

Auditing Revenues from the Extraction of Natural Resources: New Guidance for Performance Auditors



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CANADIAN AUDIT
& ACCOUNTABILITY
FOUNDATION

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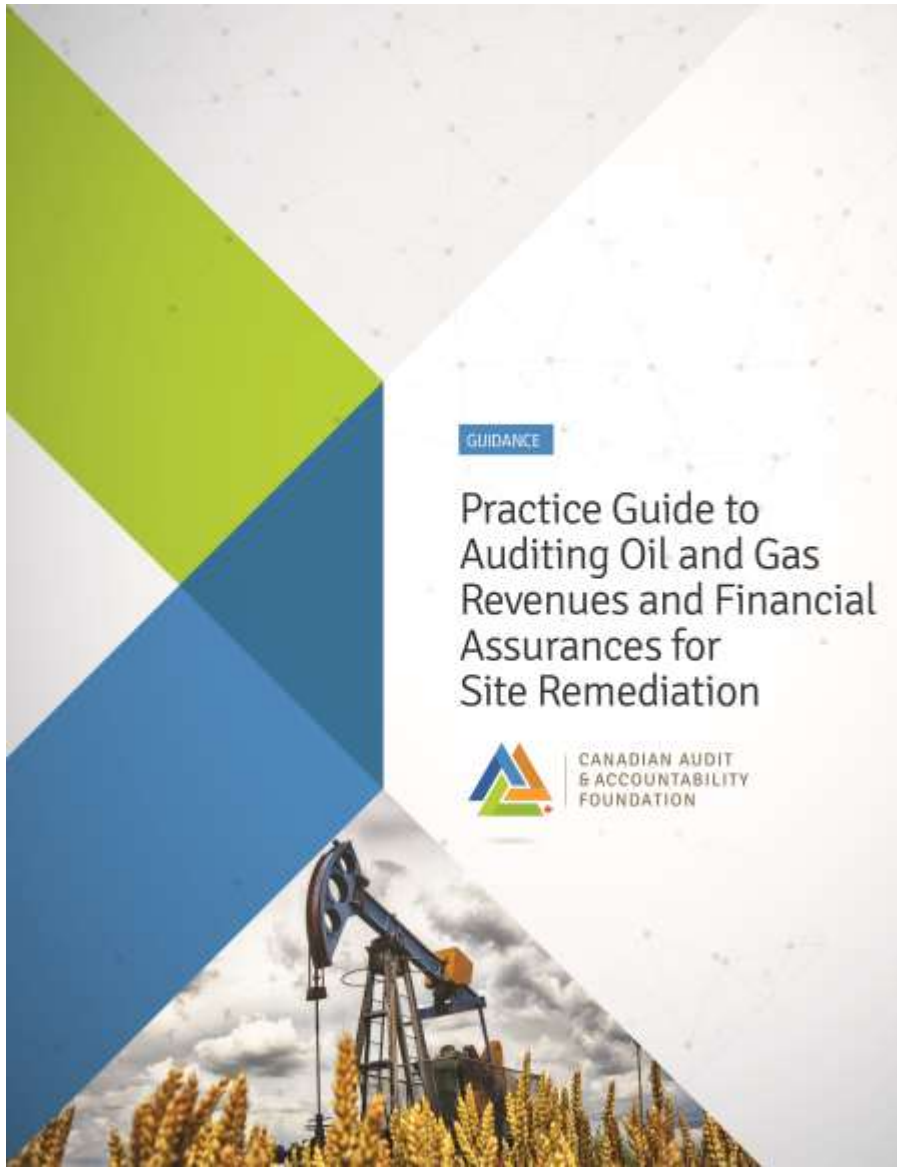
Who we are....



