

Extractive Industries Audit

The role of Supreme Audit Institutions

INTOSAI-Donor Secretariat (within the IDI)
in cooperation with AFROSAI-E

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Contents

Abbreviations	III
Executive Summary	1
1. Background	2
Rationale.....	3
2. Mapping outline	4
Questionnaire.....	5
Responses.....	7
3. Presentations of findings: Experience, challenges and best practices in Extractive Industries Audit	8
Governance of Extractive Industries and SAI mandate.....	8
Current practices	9
Core areas of Extractive Industries Audit.....	11
Prerequisites of successful Extractive Industries Audit.....	12
Audit findings	13
Challenges	14
4. Expressed needs	15
Capacity development needs	15
Ongoing support.....	17
5. Way Forward	17
5.1 Possible future INTOSAI initiatives: a proposal	17
Capacity development program for Extractive Industries Audit.....	18
Knowledge sharing network.....	18
Anchoring the topic within INTOSAI.....	19
5.2 Outreach to civil society and global initiatives.....	20
5.3 Discussion points for the 6th Steering Committee Meeting	21
Annex	22
Annex 1. SAIs asked to participate in the questionnaire	22
Annex 2. Questionnaire.....	23
Annex 3. Terms of Reference	28

Abbreviations

AFROSAI-E	African Organization of Supreme Audit Institutions in English-speaking Africa
ARABOSAI	Arab Organization of Supreme Audit Institutions
ASOSAI	Asian Organization of Supreme Audit Institution
CIDA	Canadian International Development Agency
CREFIAF	Regional Council for French-speaking African Supreme Audit Institutions
DFID	Department for International Development, UK
EI	Extractive Industries
EITI	Extractive Industries Transparency Initiative
EUROSAI	European Organization of Supreme Audit Institutions
GDP	Gross Domestic Product
GIZ	German International Cooperation
IDI	INTOSAI Development Initiative
INCOSAI	INTOSAI Congress
INTOSAI	International Organization of Supreme Audit Institutions
NORAD	Norwegian Agency for Development Cooperation
OAGN	Office of the Auditor General of Norway
ODA	Official Development Assistance
OfD	Oil for Development
OECD	Organization for Economic Cooperation and Development
OLACEFS	Organization of Latin American and Caribbean Supreme Audit Institutions
PREM	Poverty Reduction and Economic Management
SAI	Supreme Audit Institution
Secretariat	INTOSAI-Donor Secretariat
TCU	Federal Court of Accounts of Brazil
USD	US Dollar
WGEA	INTOSAI Working Group on Environmental Auditing

Executive Summary

This mapping provides data on experiences, best practices, challenges, and needs of Supreme Audit Institutions (SAIs) in auditing Extractive Industries (EI). In this context, EI was defined as oil, gas, and mining industries. Data was collected using a questionnaire which was sent through regional and sub-regional working groups of the International Organization of Supreme Audit Institutions (INTOSAI) to 26 SAIs in resource rich countries.

Chapter 3 of this report presents the findings of the mapping study. While the scope of each SAI's mandate and its respective experience conducting EI Audit differ considerably, SAIs reported that best practices regarding EI Audits are based on in-depth knowledge and understanding of the field. All responding SAIs noted challenges in understanding this sector. The overall responses indicate that, from the public sector audit perspective, there is a perceived value in conducting EI Audits, with a focus on the following at a minimum:

- the collection (calculation and payment) of public revenue generated from the extractives sector,
- any public money invested in the sector, and
- the oversight function of government in the extractives sector.

Chapter 4 highlights the needs expressed by the SAIs regarding EI Audit. It is clear from the respondents that there is a substantial demand for capacity development in this area and in all audit disciplines related thereto – financial, compliance and performance audits. All responding SAIs expressed interest in sharing knowledge and experience regarding EI Audit, with a need for capacity development and more general knowledge about the governance and setup of the sector, as well as technical issues, such as assessing environmental risks. Further, respondents expressed an interest in communication and coordination across INTOSAI and with external stakeholders specific to EI Audit.

Based on the responses received, and as a possible way forward, chapter 5 describes three possible approaches:

1. A capacity development program targeting SAIs involved in EI Audit, covering a range of needs identified by the SAIs responding to the questionnaire;
2. A knowledge sharing platform for SAIs and possibly a broader stakeholder community;
3. An institutional anchor for this topic within INTOSAI that could also conduct outreach activities.

1. Background

Audits of EI are gaining momentum, both on the national level where SAIs carry out their mandate to audit public funds and on the international agenda where transparency of natural resource exploitation is a key focus. Recently, the Lough Erne Declaration by the Heads of Government of the G8 emphasized that a) “extractive companies should report payments to all governments - and governments should publish income from such companies”, and b) “minerals should be sourced legitimately, not plundered from conflict zones”.¹

Five billion people live in resource rich countries.² Extractive Industries which for this purpose are described as the oil, gas, and mining industries, currently generate about 3.5 trillion US Dollars (USD) in annual gross revenue worldwide, corresponding to around 5 per cent of the global gross domestic product (GDP). A substantial portion of this is public money. Regarding oil revenue, about 70 percent of world oil production lies in the hands of state-owned enterprises.³ SAIs should therefore have an important role in the oversight of these enterprises, depending on the overall legal framework and mandate of the SAI.

Rents, or potential net revenues, from extractives in general are estimated at about USD 1 trillion for low-income and lower-middle-income countries.⁴ The 4th High Level Forum on Aid Effectiveness in 2011 underlined the importance of improving fiscal transparency policies and practices, including public disclosure of revenues. It is estimated that illicit financial flows from ODA-eligible countries accumulated to approximately USD 1.2 trillion in 2008. This is ten times the amount of Official Development Assistance (ODA) provided by OECD member countries in the same period.⁵ The amount of tax revenue lost by developing countries⁶ due to abusive transfer pricing⁷ averaged between USD 98 billion and USD 106 billion annually from 2002 to 2006.⁸

Resource-rich countries tend to have less economic growth and weaker governance structures and seem to be more prone to conflict than countries with fewer natural resources.⁹ This

¹ <https://www.gov.uk/government/publications/g8-lough-erne-declaration/g8-lough-erne-declaration-html-version>

² For the purpose of this study, countries were defined as resource rich by the absolute amount of proved natural resource deposits in crude oil, natural gas and minerals as indicated by the U.S. Energy Information Administration (www.eia.gov) and BP's "Statistical Review of World Energy June 2012" (www.bp.com/Statistical-Review-2012.pdf).

³ Le monde diplomatique (2012): Geopolitical atlas. Mondes émergents. Paris/Berlin.

⁴ LeBillon (2011): Extractive sectors and illicit financial flows. U4 Issues 13.

⁵ OECD (2011): Illicit Financial Flows from Developing Countries 2000-2009. Paris.

⁶ The term “developing countries” refers to all countries and territories eligible to ODA as defined by the OECD-DAC.

⁷ Mispricing of natural resources is increasingly being discussed, cf. for example Pak (2012): Lost billions. Transfer Pricing in the Extractive Industries.

⁸ Hollingshead (2010): Summary: The Implied Tax Revenue Loss from Trade Mispricing, Global Financial Integrity.

⁹ For recent data analysis on the correlation of natural resources and armed conflict cf. Canuto and Cavallari (2012): Natural Capital and the Resource Curse. PREM Note 83.

<http://siteresources.worldbank.org/EXTPREMNET/Resources/EP83.pdf>

phenomenon is often referred to as “resource curse” and associated with a lack of accountability and transparency regarding contracts and payments between private sector companies and governments and the revenues that governments are receiving from those companies. It is important that transparency and accountability apply to the area of natural resources to support good governance. The role of SAIs when it comes to public control over the extractives sector varies and includes a wide spectrum of different audit types. At different occasions within INTOSAI SAIs have come forward expressing a need for more knowledge of the sector and of exchanging experiences in EI.

Ensuring transparency of national revenue collection from, and public involvement in, natural resources is an essential task for SAIs and certainly for SAIs of resource-rich countries. As one of the themes for XXI INCOSAI, “National Audit and National Governance”, underlines the importance of good governance at the national level. In resource rich countries public sector auditing coincides with the private sector and international corporations. SAIs can contribute to the oversight of EI and more accountable governments that manage natural resources responsibly and in the best interest of the public, to the highest possible standards for economic development, poverty alleviation, environmental protection, health and safety.

