing and many challenges still persist. Powerful companies don't provide information. Government National Oil Companies and investors usually hide behind "sensitive national matters"  
Wondered why the definition of EI does not include Timber and Forests, Fisheries – as they could be defined as extractives?

**SAI Zambia** - Supports the continuation of WGEI. They have benefitted from the WGEI through Cooperation as they formulated their strategy.

**SAI Sierra Leone** – in favour of continuing with the working group since there are still many challenges this form could tackle.

**SAI Iraq** – there is still need to continue the WGEI since we are still at the initial phases of the work and there is a need to finalize draft guidelines for EI etc.

#### **Conclusions and recommendations:**

The members are positive to continue the WGEI because of the immense potential for knowledge sharing, opportunities for benchmarking etc.

## **Session 2: A world with oil, gas and minerals price volatility and its impact on sustainable growth and the role of SAIs**

### *General Introduction*

*Speakers: Henry Amuguni, Senior Financial Management Specialist, World Bank, Kenya*

#### **Key issues raised during presentation:**

#### *General challenges of EI in Developing Countries*

- The resource curse;
- Existence of EI rich countries with negative growth;
- Corruption and poverty;
- Environment and social problems.

### *Fiduciary risks*

- High barriers to entry due to costs;
- Uncertainty of revenues;
- Lack of transparency;
- Sometimes poor government capacity;
- Tax risks/profit shifting;
- Mispricing;
- Misappropriation of revenues:

### *SAI Experience:*

*Speakers: Ms. Nidhal Al-Saadi, Director General, SAI Iraq and Sultan A. Al-Enezi and Hamad I Al-Dahes, SAI Kuwait*

#### **SAI Iraq**

##### **Key issues raised during presentation:**

- Many countries face challenges in the preparation of budgets following the drastic decrease of oil prices globally.
- There are several factors affecting the crude oil pricing- they can be classified into External (exchange rate, climate geopolitical) and Internal (oil production, type and location).
- Iraq has highly depended on the revenues from oil production since 2003.
- The state has depended up to 97% of revenues from oil production.
- The reduced oil prices has severely impacted the state budget.
- Iraq has had a high population growth since 2003 of about 3% per year. There is risk of high unemployment rates when government revenues are decreasing at the same time as the potential workforce grows every year.
- One solution to the problem could be to invest in downstream industries such as refining and petrochemicals.
- SAIs could particularly play a role when it comes to prevent unnecessary government spending and through performance auditing suggest diversification of the economy. Internal audit units should be strengthened to develop capacity

#### **SAI – Kuwait**

##### **Key issues raised during presentation:**

- Reasons for oil price fluctuations can be both political and economic (supply and demand, speculations etc.);

- The impact of the falling oil price is that Revenues are falling but the produced quantities are the same;
- Some of the responses from the government:
  - The initial Responses has been adjusting output;
  - Decisions and decrees were made so that that all government entities reduce budgets;
  - Possibilities for treatment abroad reduced;
  - Removal of subsidies on petrol and diesel.

#### **Role of the SAI in this context**

- Preventive audit;
- Detective audit;
- Cabinet and National Assembly's assignments to make studies;
- Role of State Audit Bureau of Kuwait in training and awareness.

#### **Key issues raised during discussions:**

**SAI Sierra Leone:** There is a need for WB to engage further in Capacity building;

**WB response:** The Bank has priority areas for support in a given country;

**SAI Zambia:** EITI in Zambia has done two reconciliations but differences are still there. Amounts declared by EITI are lower than what government is reporting;

**WB response:** WB only offers support to institutions to improve capacity, not reconciliations; The SAIs could assist government to reconcile such figures.

**SAI South Sudan:** the WB usually provides support to trainings but not operational budgets like fuel etc.;

**SAI Kenya:** also noted the challenges that WB usually puts funding in "basket" and generally these funds are not easy to trace and requisition by individual entities like SAIs.

## **Session 3: Sustainable growth best practices: Diversification and sovereign funds**

*Presentation by SAI Indonesia:*

*Speakers: Mr. Achsanul Qosasi Board Member SAI Indonesia*

#### **Key issues raised during presentation:**

- The presenter started by giving an overview of the Oil and gas management in Indonesia.
- An overview of the performance audits on the oil and gas industry was given.
- General recommendations given for both the up and down stream sector given.

### *Video presentation:*

*A video presentation by Mr. Andrew Bauer, Senior Economic Analyst, NREGI was presented*

#### **Key issues raised during presentation:**

- The presenter gave an introduction into theories on what economic policies work and could work for countries with an EI sector;
- Economic diversification is not necessarily the key to success, but rather on how to transform the resources into sustainable growth;
- Urban clusters were mentioned as a key success factors;
- Examples from Chile, Malaysia and Dubai were given for success stories with different policy choices;
- The role of SAIs were touched upon.

#### **Discussions and contributions from audience:**

**SAI Sudan:** Statutory audit but does not direct the investment. But could consider the opportunity cost. Does this fall within SAI mandates.?

**SAI U.S.:** In the U.S. it happens that the legislator asks for direction. For this to happen a SAI should build reputation as an honest broker. SAI U.S. has previously provided options to the legislator.

