



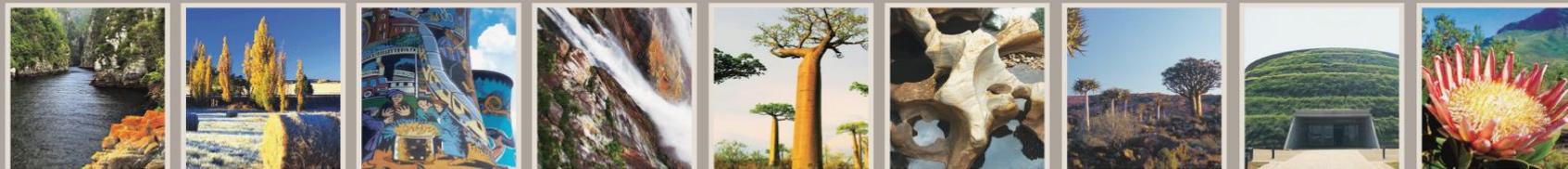
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AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

26 September 2018



# Working Group on the Audit of Extractive Industry (EI) Activity 5





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## Sustainable development goals (SDG) linked to EI



# SDG's linked to EI

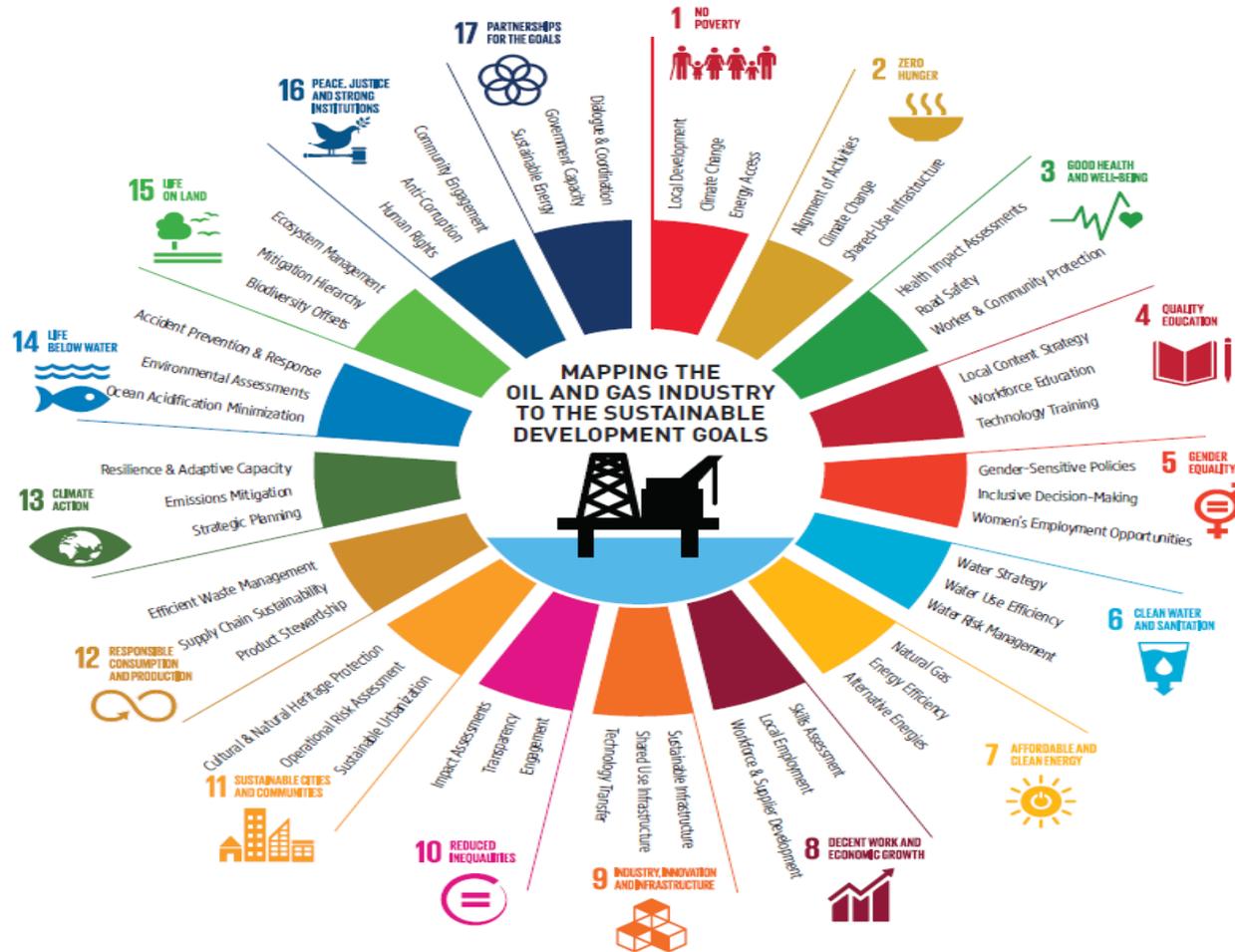


• The Working Group on Audit of Extractive Industries was created in response to the numerous challenges in auditing extractive industries (oil, gas and solid minerals), including: technical complexity of the sector, capacity building needs, retention of specialized staff and

limitations in SAI's mandates to audit extractive industries. The Working Group promotes the audit of extractive industries within the INTOSAI community to support good governance and sustainable development consistent with the 2030 Agenda for Sustainable Development.



# SDG linked to EI continued



KEY ISSUE AREAS FOR OIL AND GAS MAPPED TO THE SDGs



# SDG linked to EI continued

## Major Issue Areas for Mining and the SDGs





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## Specific SDG's highlighted for consideration

## Specific SDG we highlighted for consideration in the previous meeting

SDG1

- Revenue from extractive industries can have an impact on reducing poverty and boosting shared prosperity, while respecting community needs and the environment

SDG 7; 1; 10 &11

- Supply access to affordable and reliable energy (7) that enable's economic activity and social development (1,10 &11)

SDG 13;14 &15

- Different environmental impacts such as climate action and life on land and in water

## Specific SDG we highlighted for consideration in the previous meeting continued

SDG8&9

- Economic development (generating direct and indirect jobs (8) and innovation (9))

SDG 3 & 6

- Health and access o clean water

SDG 6 & 9

- Infrastructure

## Specific SDG we highlighted for consideration in the previous meeting continued

SDG12 & 17

- Contributing to substantial tax and other types of revenue to governments