Rationale

This report is based on a request of the Steering Committee (SC) of the INTOSAI-Donor Cooperation to gather data on SAI involvement in the audit of revenue from EI, including existing practices and challenges SAIs are facing in this area. The data contained in this report was collected through a mapping in the form of a questionnaire which was sent in early 2013 to 26 SAIs in resource-rich countries.¹⁰ In line with the INTOSAI-Donor Cooperation’s focus to strengthen SAIs in developing countries, the sample of this mapping consists mostly of ODA eligible country SAIs.

The study focuses on the oil, gas, and mining industries. The term “Extractive Industries Audit (EI Audit)” refers to all public funds and public entities in the value chain of Extractive Industries. While in some countries, the industry is largely privatized, in other countries Public-Private-Partnerships or state-owned enterprises are exploiting the natural resources. Therefore, the SAI may not always have the mandate to audit certain stakeholders and production sites, i.e. when private companies are involved. However, SAIs generally have the mandate to audit the investment of public moneys in the EI sector as well as the collection of public revenue stemming from EI, both of significant importance in resource rich countries. While the mandates of the SAIs vary, these two aspects seem to form the basis of SAI auditing of the sector.

¹⁰ For the full list of questionnaire recipients and responses see Annex 1.

The questionnaire is attached as Annex 2. The structure of the questionnaire has been guided by the “value chain of Extractive Industries” as defined by the World Bank (2009):¹¹



All steps in this chain show strong relations to public sector auditing, for example:

- Award of contracts and licenses: The SAI performs work to determine whether the awards of contracts are following the sector law and regulations and whether the procedures are transparent and non-discretionary. Depending on their respective mandate, the SAI could also potentially go further to determine whether the fiscal terms that prescribe the sharing of benefits between the government and investors are progressive and preferably linked to project profitability to cope with changes in prices and different site conditions throughout the project life.
- For effective monitoring of operations and regulation, periodic audits should be carried out to assess production and export volumes, valuation of minerals and hydrocarbons, and the cost of operations as best practice according the World Bank’s EI value chain. Often times, national oil companies are tasked with cost audits of private operators under production sharing contracts, which can present a conflict of interest if such companies are investors or even operators. Since full audits can be onerous on a financial ministry and investors, selected risk-based audits – where priority areas are identified based on risk assessment – may be preferable in some cases.

The questionnaire captures some of these elements by asking what regulations govern the extractives sector, what regulations form the basis of the SAI’s compliance audits and what types of audits the SAI is executing within the sector. The questionnaire also asks for examples of audits executed within EI, giving SAIs room for expressing previous experience and challenges.

2. Mapping outline

At the 5th meeting of the SC, the African Organization of English-Speaking Supreme Audit Institutions (AFROSAI-E) and the INTOSAI-Donor Secretariat (Secretariat) agreed to work jointly

¹¹ Alba (2009): Extractive Industries Value Chain. A Comprehensive Integrated Approach to Developing Extractive Industries. Extractive Industries for Development Series 3.
http://siteresources.worldbank.org/INTOGMC/Resources/ei_for_development_3.pdf

on the mapping of SAI involvement in EI Audit. As part of this work, the SC Leadership¹² approved Terms of Reference for a mapping to explore SAI involvement in Extractive Industries, especially SAI activities, best practices, challenges, and needs in this regard, and including recommendations for a way forward.¹³ The study was carried out by the Secretariat in cooperation with AFROSAI-E; similarly, several initiatives are currently underway within INTOSAI, which are of relevance for SAIs in this field:

- In 2013, OLACEFS executed a set of activities involving the institutional and legal oil and gas sector framework mapping in the eight big producers, followed by training courses involving six countries and a coordinated audit of the oil and gas sector with participation from, the SAIs of Brazil (technical coordinator), Colombia, and Peru, aiming to improve institutional capacity by exchanging best practices, knowledge of the sector and experiences gained in previous audits.
- The Working Group on Environmental Auditing (WGEA) has produced a guideline on auditing the mining sector, with a focus on environmental issues.
- The Governing Board of AFROSAI-E has targeted EI Audit as a focus area. AFROSAI-E drafted a Guideline on Audit of EI which is currently being finalized.
- In February 2013, representatives of SAIs,¹⁴ AFROSAI-E, and the Secretariat met for a workshop to exchange practices and experiences in EI Audit. Participants called for a Community of Practice comprising individual SAIs, INTOSAI regions and sub-regions, as well as associated institutions and organizations working to enhance transparency and accountability in the EI sector.
- EI and the role of SAIs therein are also being discussed in various international fora. The Secretariat has been asked for technical exchange with the World Bank, the Extractive Industries Transparency Initiative (EITI), and the Open Contracting¹⁵ initiative to include the role of the SAIs in the sector. This indicates that international stakeholders are expressing interest in further dialogue with INTOSAI to promote the role of the SAIs in EI.

Questionnaire

Based on an assessment of the relevance of EI within the SAI community, a sample group of 26 SAIs of resource-rich countries was established based on statistical reviews of natural resource deposits and exploration worldwide, focusing on oil, gas and industries. For the purpose of

¹² The SC leadership comprises the INTOSAI and donor chairs and vice chairs of the SC. It is supported by the Secretariat. The SC leadership provides strategic direction and interim decision making for the Cooperation between SC Meetings. The members of the SC Leadership are: the World Bank (Donor Chair), the SAI of Saudi Arabia (INTOSAI Chair), DFID (Donor vice Chair) and the SAI of USA (INTOSAI vice Chair).

¹³ see Annex 3.

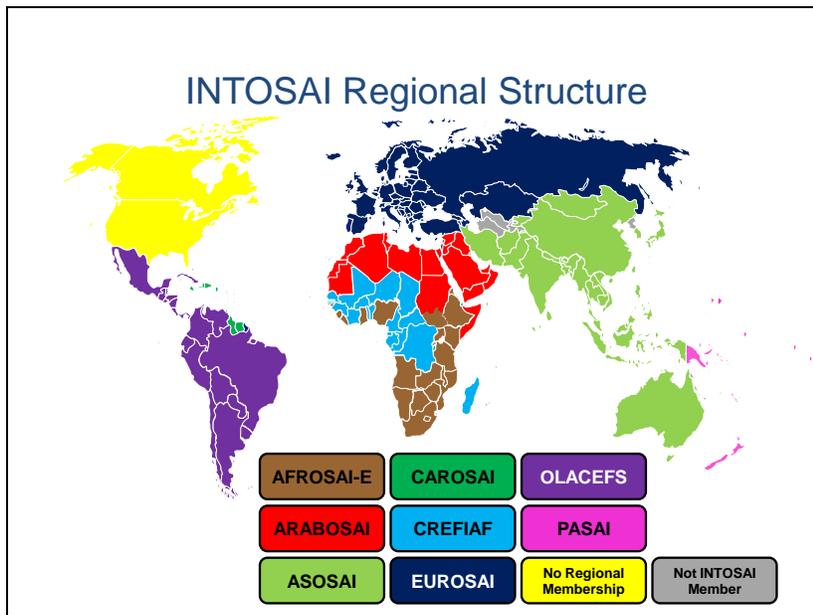
¹⁴ Participants included the SAIs of Brazil, Kenya, Mozambique, Netherlands, Norway, Sierra Leone, Uganda, and Zambia.