**SAI Norway:** SAI Netherlands produced a report including calculation on how money from EI sector could alternatively have been used. They received criticism on their role, but stated that they only shared and analysis analysis.

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### **Session 4: Small scale (artisanal) mining for sustainable growth: opportunities and challenges.**

*Speakers: Ingvald Helda, SAI Norway and Ngigi Colin, Ministry of Mines Kenya*

#### **Key issues raised during presentation:**

**Words from the chair, Mr. Abdul Aziz, Assistant Auditor General Sierra Leone**

- The session began with a brief comment from the Chair, Mr. Abdul Aziz, about the importance of artisanal mining, and the role of auditors.

**Presentation from Ingvald Helda:**

- A brief description of the characteristics of ASM was given;
- Small-scale mining occurs in approx. 80 countries worldwide. There may be between 25-40 million small-scale miners globally;
- It is often with small precious gemstones where small-scale mining occurs. With other type of minerals such as coal, platinum and bauxite, small-scale mining becomes very difficult;
- There are environmental reasons for regulating this industry in a better way, such as spills of waste products and exposure to mercury;
- Although there are big risks related to small-scale mining, there are also big opportunities. If regulated in a proper way, it can boost job creation, increase government revenues, slow urban migration and increase local purchase power.

**Presentation from Ngigi Colin:**

- Mr. Colin presented the new mining act in Kenya, and the process of developing and approval.
- Sections 92-100 in the new Mining act deals with small-scale mining.
- Only Kenyan citizens are eligible for artisanal mining.
- Permitting of small-scale mining is processed at county level
- The miners must be grouped in cooperatives.
- The Act sets limitation on technology allowed for mining for it to fall under the small scale mining regulation.

**Discussions and contributions from audience, if applicable:**

**SAI South Sudan:** referred to experiences that may indicate that government should leave the small-scale mining/artisanal mining sector alone. They provide great value to the economy, and is best left alone without regulations.

**SAI Sierra Leone:** responded that auditors still should have a role to play in auditing the sector.

**SAI Uganda:** The large majority of WGEI member countries are involved in small-scale/artisanal mining, but they have still been hesitant to share experiences. This could indicate that auditors have not yet discovered the importance of this sector. The importance of creating marketing opportunities for the small-scale miners through establishment of cooperatives, was stressed.



## **Session 5: The policies and legal framework in Extractive Industry to ensure sustainable growth**

### *Uganda experience in Oil and Gas*

*Speaker: Ernest N.T. Rubondo, Director, Directorate of Petroleum, Ministry of Energy Uganda*

#### **Key issues raised during presentation:**

- Discussed the extractive industry value chain. There is value at each stage;
- Extractive resources are nonrenewable; they create wealth and transforms wealth from one form to another;
- Can generate windfall revenues;
- Energy investment are highly risky investments;
- Discussed the status of the Uganda's petroleum activities;
- Discussed the Ugandan Policies, laws and Regulations;
- Discussed the audits done by OAGU and their relationship between EI institutions.

### *Country experience in mining*

*Speaker: Phan Truong Giang, Deputy Director, SAI Vietnam*

#### **Key issues raised during presentation:**

- SAI Vietnam was established in 1994;
- Vietnam carries out 3 main types of audit namely: compliance audits, financial audits and performance audits;
- He shared the oil revenue allocation between government and Vietnam oil and gas group.

#### **Discussions and contributions from audience, if applicable:**

- How was Uganda able to draft PSAs before the law was made? The PEPD law 1985 was in place, so there was a law in place;
- SAI Vietnam was asked to clarify whether they get involved in policy formulation. They replied that they do not but emphasize compliance of agencies.

## Session 6: Extractive Industry Value Chain Overview and Risk Assessment and SAIs Role.

### *Overview of the value chain*

*Speaker: Trygve Christiansen, Senior Advisor, Office of the Auditor General of Norway*

#### **Key issues raised during presentation:**

- Trygve elaborated the Extractive Industry value chain from the government point of view;
- He explained the seven steps of the value chain.

### *Risk Identification along the value chain*

*Speaker: Anthony Kimuli, Senior Principle Auditor, Office of the Auditor General of Uganda*

#### **Key issues raised during presentation:**

- Information on illicit financial flows and data for the years 2004-13;
- Elaborated the risks along each value chain;
- Governments could improve on their negotiating skills. As SAIs we should be aware of these risks;
- The risk of middlemen;
- The risk of export under-invoicing and the risk of import over invoicing.

#### **Conclusions and recommendations:**

SAIs should be aware and prepare for these possible risks along the value chain.

## Session 7: Activity plan issue 1: Guideline development

### *GAO*

*Speaker: Glenn C. Fischer, Senior Analyst, Natural Resource & Environment, GAO, USA.*

#### **Key issues raised during presentation:**

- GAO audit guideline initiative was presented
- The centre for audit excellence was presented in detail through a video.