SDG 7

- Enabling development of advanced technologies and products through investments in research and development

SDG 8

- Encouraging local content and entrepreneurs with associated capacity building benefits

## Specific SDG we highlighted for consideration in the previous meeting continued

SDG 5

- Gender equality

SDG 3; 6; 7;10; 13;  
14; 15 &16

- Managing the impacts of its operations by emphasizing environmental protection (7;13;14&14); health (3); safety (16) and human rights (10)

Crosscutting SDG

- Investing in long-term social and economic success of the communities in which they operate

# ACCOUNTABILITY = PLAN + DO + CHECK + ACT





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## WGEI initiatives relating to SDG linked to INTOSAI strategic plan 2017 -2022

# Training

Transfer pricing  
training 21 -22  
November 2017

- Practices and experiences of auditing transfer pricing was shared.

Transfer pricing  
training 4-8  
June 2018

- The workshop involved participants from other Government agencies and civil society such as the National Mining Agency (NMA), the National Revenue Authority (NRA) and the Sierra Leone Extractive Industries Transparency Initiative (SLEITI), which emphasized the value of an interagency co-ordinated effort in addressing this TP problem

Capacity  
building  
workshops

- Several capacity building workshop have been conducted



# Contract management, revenue management and collection

Real time cost monitoring and Audit under the production sharing agreement in Uganda's Petroleum sector

- Companies are licensed to undertake all risks involved in petroleum exploration. When the company is successful it is entitled to share a profit after recovering the costs incurred in the search of the petroleum.
- Government undertakes costs recovery audits on the petroleum sector companies

Training in fiscal regimes Conducted by Norwegian audit office in May 2017

- Different models for calculating revenue from extractives sector where shared . Provided a basis for analysing different tax systems in different countries.