¹⁵ The Open Contracting initiative is steered by a group of eight stakeholders, among them the World Bank Institute, GIZ, Oxfam America and Integrity Action (www.open-contracting.org).

identifying possible challenges and needs of SAIs in auditing the extractives sector, the previous level of experience and exposure of the SAI to the topic was explicitly not considered a criterion for the sample. The 26 recipients of the questionnaire included:

- | | | |
|----------------------------------|--------------------|--------------------------|
| 1. Argentina | 10. Gabon | 20. Sierra Leone |
| 2. Azerbaijan | 11. Guinea-Conakry | 21. Tunisia |
| 3. Brazil | 12. Indonesia | 22. Uganda |
| 4. Burkina Faso | 13. Iraq | 23. United Arab Emirates |
| 5. Chile | 14. Kazakhstan | 24. Venezuela |
| 6. China | 15. Mauritania | 25. Yemen |
| 7. Colombia | 16. Mongolia | 26. Zambia |
| 8. Congo, Democratic Republic of | 17. Mozambique | |
| 9. Ecuador | 18. Nigeria | |
| | 19. Saudi Arabia | |

The Secretariat drafted a questionnaire and discussed it with participating SAIs at an EI workshop hosted by AFROSAI-E in February 2013. It was then sent to regional and sub-regional secretariats of INTOSAI, namely ASOSAI, ARABOSAI, AFROSAI-E and CREFIAF, and OLACEFS,



recognizing their role as multiplier and source of knowledge in their respective region, for distribution to the SAIs in the respective INTOSAI-languages. The SAIs were asked about their practice in general, challenges they experienced, and the audits conducted in the three years from 2010 to 2012. Along with the analysis of the responses, the Secretariat consulted

civil society organizations and development partners working with EI issues.¹⁶

¹⁶ Stakeholders included in the dialogue were the World Bank’s Poverty Reduction and Economic Management Unit (PREM), the Norwegian Agency for Development (Norad), the German International Cooperation (GIZ), Integrity Action, and the World Bank Institute.

Responses

Seventeen SAIs responded to the questionnaire. Seven SAIs did not respond, and two were unable to complete the questionnaire for technical reasons or because their mandate does not include EI. Of all responding SAIs, sixteen allowed complete or partial disclosure of the information provided. Only one SAI expressed that none of the information provided could be published. This SAI's responses are therefore only included in the aggregate data, but not quoted individually.

Responding SAIs included SAIs from member countries of the Organization of Petroleum Exporting Countries (OPEC) such as Saudi-Arabia and Nigeria, who are leading suppliers of the world's oil consumption, but also of countries with far less income, such as DR Congo, Gabon and Tunisia. Of the seventeen SAIs who responded, some SAIs informed of EI revenue as 80% of total government revenue. Some SAIs were unable to provide this information, and generally speaking SAIs expressed considerable needs in better understanding and auditing the sector.

The following chapters present the analysis of the results from the questionnaires, followed by a discussion on the possible ways forward. References to the items of the questionnaire can be found in parentheses, i.e. (item 6).

3. Presentations of findings: Experience, challenges and best practices in Extractive Industries Audit

Governance of Extractive Industries and SAI mandate

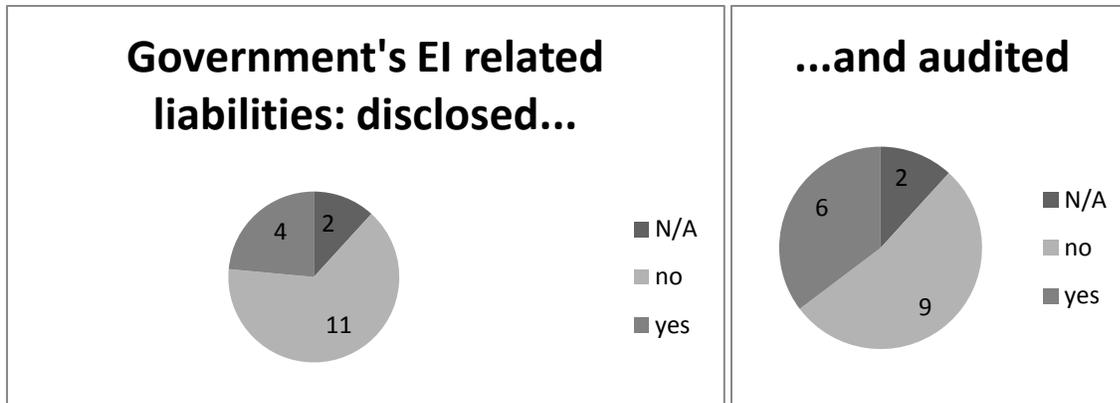
Various types of regulations govern the sector worldwide, depending on national frameworks. While in some countries, Production Sharing Contracts or Agreements are signed, other national governance structures of natural resource exploration are based on auctioned licenses or concessions. In Colombia, a model concession contract was drafted for the oil and gas industry, where payments to government are mainly royalties and taxes. The contract states: “Private operators are in charge of the process, but certain regulations are in place to govern technical, environmental, social and fiscal matters that contract awardees must comply with. Provision is made for the various payments to the government under contracts” (item 3). While having a model contract may help avoiding certain contractual loopholes, SAI Colombia does not have the mandate to audit draft contracts and can only audit on an ex-post basis. SAI Zambia on the other hand reported not being mandated at all to audit regulations governing the extractives sector.

The strength of governance arrangements of the extractives sector varies considerably from country to country. Sixteen SAIs answered the question on the SAIs’ mandate to audit the regulations that govern the extractives industries (item 3). Many responding SAIs regard audit of licenses and contracts as well as environmental audit as part of their responsibility. Nine of the SAIs mandated to audit EI specifically mentioned auditing of contracts as part of their mandate. These responses could be somewhat influenced by the example provided in the questionnaires, but it still indicates that this is an aspect of the SAIs’ focus.

Five court model SAIs¹⁷ reported on their possibility to audit “performance of contracts”. Four respondents indicated that they *cannot* audit draft contracts, while SAI Brazil was the only court model SAI responding to the survey that *can* audit draft contracts: Before a bidding round, the National Petroleum Agency sends the draft contracts for the SAI’s appraisal.

The figures below illustrate that most SAIs replied that government’s EI liabilities, i.e. on decommissioned sites, are neither disclosed nor audited (item 4). However, Burkina Faso reported that Mining Closure Bonds are now embedded in every Mining Agreement which is enforced by the Environmental Protection Agency. This is a contrast to the past when they were not audited because of the non-disclosure of this information.

¹⁷The five court model SAIs included respondents both from CREFIAF and OLACEFS.

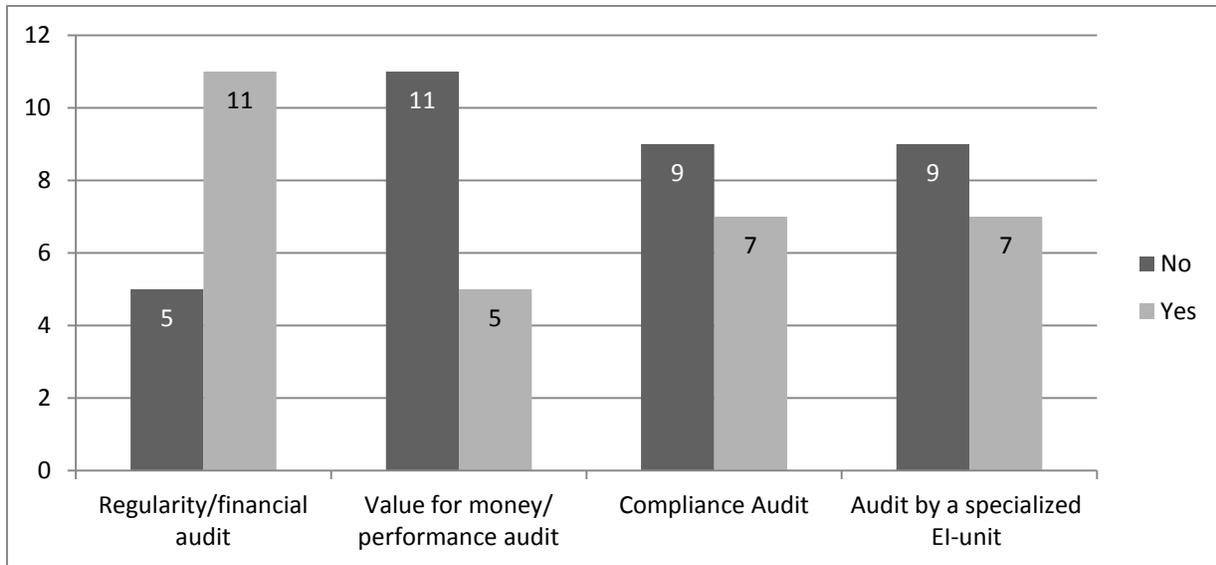


Responses from CREFIAF showed that the SAIs' mandates are limited. While the CREFIAF member of Guinea-Conakry reported having no mandate at all "for [auditing] mining companies", the SAI of Burkina Faso answered it could only audit regulations of the EI sector "at the government's request" (item 3). Other CREFIAF members stated that their mandate is limited to audit compliance with existing contracts. SAI DR Congo stated that while it "has no control over the draft agreements, [...] all signed agreements have to be disclosed to the SAI within one month of their signature" (item 3). Some SAIs within OLACEFS explicitly mention that their mandate covers performance of contracts. For example SAI Brazil's mandate includes "examining the accuracy and consistency of economic-financial and environmental studies, cash flows from projects, and bidding conditions for contracts" (item 3). This mandate goes as far as to allow the SAI an appraisal of draft contracts. SAI Brazil supervises all the bidding rounds to award concession contracts and Product Sharing Contracts, before and after the contracts are signed.