CANADIAN AUDIT
& ACCOUNTABILITY
FOUNDATION

- Not-for-profit organization based in Ottawa, Canada, since 1980 (Formerly CCAF)
- Dedicated to promoting and strengthening public sector performance audit, oversight, and accountability in Canada and abroad through research, education, and knowledge.
- We provide training to performance auditors and we produce guidance documents, discussion papers, webinars, etc.
- Visit us at www.caaf-fcar.ca

Our new Practice Guides



Practice Guide to Auditing Oil and Gas Revenues and Financial Assurances for Site Remediation (October 2016)

Available on the WGEI website

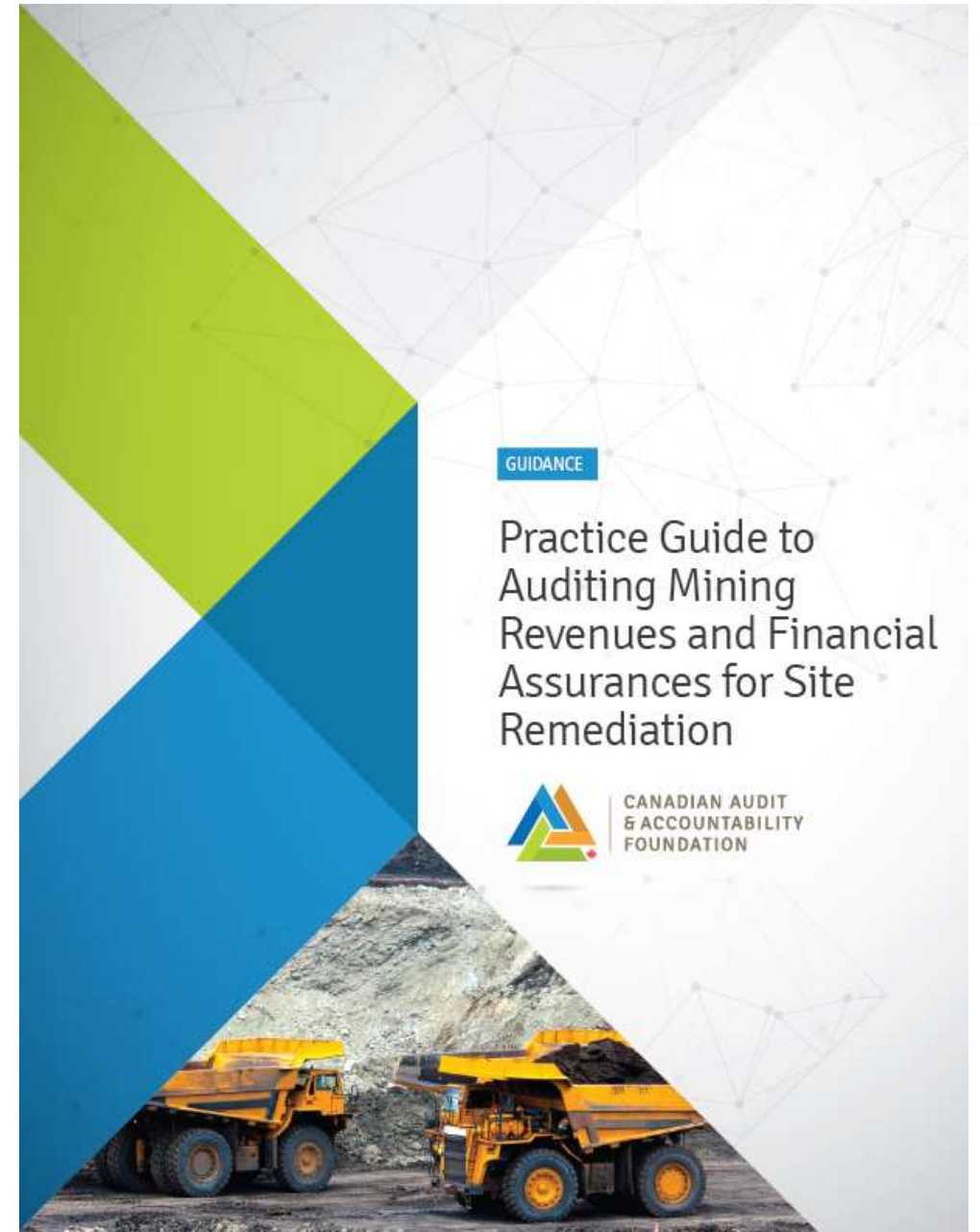
Also available in French

Our new Practice Guides

Practice Guide to Auditing Mining Revenues and Financial Assurances for Site Remediation (July 2017)

Available on the WGEI website

Also available in French





Our Extractive Industries Project

Extractives industries are relevant to Canadian auditors

Canada has an abundance of natural resources:

- World's 3rd largest oil reserves
- Ranks 20th for largest gas reserves
- Producing more than 60 different minerals and metals
- The mining industry accounts for 5% of Canada's GDP and nearly 20% of the value of its exports
- Over 50% of the world's publicly-listed mining companies are headquartered in Canada



Our Extractive Industries Project

- Project started in 2015.
- Established a project team and an Advisory Committee.
- Reviewed extractive industries audits published in Canada and abroad.
- Researched literature on various aspects of extractive industries.
- Consulted with Canadian legislative audit offices and with WGEI member countries.