New contractual model used in the Ecuadorian oil and gas industry for the development of crude fields through private investments

- State pays the private companies a fee per barrel regarding tall block fields production. Mainly to assist with the CAPEX injection at developmental stage



# Environment

## 2015 Paris agreement for the future of extractive industry

- Limiting global warming

## SAI Vietnam: Evaluating the environmental management and rehabilitation on mining industry

- Performance audit (October 2015)
- Primary purpose: evaluate the efficiency and effectiveness of the environmental management and rehabilitation on mining industry .
- Compliance with laws and regulations
- Raising and using the environmental rehabilitation fund on mining industry
- Allocation and usage of the revenue collected from environmental production fees





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## Monitoring of the SDG's implementation

# How we will monitor the implementation of SDG consideration in EI audits engagements

## SAI monitoring

- Through the audits we can track the progress, monitor implementation and identify improvements

Assurance engagements on the audit of set of financial statements

Performance audit and auditing of the predetermined objective

Auditing compliance with legislation

## WGEI monitoring

- Data and information collection methods
- Pace of the implementation
- Milestones measurements





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## Cooperative audits

# Cooperative audits

The Subcommittee on Cooperative Audits of the INTOSAI Capacity Building Committee (CBC) is responsible of the promotion of cooperative audits, internship programs and technical visits, as well as the administration of the INTOSAI Experts Database, in order to strengthen the capacities of all the SAIs members of the organization.

The main products of the subcommittee are the ISSAI 5800 – Guide on Cooperative Audit (recently approved at the XXII INCOSAI 2016 in Abu Dhabi).