In Indonesia, the SAI is involved in early stages of contracting and is mandated "to give some recommendation regarding the weakness of the contract in order to improve the fairness and clarity of the contract" (item 3). It is not clear, however, whether the SAI is involved *before* or only *after* the contract is signed. SAI Indonesia also reported that it provides assurance "on the stated Indonesian Government's share" and audits revenue, royalties and compliance of companies" (both quotes item 3).

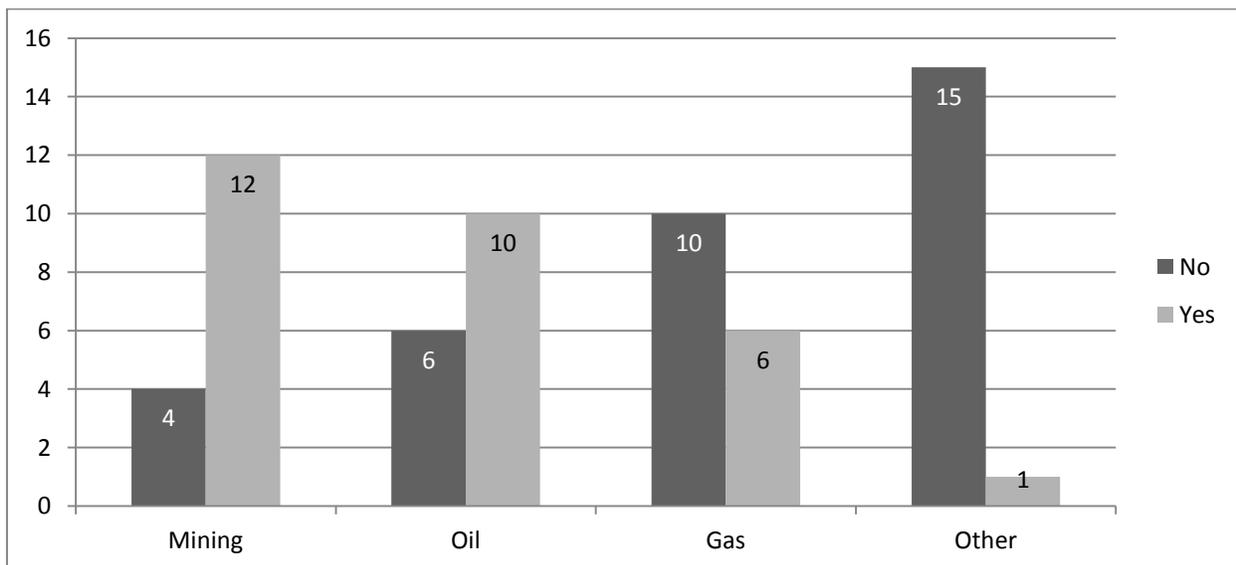
Current practices

The reported experience in EI Audit varies widely. While some SAIs have a strong track record of auditing aspects of EI, others have not yet executed an EI Audit. SAI DR Congo is the only SAI in the population stating that they have never executed any audit in this field. The SAIs of Gabon and Burkina Faso did not provide a response to these items six and seven.



The above table shows the SAIs' experience from the different audit types within the EI during the last three years (2010-2012). Eleven of the 17 SAIs that responded have experience conducting financial audits in EI during the last three years, whereas only five had conducted performance audits within the sector during this period of time. The five SAIs that reported that they have not conducted EI related financial audits during the last three years were Burkina Faso, DR Congo, Gabon, Mongolia and Tunisia. The SAIs of Brazil, Indonesia, and Saudi Arabia reported EI related experience in all of the three main types of audit. Seven of the SAIs responded that they have executed an audit by a "specialized unit" in the sector during the last three years.

The below table shows auditing by natural resource, and indicates that most respondent SAIs have audit experience in mining, followed by oil and gas.



CREFIAC responding members reported limited experience in EI Audit. Only two SAIs have engaged in an EI audit, reporting two audits each within the last three years. However, all CREFIAC respondents expressed great interest and need for (further) capacity development in this field. SAI Mauritania reported the execution of financial and compliance audits in 2010 and 2012 and a performance audit in 2012. Some CREFIAC members struggled to compile basic information, i.e. on the size of the sector's revenue. One major constraint for francophone African SAIs' ability to assess the sector itself and their capacity needs in this field, seems to be limitations in their mandate. SAI Burkina Faso recognizes potential challenges in terms of the mandate, and plans to "check the scope of powers of the Court regard[ing] Extractive Industries" (item 19) and initiate an EI study.

OLACEFS members indicate more extensive experience in auditing the oil, gas and/or mining sector. All four responding OLACEFS SAIs have executed EI Audits during the last three years, which seem to mainly be focused on financial and compliance audits. A common approach seems to be to audit contracts between government or public agencies and EI companies. All four SAIs have executed audits by a specialized unit for EI. Environmental audit, performance audit, and audit of oil prices were topics covered by several SAIs in OLACEFS, for example the "Audit of the Assessment of Oil Derivative Prices" in 2012 by SAI Chile (item 9).

ARABOSAI and ASOSAI members responding to the questionnaire also recorded previous experience in auditing the extractives sector, with responses from ARABOSAI showing substantial contrast in the level of experience within ARABOSAI.

Core areas of Extractive Industries Audit

The analysis demonstrates that many SAIs define "core thematic areas of EI audit" (SAI Sierra Leone, item 9). As a general rule, these include the audit of revenue collection, of Central Bank account activity, and of payrolls, fixed assets and disbursements of public entities. EI Audit opens up possibilities for links to other audit disciplines and topics. While the collection, i.e. calculation and payment, of revenue generated from the extractive sector should be part of a minimum standard to audit the extractives sector, the question *how* these revenues are spent would be the topic of a different audit, not one that should be included as EI Audit. SAIs should be able to review the process of revenue collection and distribution in order to verify that the amounts collected are correct and distributed in accordance to the legal framework. After this point, auditing the revenue management can be done by auditors specialized in revenue audit, as this audit does not require specific EI sector knowledge.

Public entities in this sense may include not only public sector bodies, but also companies with public involvement, i.e. Public-Private Partnerships or public investment in private companies. For example, SAI Nigeria reported an annual "audit of federation account and revenue inflows/expenditure outflows in respect of oil and gas operations" since 2007 (item 9). Many

responses suggest that SAIs should at least audit these aspects of EI, even if they do not have a specific mandate for auditing the sector.

Contracts in the extractives sector are a common audit subject by SAIs and a subject that SAIs would like to audit more closely, if they do not possess the mandate or the capacity to do so already. Because contract arrangements are of crucial importance for the role of government and thus the scope of public sector audit in the sector, most responding SAIs described the challenge of not being mandated to audit the draft document early on in the process while contract negotiations are ongoing. Instead, they receive the contract upon signing. SAIs in CREFIAF stated that they can only audit compliance of actions with the signed contract (“performance of contracts”, item 3), but cannot be consulted with regards to draft contracts.

Prerequisites of successful Extractive Industries Audit

Responding SAIs indicated that best practices regarding audit of EI are based on in-depth knowledge and understanding of the field, and all SAIs identified challenges in understanding the sector.