## *SAI India*

*Speaker: Mrs Gangadharam Sudharmini, Principal Director, SAI India*

### **Key issues raised during presentation:**

An introduction to financial Audit Guidelines, specifically touching on the following was explored:

- Extractive Industries Challenges;
- Exploration & Production Activities;
- General Classification of Expenditure;
- Treatment of Income;
- PSEs of India was also explained in details.

## *AFROSAI-E*

*Speaker: Raj Esther Thomas, AFROSAI-E*

### **Key issues raised during presentation:**

AFROSAI-E Audit Guidelines on EI.

- Initiative Started in 2013;
- High level considerations include legal framework; audit types;
- Compliance audit process;

### **Discussions and contributions from audience, if applicable:**

*The session was divided into three groups to discuss on the future of EI Audit Guidance Development in relation to:*

- Comment on presented guideline initiatives, particularly on their general usefulness and how they are structured;*
  - Need to define different legal regimes;
  - Cost analysis left out.
- Identify gaps (where they still need to be developed);*
  - Areas of investment with monies received;
  - Harmonize guidelines (GAO & AFROSAI-E).

### **Conclusions and recommendations, if applicable:**

There are gaps which can be leveraged as SAI's work together.

Details on the strides made by different SAI's in regards to audit of extractive industries to be handled by the Community of Practice in liaison with the relevant SAI's.

## **Session 8: Status of Regional initiatives with a focus on collaborative audits**

*The session was cancelled, due to time constraints. The theme was to be revisited during scheduled webinars during the months to come.*

**Friday 26th August 2016**

## **Session 9: Extractives and PPPs in the East African Region; opportunities, risks and the role of SAls**

*Speaker: Arch. Dr. Ssemwogerere Kenneth, PPP expert, Makerere University Kampala, Uganda.*

### **Key issues raised during presentation:**

- PPP was defined as a legally enforceable contract between a government or public sector entity and a private sector firm;
- Private investment is a win-win solution;
- The general characteristics of PPPs principles were outlined;
- Aspects on where the government ought to be cautious was also explained, in regards to PPP;
- PPPs contain some inherent risks;
- The specific roles of SAls in auditing PPPs projects was also outlined.

### **Discussions and contributions from audience:**

- The capacity of government to monitor PPPs is mainly found within the Ministry of Finance;
- The possibility of issuing penalties where private investor fail in their commitments was discussed;

- The aspect of advice on the project before engagement was argued so as to ensure fairer input during evaluation;
- The auditors' mandate need to be clear from onset;
- Regarding monitoring & evaluation a project team is normally formed, under a relevant authority to be monitoring on the project. The criteria ought to be very clear from the onset.

## Session 10: The role of Supreme Audit Institutions in natural resource revenue accountability

*Speakers: Dana Wilkins, National Resource Governance Institute (NRGI).*

### **Key issues raised during presentation:**

- Analysis of factors that help and hinder SAI effectiveness in natural resource revenue oversight;
- Importance of safeguarding public funds outlined.;
- General introduction on effectiveness of SAIs in EI governance
- Importance of SAI to have access to relevant information.

### **Session referred to groups to discuss:**

- ability to access info;
- ability to publish credible report;
- ability to strengthen governance systems.

### **Discussions and contributions from audience, if applicable:**

- Main topics influencing ability to access info: financial independence aspect, degree of sensitivity of area being audited, political will, mandate authority be clear in law; info be availed to specific level of auditors, depending on sensitivity;
- Main topics influencing on publishing credible reports: legal structuring important as well as skilled staff;
- Main topics influencing on strengthening the governance system: well established legal framework and political goodwill is important. The support by the government hierarchy is also important. Enquired if SAIs can take an institution to court, ie have powers beyond reporting.

## Session 11: Proposal for designating iCED, Jaipur, India as Global Training Facility for the INTOSAI WGEI

*Speakers: Mrs Gangadharan Sudharmini, Principal Director, SAI India.*

### **Key issues raised during presentation:**

- Vision and mission of iCED was outlined.
- Partnership with INTOSAI WGEA was illustrated.
- The core competence-audit regarding EIs was outlined
- Training performance up to 2016 was also outlined.
- International contribution by iCED was described.

## Session 12: Conclusions and sum-up

*Speaker: Mr. John F.S. Muwanga, AG Uganda and Chair WGEI*

### **Key issues raised during presentation:**

- The AG of SAI Uganda/Chair WGEI summed up what was presented and discussed throughout the period of the workshop. Highlights:
  - The key note was given by UNDP, dealing with the theme of our meeting in a wider development context.
  - Price volatility and economic policy best practices
  - Artisanal/small scale mining, policies and legal framework
  - The various guideline initiatives
  - Insight into PPP as well as learn a thing or two on
  - What makes the SAIs, more or less effective.
- The AG/Chair WGEI then shared some thoughts on the way forward, highlights:
  - The WGEI exist to serve the needs of its members
  - Encourage members to suggest activities they would like to see in the future.
  - WGEI depend on member countries to take charge when it comes to guideline development, trainings and sharing of audit reports

- There could be an emphasis on webinars and online meetings in the next year as this has proved to be an efficient way of sharing knowledge. This will not substitute face to face training but compliment.
- WGEI will do all it can to ensure that countries where English is not the first language also feel included.