**Parallel/Concurrent Audit Mission**

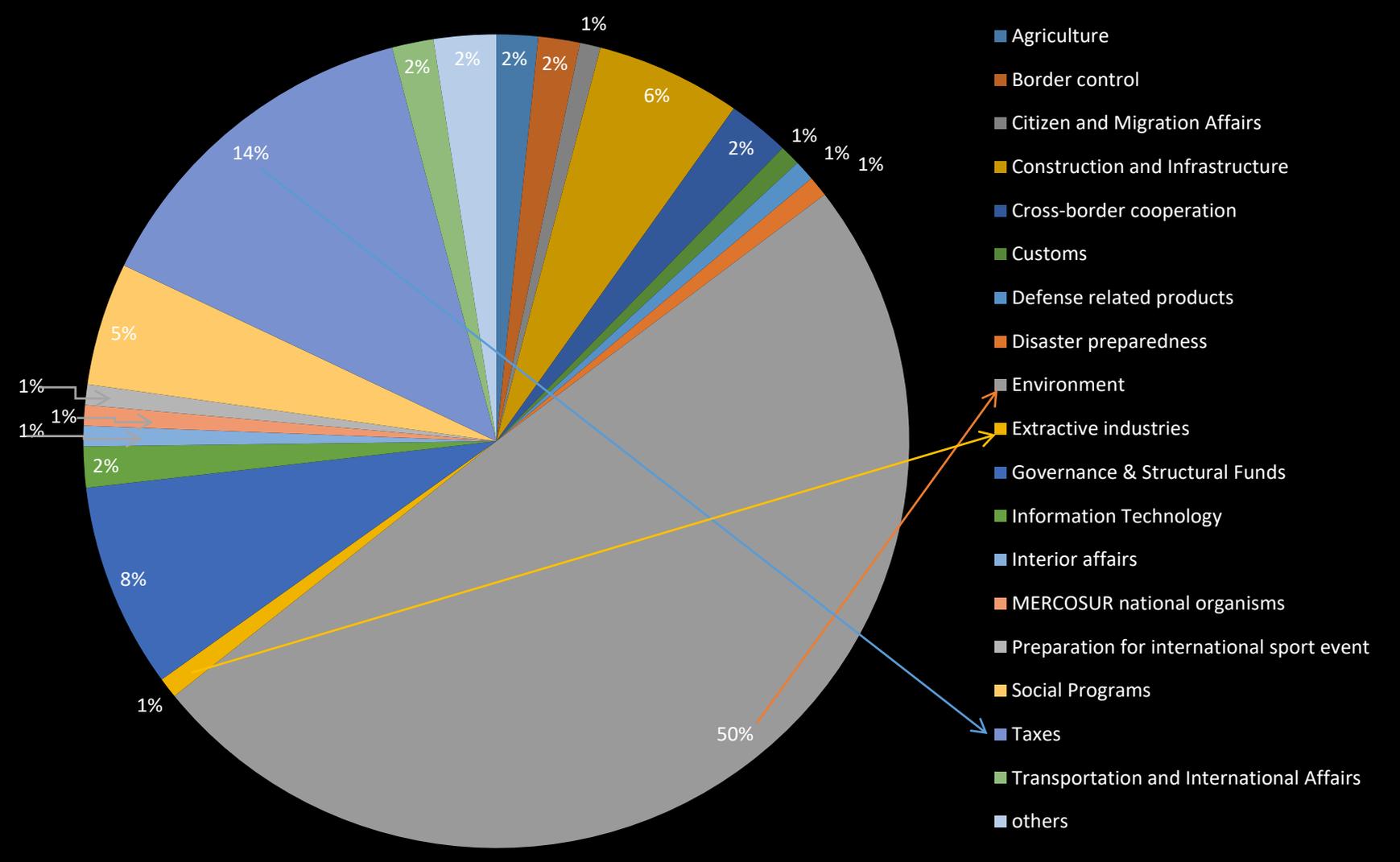


**Joint Audit Mission**



**Coordinated Audit Mission**

# Current Cooperative audits



# Current Cooperative audits in the E.I.

1. Current cooperative audits know that was conducted in the E.I.

<b>Audit area</b>	<b>Participating SAIs</b>	<b>Audit title</b>
Extractive Industries	SAI Colombia; SAI Brazil; SAI Peru	Coordinated Audit on Hydrocarbons (2013)
Extractive Industries	SAIs of Ghana, Kenya, Nigeria, South Africa, South Sudan, Tanzania and Uganda	National Content in the oil and gas sector (2014-15)

## <<< COMMUNICATION >>>

### COMMITMENT

Participants should not just bring knowledge of the sector but examples of observed risk in their own countries when gathering together to identify audit topics



A cooperative audit on a specific common topic should only be initiated if the topic is observed as high risk in all participating countries



Establishing common audit questions and a joint understanding of what type of data which must be collected to answer the audit questions is critical for developing common findings.

- Desire to address a problem statement of international scale or cross-boarder impact (ISSAI 5800.2.2.1)
- Benchmarking and development tool (ISSAI 5800.2.2)
- Relationships between countries (WGEA - Cooperation Between Supreme Audit Institutions: Tips and Examples for Cooperative Audits)
- SDGs (INTOSAI Strategic plan 2017-2022)

- Conduct of preliminary national studies and Compilation of results of previous (national) audits
- Design audit outline and time table/ action plan (ISSAI 5800.3.1)
- Skilled personnel and experts (WGEA - Cooperation Between Supreme Audit Institutions: Tips and Examples for Cooperative Audits)

- Upfront planning and Face to face engagements (WGEA - Cooperation Between Supreme Audit Institutions: Tips and Examples for Cooperative Audits)
- Type of audit (consultancy, mutual support, harmonization, joint audit) (ISSAI 5800.2.2.3)
- Consider confidentiality (ISSAI 5800.2.3)

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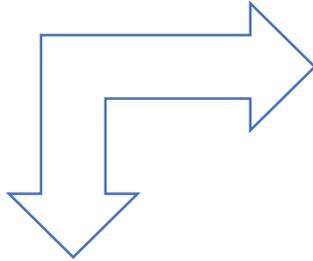
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Enough about theory

Now to became practical

# Collaboration



## Subcommittee on Cooperative Audits



### Members

- China
- Fiji
- Iran
- Kazakhstan
- Morocco
- Pakistan
- Peru (Chair)
- Slovenia

## 1. Capacity Building Committee (CBC) \*\*

- The tasks assigned to the Subcommittee are the following:
  - Developing a **database of experts and investigators** in public audit fields. Professionals working today in different SAIs, as well as recently retired SAI staff, may be available to perform consulting and advisory duties;
  - **Promoting cooperative** audit programs, which are useful to validate methodologies, generate guidelines, and improve processes;
  - Encouraging **internship programs and technical visits**. These programs facilitate the visit of professionals from other SAIs to share or receive current knowledge in innovative audit areas.

\*\* <https://www.intosaicbc.org/subcommittee-2-on-collaborative-audits-2/>

# Supporting cooperative audits – Netherlands

1. Plan to start the cooperative audit in October 2018.
  - a. In the meantime the SAIs (SAI Mozambique, SAI Tanzania & SAI Uganda) confirmed their participation in the project. There is a proposal to have the first workshop in Pretoria in week commencing 12 November.
2. We plan to share the learnings and experiences of this cooperative audit with the wider INTOSAI community and specifically with the working group on the audit of extractive industries (WGEI).
3. The support of the WGEI were offered for their preparation/ pre-planning of the cooperative audit.
  - a. What kind of support do you have in mind? (Technical support and industry specific support)
4. All WGEI members will be informed on the progress of this project as it progresses and further involvement of WGEI is planned for the processes and/or meetings in preparation for the cooperative audit.
5. We plan to initiate a news article for our WGEI newsletter.