SAI Saudi Arabia responded that audit of EI requires a specific methodology with regard to both planning and implementation (item 13). Given their relatively long history of EI audit, SAI Saudi Arabia stated that “it helps to develop skills and expertise in the EI field” (item 13). SAI Brazil reported that specific technical and human capabilities are required prerequisite for conducting audits in the sector. SAIs in OLACEFS underline that knowledge-sharing and learning about the sector and the role of the agencies are best practices in audit of EI. SAI Chile reported that “the implementation of audits in the extractives industries sector not only requires knowledge about audit procedures and tests, it also requires that the designated team should acquire expertise concerning the activity subject to audit as well as the legal regulations under which contracts are executed” (item 13).

Apart from knowledge of the highly technical subject matter, the respondents recognized effective stakeholder management as a success factor. The questionnaire asked SAIs to report on their relations and communication with stakeholders. One question asked specifically about the relations with the legislative body, whether audit findings are disclosed to the public, forwarded to parliament, and discussed in parliament. Another asked about dialogue with other stakeholders regarding accountability and transparency of the extractives sector, including the national EITI office (if applicable), Transparency International, and the national Anti-Corruption body. SAI Zambia noted dialogue with the national EITI and listed the EITI reconciliation report for the year ended 2008 as an audit product. SAI Sierra Leone “is a key stakeholder in the EITI reconciliation and validation process” (item 14). At the same time SAI Sierra Leone informed of a “lack of effective communication among other key stakeholders such as its National Revenue Authority, Ministry of Mines and Mineral Resources, and Local Authority” (item 15). In general,

stakeholder relations with regard to EI Audit could be a topic for further analysis, particularly focusing on the relations between the SAI and the respective legislative body, but also on (possible) interactions between civil society stakeholders and the SAI.

Except for communication with anti-corruption agencies, the responding SAIs indicated that limited direct communication with external stakeholders, where regular dialogue was reported from six SAIs, two OLACEFS members, two ASOSAI members, and one AFROSAI-E and CREFIAF member, respectively. The national EITI office was listed as a dialogue partner by the SAIs of DR Congo, Indonesia, Mauritania, Mongolia, Nigeria, Sierra Leone and Zambia.¹⁸ Certain respondent SAIs listed the Police, highlighted the Experts Commission of the Cabinet and the Supreme Economic Council, OLACEFS, and various departments of the Ministry of Finance as other stakeholders.

Audit findings

The responses to the questionnaire also illustrated the extent to which SAIs are able to report impact of audit findings. Eleven of the 17 responses listed and explained several findings and impacts. SAI Sierra Leone found “that the contracts are mostly geared towards financial reward rather than social or community benefits” (item 13). The State General Inspectorate of Guinea-Conakry found evidence in its audits that mining companies undervalued the royalties and taxes they were supposed to pay (item 14). SAI Indonesia calls for a “regulatory body in the EI sector [...] to establish the regulation in oil and gas subsidy comprehensively” (item 14).

Impact of Extractive Industries audit. An example from SAI Brazil:

SAI Brazil reported that their audits have contributed to “improvement of concession bidding processes, particularly as it regards the inducement of improvements in the economic-financial viability analyses on which concession processes are based. Increased transparency in the information about the activities carried out by the competent agencies and entities, particularly those relating to the calculation and collection of government revenues connected with these activities. After conducting sequential audits of works carried out by Petrobras (*the country’s significant oil producer and distributor; authors’ note*), improvements in the structure of agencies, intensified and improved communication among governmental agencies and Petrobras method for estimation of project cost improvements have been achieved in terms of the company’s methodology for the estimation of project costs.”

¹⁸ It should be noted that not all countries of the SAIs participating in this study are EITI countries. An up-to-date list of countries can be found on www.eiti.org.

Challenges

All responding SAIs recognized the technical complexity of the sector as a challenge. They reported that their understanding of the sector could be improved but also acknowledged gaps in the capacity within their institutions to do so. Even SAIs with considerable experience of EI Audit, namely SAI Brazil, Indonesia and Saudi Arabia, expressed challenges in training and retaining specialized staff with the appropriate knowledge about the EI business process. SAI Chile noted challenges “to understand[ing] the way contracts are negotiated, the regulations governing them and the technical variables involved in this type of transaction”. Complex legislation and overall technical aspects are also pointed out as challenges by other SAIs (i.e. SAI Indonesia, SAI Mongolia, SAI Brazil and SAI Colombia).

Additional challenges noted include being granted access to information, availability of information (i.e. quality and quantity of auditable records) and confidentiality. For example, SAI Nigeria reported difficulties in obtaining relevant documents and information from operators in Extractive Industries (item 15). SAI Sierra Leone noted the non-availability of records and the inadequate monitoring of mining revenue.

4. Expressed needs

Most SAIs share the notion that there is need for increased sharing of knowledge and experience between SAIs, as well as – in some cases – between SAIs and international private audit firms. All SAIs expressed the need to acquire more knowledge about the sector, and not specifically related to audit types, but practical training and hiring expertise from the sector.

Responses from all SAIs show a need for knowledge and capacity development in

1. All audit disciplines – financial, compliance and performance audit;
2. General questions about the governance and setup of the sector, its legal framework, and contracts and agreements;
3. Technical issues, i.e. the complexity of tax systems and royalties, valuating natural resources, assessing environmental risks.

The demand for capacity development in the above mentioned areas is substantial. All SAIs expressed interest in sharing knowledge and experience, with a large number of SAIs specifically expressing the need for capacity development support. Some SAIs also expressed a need for equipment to enable them to execute their audit mandate, such as hardware and audit software.

Capacity development needs

The capacity development needs expressed are diverse. In addition to knowledge sharing among peers, there is a demand for training on various topics, to effectively apply audit disciplines and techniques in this sector.

Besides general training in the EI sector, the vast majority of SAIs expressed detailed requests for capacity development support, noting the following areas:

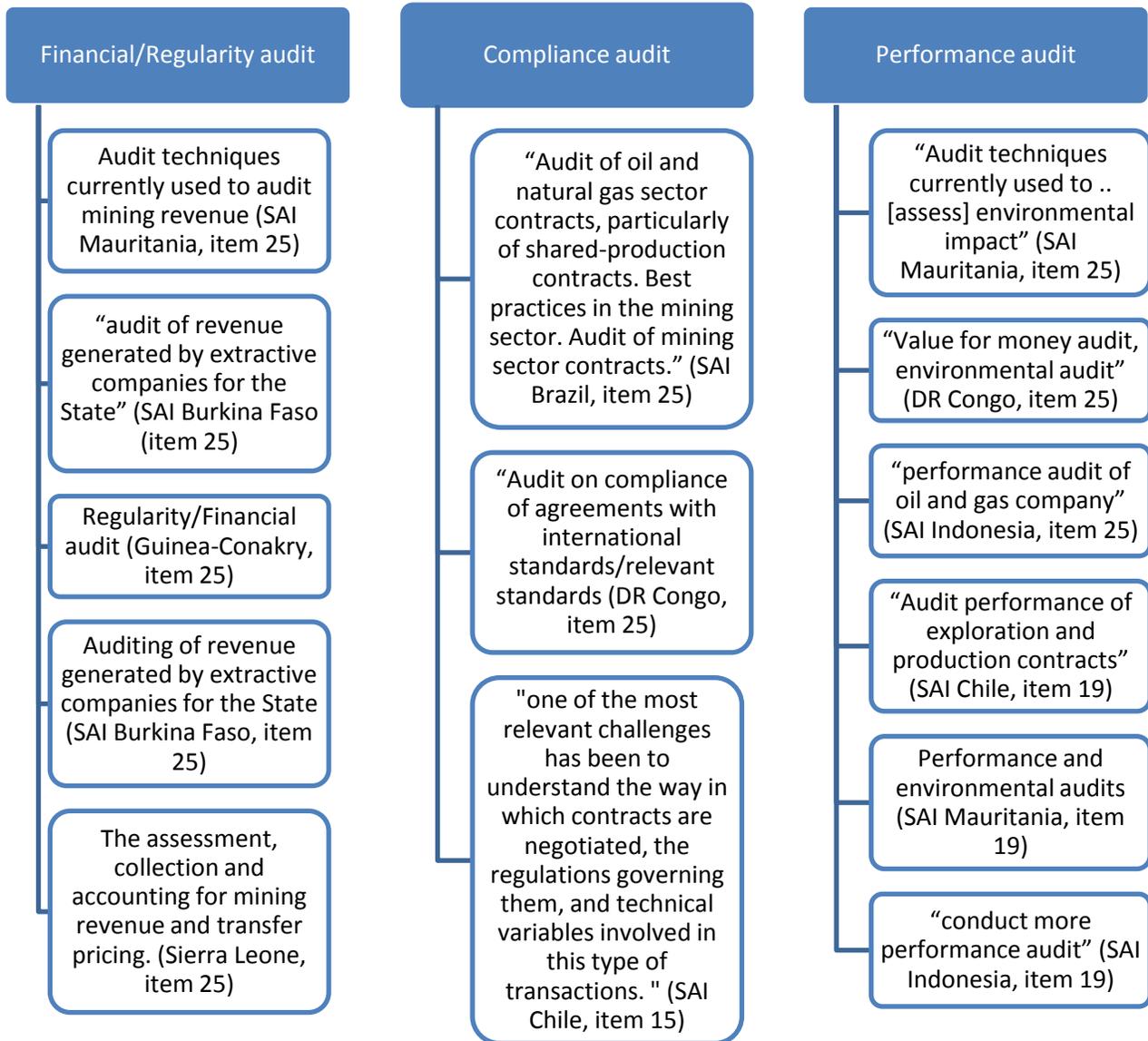
- transparency,
- implementation of policies,
- revenue generation of the mining sector,
- oil exploration, development and production in the oil value chain,
- assessment, collection and accounting for mining revenue, and
- domestication of guidelines on EI audit; particularly for the oil and gas sector.¹⁹