Purpose of the Practice Guides

- To help performance auditors to plan and conduct audits of the mining or oil and gas sectors and to report their results effectively.
- The guides are especially useful for auditors who are not familiar with the extractive industries. Provide key context information and many useful references.
- The guides do not provide all the answers, but they include lists of questions that auditors should consider as they plan their audit. As such, they are a useful tool that supports risk analysis.



Contents of the Practice Guide (Mining)

The Guide includes:

- Basic contextual information on the mining sector and mining revenues
- Lists of questions that will help auditors to identify significant risk areas
- Examples of audit objectives and lists of proposed audit criteria to audit various sub-areas
- Discussion of evidence sources and of common challenges in mining audits
- References and links to published audits on the mining sector and other relevant documents.
- Glossary of key terms



Scope of the Practice Guide (Mining)

- Revenues from natural resources extraction
- Financial assurances for site remediation
- Covers mining activities conducted on public lands by private companies (excludes government-owned mining corporations)
- Covers upstream mining activities (exploration, production and decommissioning). Excludes refining, distribution and retailing
- Covers royalties and other mining revenues, but excludes treatment of regular income taxes and sales taxes
- Excludes small-scale artisanal mining



Types of Revenues Covered in the Guide

- Royalties (unit-based, value-based, or profit-based)
 - Lease payments
 - License and permit fees
 - Bonus payments
 - Penalties and fines
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- Governments also collect financial assurances for site remediation or contributions to a remediation fund.



Audit Areas – Mining Revenues

The Practice Guide provides detailed guidance to audit:

- The design of the revenue framework
- The processing of payments
- The internal review and auditing of payments
- The measures adopted to:
 - Increase the transparency of payments; and
 - Prevent and detect fraud.



Audit Sub-areas – Mining Revenues

- Establishment and regular review of royalty regimes and applicable rates
- Clear rules and guidance for applying the revenue framework
- Controls over receipt of payments (data validation, audits, inspections)
- Staffing and training (expertise)
- Coordination between government agencies
- Transparency and reporting
- Ethics, independence, fraud prevention



Financial Assurances for Site Remediation

Governments are usually responsible for:

- collecting financial assurances,
- assessing the adequacy and completeness of remediation plans submitted by private companies,
- monitoring progress on remediation work,
- attesting that remediated sites have met all applicable standards and requirements, and
- regularly updating estimates of future remediation costs.



Audit Areas – Financial Assurances

The Practice Guide provides detailed guidance to audit:

- The design of the financial assurance program
- The collection of financial assurances
- Internal controls over financial assurances (to ensure the accuracy and completeness of payments)



Audit Sub-areas – Financial Assurances

- Roles and responsibilities
- Clear rules and guidance
- Program reviews and updates
- Controls over the collection of financial assurances
- Completeness of information and accuracy of cost estimates
- Staffing and training (expertise)
- Coordination between government agencies



Examination Phase

This section covers:

- Evidence sources and audit tests
 - Documentary evidence;
 - Interviews;
 - Testing of controls and IT systems;
 - Site visits
- Challenges in auditing the mining sector
 - Expertise; need for capacity building; staff retention
 - Access to information
 - Site visits



Reporting, References, Glossary

The Practice Guide also includes:

- A short section on the Reporting Phase:
 - Setting the Context
 - Drafting Recommendations
- References:
 - Published audits from various countries
 - Relevant publications on mining revenues and financial assurances for site remediation
- A glossary of key terms used in the Guide



Lessons learned

- There is a need for more guidance – we have only scratched the surface
- It is not possible to cover all topics in a single guide – scoping is key
- It is not possible to write a guide that will be applicable to prevailing circumstances in every country – choices must be made
- Consultations are very important – they improve the contents, quality, credibility and usefulness of audit guidance

Questions?



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