# Supporting cooperative audits - continue

Discussion points:

1. Are members of the steering committee in agreement with this type of support WGEI will be providing to this cooperative audit?
2. Are members comfortable that activity 5 leader SAI South Africa and SAI Zambia will represent WGEI in this regard?
3. It is suggested to initiate a memorandum of understanding with the cooperative audit SAIs involve to clearly indicate WGEI's involvement, roles and responsibilities?
4. It is suggested to use this support role to gain further knowledge and experience to share with CBC. Are members in agreement with this suggestion?
5. The support by WGEI will have some financial obligations. Can this be considered to be claimed from the budget made available from our goal chair KSC?



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**COLLABORATIVE/COOPERATIVE AUDITS  
EXPERIENCES AND LESSONS LEARNT - AWARDING OF MINING RIGHTS AND  
MONITORING IN ZAMBIA**

**BY  
Grace Chanda**





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## OVERVIEW

1. Background
2. Collaborative/Cooperative audits Audit
3. Findings
4. Lessons learnt





## Background

- The extractive industry has been in existence for almost a century in Zambia and has remained the country's dominant industry.
- It is the largest contributor to the development and growth of the economy.





## Background

- The role of auditor General in Zambia in El Sector
  - The functions of Auditor General as provided for under Article 249 of the Constitution of Zambia (Amendment) Act No. 2 of 2016 and the Public Audit Act No. 29 of 2016 are as follows:
    - audit the accounts of State organs, State institutions, funds;
    - audit the accounts that relate to the stocks, shares





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## Background cont.....

- In 2013-2015 OAGZ/OAGN Cooperation established a baseline which revealed that there was limited knowledge of the extractive industries audit in Zambia.



## Collaborative/cooperative audits

- ISSAI 5800 definition
  - **Parallel/concurrent Audit mission**
    - **Coordinated audit**
    - **Joint audit mission**



## Joint Audit

- Zambia has been conducting joint audits with OAG Norway in El (3) audits.



Joint team are composed from both SAIs, ToR agreed and production of one report.



## Experiences and Lessons learnt (OAGZ/0AGN) (knowledge sharing)

- **Appreciation/use of ISSAI 4000 on compliance audit**

- Understanding the entity - 101 – 108
- Risk assessment: risk of non compliance, ranking the risk
- Prior year consideration (public interest)
- How to come up with compliance audit scope (audit area - large scale/small scale)
- Linking the audit question
- Evidence gathering for each audit question



# FINDINGS

## 1. Committee composition level

- Not all relevant stakeholders were represented on the Mining Licensing Committee such as Environmental, Lands, Ministry of Finance and Mines Safety
- Absentee committee members had no alternate representation
- The absence of a member consistently may mean that the component represented by such a member is compromised

## 2. *Submission of relevant documents*

- A sampled files for Fifty ( 50 ) of the awarded Mining rights - all the necessary documents were filed and necessary fees paid in accordance with the criteria.



## Findings cont..

### 3. Inspections and monitoring

#### ➤ **Non submission of quarterly reports**

- *Out of 709 companies only 86 submitted the quarterly returns representing 12% compliance*
- *Export of minerals by mining right holders with Exploration licences*
- *Nine (9) companies holding exploration licences exported minerals without mining rights licences.*



## Findings cont..

### ➤ **Non compliant mining right holders and lack of punitive action**

- Export of minerals by mining right holders without Minerals export permits
- Seven (7) Companies who exported minerals but are not on the data of Mineral export permits issued.



## 6. Findings

4. No evidence of punitive action was made to confirm the action taken by management against the mining right holders



## 5. Value benefits – SAI Zambia

- a) Key decisions were shared e.g audit approach and methodology
- b) Enhanced technical knowledge in the audit of EI sector
- c) Not restricted to financial audits
- d) Different perspective in the way the information was shared and analysed
- e) Was able to identify the knowledge or skills gap and recommendations made for training'