Some SAIs indicated that their lack of experience in and knowledge of this field makes it difficult to identify concrete areas that need strengthening.

¹⁹ While transfer pricing is currently high on the agenda of development agencies, there was no large response from SAIs indicating that this topic would be of direct interest at this stage.

Aligning the expressed needs to the three audit disciplines – financial, compliance and performance audit – the responses show a fairly even spread over all three disciplines. Some direct responses are indicated in the chart below:²⁰

Expressed Needs by Audit Discipline



²⁰ Responses for the first column include both Financial and Regularity Audit (the latter comprising aspects of financial and compliance audit), because the nature of the responding SAI’s audit of financial statements could not always be identified (i.e. whether or not compliant with ISSAI 200 or following a different approach to audit financial statements). Audits of compliance and performance were grouped separately.

All responding SAIs expressed a demand for increased sector knowledge, and most SAIs directly linked this to a need for external knowledge and support, recognizing the cost of acquiring the requisite assistance. 16 of 17 responding SAIs explicitly call for a capacity development program by expressing a demand for training to address their needs in the audit of EI. Four SAIs suggest peer-to-peer support in response to the question on external support. This includes learning “from best practices of other ASOSAI members and INTOSAI regions and exchange experiences with them” (SAI Indonesia, item 18). Almost all of the 17 responding SAIs also expressed an interest in being involved in future exchange of information and knowledge sharing, and some mentioned their willingness to share their EI Audit experiences.

Ongoing support

While demand for external knowledge and support for capacity development is substantial, only a few of the SAIs reported that they currently receive support to strengthen their capacity and improve performance in EI Audit. There is little evidence in the responses of future support in the pipeline regarding EI audits. Two OLACEFS members, SAI Columbia and SAI Brazil will receive support to strengthen the capacities regarding hydrocarbon audits. Within AFROSAI-E, Sierra Leone reported a proposal for building capacity regarding EI audit, which is currently being discussed with the United Kingdom’s Department for international Development (DFID). SAI Mauritania is currently supported by German International Cooperation (GIZ) in leveraging synergies between public sector audit and the national EITI agenda; similar support is provided in Mozambique.

Even experienced SAIs such as the Brazil and Saudi-Arabia express an interest in exchanging knowledge and learning in this field. The responding SAIs in virtually all regions expressed interest in, and the need for, capacity development programs that would allow them to understand and audit the extractives sector better. This could enable some SAIs to perform an audit related to EI for the first time ever.

5. Way Forward

5.1 Possible future INTOSAI initiatives: a proposal

Strengthening capacity in the area of EI audit appears to be an increasing priority for developing country SAIs. EI is the topic of many international discussions, involving various stakeholders, and while the discussions include transparency and accountability, the role of SAIs could be more adequately reflected.

From the survey there seems to be a demand for more guidance on what a good governance structure of the sector could look like and knowledge sharing for effective audit practices. This knowledge sharing would be most helpful if it included government revenue from natural

resource extraction, and governments' monitoring and oversight functions, among other issues. Guidance could also be provided for better understanding the legal framework of EI, including the contracts and agreements that form the basis of resource exploration, and for better understanding (state-owned) production companies. A few SAIs also expressed the need for specific guidelines for EI audit (SAI Nigeria and Indonesia).

While the initial mapping study was conducted by the Secretariat as mandated by the INTOSAI-Donor Cooperation, any substantial future work on this topic should be taken up and developed further under established INTOSAI structures, and not by the Secretariat.

Based on responses from the questionnaire, the following possible approaches are emerging:

1. A capacity development program targeting SAIs involved in EI Audit;
2. A knowledge sharing platform for SAIs and possibly other relevant stakeholders; and
3. An institutional anchor for this topic within INTOSAI, which could also conduct outreach activities.

Capacity development program for Extractive Industries Audit

A capacity development program tailored to SAIs auditing EI would entail strengthening technical and legal knowledge of different aspects, but also developing strategic partnerships between the INTOSAI regions and institutions involved in strengthening governance in the extractives field, such as EITI, and developing guides and training material as well as training for SAIs. Such a capacity development program could also establish a link to a knowledge sharing network of audit staff involved in auditing extractives. Some ideas and possible functions of such a network or Community of Practice are outlined below.

One major challenge of such a program would be handling the differences in national legal aspects of the governance of the sector. Variations in legal framework and basic legal documents can be substantial and need to be considered when addressing the need for capacity development of SAIs. While understanding technical basics of EI and their relevance for public sector auditing may not pose many difficulties, accommodating different legal frameworks may prove to be very challenging. Any capacity development program would therefore need to mitigate the risks of diverse legal environments.

Knowledge sharing network

During discussions on EI Audit in February 2013 hosted by AFROSAI-E, SAIs commenting on the draft questionnaire called for more exchange of ideas and experiences, for example through a network or Community of Practice. The results of this mapping study could, in the long-term, be used to inform such a platform for knowledge sharing by i.e. providing case study examples, depending on how this issue is taken forward.

The structure and function of a Community of Practice would need further refinement. Listed below are a few possible functions that could be exercised by a community, on behalf of, and in service to, its members with a minimal of administrative resources, a community could take the following functions:²¹

Exchange and networking: Managing a simple email list and website, and acting as a one-stop contact point for individuals and organizations working on EI audit and wishing to connect with other colleagues. Hosting debate forums and online working groups on selected topics.

Consolidation of best practice: Compiling, categorizing and translating key data, information, tools and materials pertaining to EI audit and making this widely available through open web posting and data bases.

Training, research and development: Developing and promoting new and existing training materials and guidelines; proposing and facilitating inter-agency development of key products; and commissioning research and evaluations.

Outreach: Strategic liaison and partnering with actors central to achieving the CoP mission, be they Government, revenue authorities, companies, development partners or civil society actors.

Anchoring the topic within INTOSAI

EI Audit is an emerging field for SAIs. The relevance of the topic is evident in the responses to this mapping study. Further discussions could include how to internationally promote and define the role of SAIs as custodians of public involvement in EI and INTOSAI's involvement strategies on this topic.

In addition to a potential Community of Practice and capacity development program, it could prove valuable to have an institutional anchor for EI Audit within INTOSAI. This structure could be mandated to provide oversight over a possible Community of Practice and to further promote and maintain the community. Establishing an INTOSAI Working Group on EI could be one possible way forward for this.²²

Such a Working Group could be mandated to internationally promote and define the role of SAIs as custodians of public involvement in EI and INTOSAI's involvement strategies on this topic and to take the lead in promoting and maintaining of a Community of Practice of SAIs and other stakeholders on EI related issues. It could focus on oil, mining and gas; however it could also invite (observing) membership from colleagues concerned with related industries such as forestry and fisheries.

²¹ Cf. "Audit of Extractive Industries: A Community of Supreme Audit Institutions. Concept Note", Draft version. March 2013. This concept note was produced by the participants of the AFROSAI-E workshop on EI, see footnote 14.

²² In the longer term such a Working Group could also provide expert support to regional initiatives and capacity building programmes, subject to its mandate, scope and purpose.

The Working Group would be responsible for promoting EI Audit within INTOSAI, gather related information, decide on best ways to disseminate existing and creating new knowledge on the topic, and reaching out towards the larger community of EI stakeholders. It could also ensure liaison with other relevant INTOSAI initiatives, such as the ISSAI Implementation Initiative (3i), the Working Group on Environmental Auditing and the Working Group on Corruption, and others.

5.2 Outreach to civil society and global initiatives

Based on the information reviewed and responses received to this questionnaire, it is regarded as important for SAIs and INTOSAI to become more involved in the national and international debate of transparency and accountability in the natural resource sector.

During the data collection, the Secretariat engaged with different donor agencies and Civil Society Organizations (CSOs) to discuss their involvement with SAIs regarding EI. Discussions on the role of SAIs in the governance of natural resources were held with the PREM department of the World Bank, the Norwegian Agency for Development Cooperation (NORAD), and GIZ, as well as CSOs such as Integrity Action and Global Witness. The discussions revealed considerable interest on the topic, but from this perspective also, the role and potential role of the SAI could be made clearer.

The dialogue with representatives from donor agencies with both global and country-perspective indicates that they approach SAIs as part of their programs, but that the approach is fragmented. Donors and implementing agents, such as the Oil for Development Program within NORAD, see that SAIs potentially could play a significant role, and would like to increase their knowledge and understanding on how to include SAIs more systematically in their support. GIZ, implementing agent in Mozambique on behalf of the German Ministry for Economic Cooperation and Development, recognized the SAI's role as significant to transparency and good governance because the SAI follows the court model and also is mandated to have a major role in the natural resource value chain.

In general, stakeholders expressed interest in knowing more about the roles of SAIs and their possible contributions to ensure accountability of resource governance. Further dialogue with these and other stakeholders working on EI related issues is recommended and could be taken up by a potential Working Group on EI Audit and/or a Community of Practice.

5.3 Discussion points for the 6th Steering Committee Meeting

The mapping shows that there is a need to expand and share knowledge for and among SAIs as well as a need to facilitate SAIs' outreach to key stakeholders on its role in the governance of natural resources. The study concludes with three possible approaches that can be taken forward to accommodate the identified needs of those SAIs conducting audit of EI. Possible approaches include:

1. A capacity development program targeting SAIs involved in EI Audit, covering a range of the aspects identified as needs by the SAIs responding to the questionnaire;
2. A knowledge sharing platform for SAIs and possibly a broader stakeholder community; and
3. An institutional anchor for this topic within INTOSAI that could also conduct outreach activities.

One option does not exclude other options and working on several of the dimensions might be feasible and may even be the most appropriate choice. The INTOSAI-Donor Steering Committee is therefore asked to consider the following discussion points:

1. Do members of the SC agree with, and have any comments on, the three possible approaches identified?
2. Is there a priority or ranking for these possible approaches?
3. What are views and suggestions from members of the SC on a possible way forward?

Annex

Annex 1. SAIs asked to participate in the questionnaire

INTOSAI region or sub-region	SAI	Reply to questionnaire	Information may be disclosed
AFROSAI-E	Mozambique	No	NA
	Nigeria	Yes	Yes
	Sierra Leone	Yes	Yes
	Uganda	No	NA
	Zambia	Yes	NA
ARABOSAI	Iraq	No	NA
	Saudi Arabia	Yes	Partly
	Tunisia	Yes	Partly
	United Arab Emirates	No; the SAI does not have the responsibility for the audit of the oil companies as this is a regional responsibility and federal government is not involved	NA
	Yemen	No	NA
ASOSAI	Azerbaijan	No	NA
	China	No	NA
	Indonesia	Yes	Yes
	Kazakhstan	Yes	No
	Mongolia	Yes	Yes
CREFI AF	Burkina Faso	Yes	Yes
	Gabon	Yes	Yes
	State General Inspectorate Guinea-Conakry	Yes	Yes
	Mauritania (also ARABOSAI)	Yes	Partly
	RD Congo	Yes	Yes

INTOSAI region or sub-region	SAI	Reply to questionnaire	Information may be disclosed
OLACEFS	Argentina	No	NA
	Brazil	Yes	Yes
	Chile	Yes	Yes
	Colombia	Yes	Yes
	Ecuador	Yes	NA
	Venezuela	No; technical problems	NA

Annex 2. Questionnaire

Context				
1.	Please indicate the percentage of total government revenue coming from extractive industries			
		2010	2011	2012
	Revenue from extractive industries in percent of total revenue ²³			
SAI's mandate regarding extractive industries audit				
2.	What types of regulations govern the extractives sector (PSAs, contracts, auctioned licenses etc.)?			
3.	To what extent does your SAI have the mandate to audit these regulations? (For example: Does the SAI have the mandate to audit draft contracts etc?)			
4.	Are government's liabilities on decommissioned sites of extractive industries...?			
		Yes	No	
	...disclosed?	<input type="checkbox"/>	<input type="checkbox"/>	

²³ Domestic revenue is defined as all taxes, royalties and customs generated in country and/or by national agencies. Total revenue is defined as all domestic revenue plus Official Development Assistance, including Direct Budget Support.

	...audited?	<input type="checkbox"/>	<input type="checkbox"/>
5.	Does the SAI experience any limitations to the access to information when auditing extractive industries according to its mandate?		
Current practices			
6.	Audits executed in the past years within the extractive industries sector : (several options possible)		
		2010	2011
	Regularity/Financial Audit		
	Value for Money/Performance Audit		
	Compliance Audit		
	Audits carried out by a specialized unit for extractive industries		
7.	The audited entity/ the audit subject was part of the following industry: (several options possible)		
		2010	2011
	Mining		
	Oil		
	Gas		
	Other		
8.	How are audit teams for Extractive Industries Audits compiled?		
9.	Please list audit reports related to extractive industries, the year they were carried out, and briefly their content/scope		
10.	Dissemination of audit findings		

	Extractive industries Audit... (several options possible) ...is covered in the SAI's general reports <input type="checkbox"/> ...has been the topic of management letters to the executive <input type="checkbox"/> ...has been the topic of specific audit reports <input type="checkbox"/> ...(for Court model SAIs) has been the topic of judgments and sanctions <input type="checkbox"/> ...is included in other reports (please specify)		
11.	Existing general auditing standards/methodology/guidelines within the SAI (several options possible)		
		Yes	No
	Regularity/Financial Audit	<input type="checkbox"/>	<input type="checkbox"/>
	Value for Money/Performance Audit	<input type="checkbox"/>	<input type="checkbox"/>
	Compliance Audit	<input type="checkbox"/>	<input type="checkbox"/>
	Audits on sub-national level	<input type="checkbox"/>	<input type="checkbox"/>
	Auditing extractive industries	<input type="checkbox"/>	<input type="checkbox"/>
	Environmental audit	<input type="checkbox"/>	<input type="checkbox"/>
	Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>
12.	Existing training within the SAI (several options possible)		
		Yes	No
	Regularity/Financial Audit	<input type="checkbox"/>	<input type="checkbox"/>
	Value for Money/Performance Audit	<input type="checkbox"/>	<input type="checkbox"/>
	Compliance Audit	<input type="checkbox"/>	<input type="checkbox"/>
	Audits on sub-national level	<input type="checkbox"/>	<input type="checkbox"/>
	Auditing extractive industries	<input type="checkbox"/>	<input type="checkbox"/>

	Environmental audit	<input type="checkbox"/>	<input type="checkbox"/>
	Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>
13.	From your experience: what are best practices and lessons learned concerning Extractive Industries Audit?		
14.	Please provide examples of impact of audits of the extractives sector carried out by your SAI		
15.	Please provide examples of challenges for your SAI regarding audits of the extractives sector		
Future initiatives			
16.	Have you planned or performed a Needs Assessment of capacity pertaining in audits of the extractives sector? Yes <input type="checkbox"/> No <input type="checkbox"/>		
17.	If yes, what were the results?		
18.	Please specify the perceived need of your SAI for external support in auditing the extractives sector		
19.	What are planned initiatives of your SAI on extractive industries?		
20.	Are there any plans within your SAI for trainings to enhance the SAI's capacities in auditing the extractives sector? Yes <input type="checkbox"/> No <input type="checkbox"/>		
21.	If yes, please specify		

External support and stakeholder relations		
22.	Please specify any planned, ongoing or completed support to your SAI with relations to extractive industries:	
23.	Are your findings of audit of extractive industries...? (several options possible)	
		Yes No
	... disclosed to the public?	<input type="checkbox"/> <input type="checkbox"/>
	... forwarded to Parliament?	<input type="checkbox"/> <input type="checkbox"/>
	...taken up by Parliament in its debates?	<input type="checkbox"/> <input type="checkbox"/>
24.	Are you in dialogue with other stakeholders to discuss extractives industries? (several options possible)	
	National EITI office	<input type="checkbox"/>
	Transparency International	<input type="checkbox"/>
	Anti Corruption Office/Unit	<input type="checkbox"/>
	Other	
25.	Do you wish to participate in future exchange of information? If so, which topics regarding Extractive Industries Audit will be most relevant for your SAI?	
26.	Please indicate if the information you provided may be disclosed	
		Yes
	The information can be published to full extent	<input type="checkbox"/>
	Only specific items of this questionnaire can be published	<input type="checkbox"/>
	Please state the items that can be published (numbers of items as used in this questionnaire)	
	None of the information provided can be published	<input type="checkbox"/>

Annex 3. Terms of Reference

Initiative to strengthen SAI capacity to audit government revenue from extractive industries and government monitoring and oversight of these industries

Objective: Assess the current situation and capacity development needs of SAIs in auditing government revenue from extractive industries and government monitoring and oversight of these industries, and propose appropriate capacity development initiatives if deemed necessary.

Background: One of the tasks in the 2012 Work Program for the INTOSAI-Donor Cooperation, which the 4th INTOSAI-Donor Steering Committee Meeting agreed on, was to *explore the question of SAI involvement in the audit of revenue from extractive industries and INTOSAI engagement with the Extractive Industries Transparency Initiative (EITI)*.

Extractive industries are those which extract non-renewable resources from the ground, including the oil, gas, and mining industries.²⁴ Some argue that similar challenges are faced in renewable resource sectors such as forestry and fishing, and countries such as Liberia and Indonesia include forestry in their EITI reporting systems. Illicit financial flows from many developing countries derive from the poor governance of such industries. It is estimated that developing countries experienced approximately US\$1.2 trillion in illicit flows from these industries during 2008.²⁵ This is 10 times the amount of the overseas development assistance provided by OECD countries that year.²⁶ Extractive industries are strategically important to many developing countries as a major revenue-earning source and they have become a focal point for international good governance and anti-corruption initiatives. They are also an important area for domestic resource mobilization that has not been fully exploited. The 4th High Level Forum on Aid Effectiveness in Busan, South Korea, underlined the importance of improving fiscal transparency policies and practices, including public disclosure of revenues. Currently many networks, organizations and initiatives work on these issues.²⁷

Sound management of resource revenue is recognized as crucial to development and to securing peace and stability. In countries where there are abundant natural resources, how their revenues are distributed within and across groups is one of the pillars of the economic and political settlement. Especially in fragile states, the way resource revenues are shared may disproportionately favour political and economic elites and those employing coercion and violent force. Thus, lack of natural resource governance and absence of a rule of law can be destabilising and lead a country toward armed conflict over control of resources".²⁸

Several international initiatives are attempting to address these problems by improving transparency and accountability in resource revenue flows. These initiatives in the extractive sector cover a variety of aspects:

²⁴ www.EITI.org

²⁵ Illicit Financial Flows from Developing Countries: 2000 – 2009; Update with a Focus on Asia, Chart 1, by Dev Kar and Karly Curcio, January 2011.)

²⁶ <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1>

²⁷ For revenues, one of the initiatives is the Extractive Industries Transparency Initiative (EITI), which “aims to strengthen governance by improving transparency and accountability in the extractives sector.” The EITI is a global standard that promotes revenue transparency and seeks to commit oil, gas, and mining companies to publish the payments they make to governments and to commit governments to publish the revenues they receive from companies in the sector.

²⁸ OECD (2011), *Supporting Statebuilding in Situations of Conflict and Fragility: Policy Guidance*, DAC Guidelines and Reference Series, OECD Publishing.

contract and revenue transparency instruments, certification instruments, broad governance standards, and other non-resource-specific initiatives, including tax reform initiatives.²⁹

SAIs can be involved in several aspects of the audit of government revenue from extractive industries and government monitoring and oversight of these industries. For example audits of the granting and awarding of concessions, taxation of revenues, investigating allegations of corruption, tackling illicit flows, as well as performance audits of environmental and safety issues. However, according to the information currently available, it appears that few SAIs at the country level plan and execute audits specifically targeting the government revenue from extractive industries and government monitoring and oversight of these industries. There is a need to learn more about the mandates, audit practices and needs of SAIs in developing countries in this field.

There is no specific INTOSAI working group or task force looking at SAIs involvement in the audit of extractive industries, although the Working Group on Environmental Auditing has produced a guideline on auditing mining. The issue of auditing government revenue from extractive industries and government monitoring and oversight of these industries, and strengthening SAI capacity in this field, does however increasingly appear to be a priority for developing country SAIs, and the IDI has for instance recently received requests for support in this area from several SAIs³⁰. In addition, OAG Norway and AFROSAI-E are currently exploring the issue.

- AFROSAI-E is developing a guideline on auditing revenue which focuses on extractive industries. The guideline will be completed by the end of 2012 and will also address issues such as how to develop capacity of SAIs in this field. AFROSAI-E is also planning to carry out training based on the guideline, including pilot audits.
- Several SAIs (e.g. Iraq, Angola, Uganda and Tanzania) have contacted SAI Norway, asking them to share their experience in auditing the petroleum sector. SAI Norway has consequently established a group of auditors who will share their experiences in the many aspects of auditing this sector. The first activity is hosting a workshop in May 2012 to exchange experiences between SAI Uganda and SAI Norway, focusing on revenues. EITI will contribute at this workshop, and the INTOSAI-Donor Secretariat also will attend.

Activity: The initiative will follow a two-step approach. First, the INTOSAI-Donor Secretariat will conduct a mapping of:

- Developing country SAIs' mandates, capacity, current practice, interest and need for capacity development in the audit of government revenue from extractive industries and government monitoring and oversight of these industries (including environmental and safety issues).
- What other initiatives and organizations are doing to address this domain, including support to SAIs provided by peers and donors.
- The extent to which audit of government revenue from extractives industries includes completeness of revenue (e.g. supported by reconciliation to production records which are judged to be reliable)
- The extent to which SAI audit of government revenue from extractive industries and government monitoring and oversight of these industries encompasses sub-national governments (in so far as they earn revenue / have a role in monitoring and oversight)
- The way in which revenues from natural resources are disclosed in government accounts and the extent to which this reflects international standards

29 Extractive sectors and illicit financial flows: What role for revenue governance initiatives, by Philippe Le Billon, CMI Paper, Anti-Corruption Resource Centre, U4 Issue 2011:13

³⁰ The IDI does not currently have any programmes specifically targeting the audit of extractive industries.

- The nature of the main obstacles which impede audit of government revenue from extractive industries and government monitoring and oversight of these industries, including political obstacles, and any experience of overcoming such obstacles.

The mapping will be carried out in collaboration with the INTOSAI regional secretariats, in particular AFROSAI-E.

Secondly, based on the results of the mapping, the Secretariat will assess whether there is a need for additional capacity development initiatives within this field, and make a recommendation for how this best can be taken forward, including which topics to cover and which regions to address.

End product: The report with the findings from the mapping and a recommendation for the way forward will be presented to the Steering Committee Leadership by the end of 2012 and discussed at the 6th Steering Committee meeting and other appropriate INTOSAI meetings.