



# **AUDIT CONSIDERATIONS AND RISK ASSESSMENT UNDER MONITORING AND EVALUATION IN EXTRACTIVE INDUSTRY**

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# Presentation **Outline**

1

**INTRODUCTION**

2

**WHY MONITOR?**

3

**EXTRACTIVE INDUSTRY ASPECTS  
MONITORED**

4

**AUDIT CONSIDERATIONS IN  
EXTRACTIVE INDUSTRY MONITORING**

5

**EXTRACTIVE INDUSTRY RISK  
ASSESSMENT**

# Learning Outcomes

- Gain an understanding of the Extractive Industry aspects monitored.
- To be able to identify audit considerations in Extractive Industry monitoring.
- To be able to identify and assess the risks related to Extractive Industry monitoring.

## MONITORING AND EVALUATION

**Monitoring** is the gathering, analyzing and interpretation of information for the assessment of performance. (Owen Nichols. et al.2016).

**Evaluation** is judging, appraising, determining the worth value or quality of a program/project/activity to make necessary decisions. It is done in terms of Relevance, Economy, Effectiveness, Efficiency, Impact and Sustainability

Effective monitoring practices involve clearly-defined roles and responsibilities of each party in the regulatory framework, particularly as it relates to providing or reviewing information related to production volumes, environmental impacts, and social impacts. **(AFROSAI-E Guideline: Audit Considerations for Extractive Industries, 2018)**



## WHY MONITOR?

- ❑ It provides a consolidated source of information showcasing program/project/activity progress.
- ❑ It allows stakeholders to learn from experiences, building on expertise and knowledge.
- ❑ It reveals mistakes and offers paths for learning and improvements.
- ❑ It provides a basis for questioning and testing assumptions.
- ❑ It provides a means for agencies seeking to learn from their experiences and to incorporate them into policy and practice.



## WHAT SHOULD BE MONITORED IN THE EXTRACTIVE INDUSTRY?

Some of the aspects monitored in the EI including the following

### Health and Safety

- Health and safety aspects i.e safe mining, oil and gas practices

### Costs

- Promoting an efficient cost environment (depends on the EI fiscal regime)

### i.Production volumes and quality

- Obtain reliable information on the quantities and quality of minerals produced.

### Natural resource volumes available

- Independent resource assessment to get assurance on the accuracy of resource volumes to facilitate planning

### i.National/Local content aspects

- Promote and monitor the participation of companies and individuals of the host country in the supply of goods and services , employment, skills development etc in the EI.

### Sustainability of EI activities

- Equitable, socially inclusive and environmentally sustainable exploitation of natural resources

### Compliance

- Compliance with the applicable laws, regulations, policies, contractual obligations, industry best practices e.t.c.

### The Auditor should assess whether:

- The ministry/department/agency responsible for monitoring EI operations carried out physical inspections to the mine/oil and gas operation sites to assess compliance with the designated regulatory functions ie cost monitoring, environment preservation and conservation, HSE standards etc.
  
- The quantity and quality of the minerals extracted at the mine, transported, processed and exported through customs or used in country are declared correctly.
  
- The appropriate authority i.e National Standards Agency tests and examines measuring equipment at regular intervals and in accordance with regulations and standards for accuracy.

## AUDIT CONSIDERATIONS IN MONITORING EXTRACTIVE INDUSTRY

- ❑ Government ministries/departments/agencies ensure that the laws, regulations, agreements, policies pertaining to exploration, development and production of minerals/petroleum are adhered to by the licensees and other extractive industry stakeholders.
- ❑ Government has established relevant regulations which cover key industry aspects such as health and safety, local/national content provisions, environment protection etc.
- ❑ Declarations to government of mining/petroleum quantity and quality produced are accurate

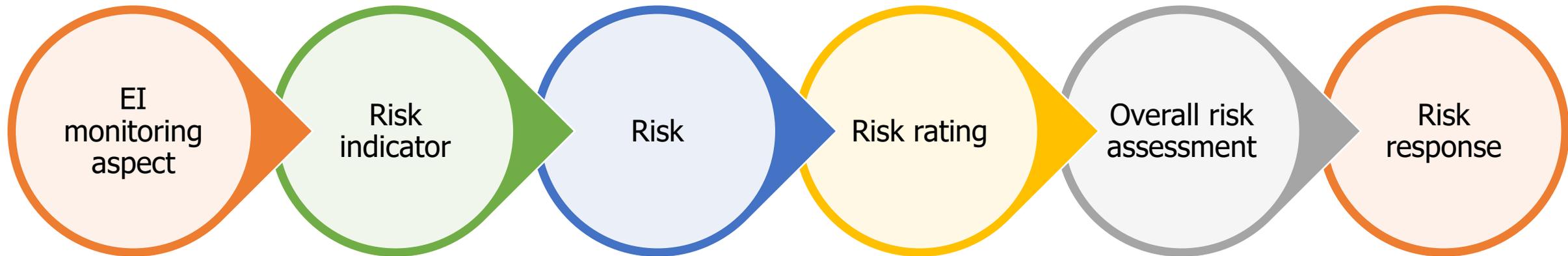
## **RISK ASSESSMENT IN EI MONITORING AND EVALUATION**

### **Identification of risk factors**

When conducting monitoring of EI operations audit, the audit team may look out for risk factors that will indicate inherent risks in the monitoring of EI operations. These may include the following among others:

- Inadequate legal framework, regulations, policies, guidelines, and procedures on monitoring of EI operations.
- Under declaration of the quantities of minerals produced and some mineral contents which may attract tax may not be disclosed due to lack of monitoring resulting in loss of revenue to government.
- Inadequate capacity of the sector ministry or agency officers to effectively carry out physical inspections to the mines/oil and gas operation sites on a sample basis and monitor the operations.

## RISK ASSESSMENT PROCESS



## RISK ASSESSMENT IN EI MONITORING AND EVALUATION

### Identification of risk factors

- Lack of effective coordination among the ministry/department/agency responsible for mining and petroleum with other key government agencies i,e tax authorities, environment management agencies etc.
- Lack of clearly defined responsibilities or conflicting responsibilities between the ministry responsible for mining and petroleum and other sector agencies.

# RISK ASSESSMENT IN EI MONITORING AND EVALUATION

The key below is used to assess the likelihood and impact of the risk

LIKELIHOOD	Very high	5				
	High	4				
	Moderate	3				
	Low	2				
	Very low	1	2	3	4	5
		Insignificant	Low	Moderate	Serious	Very serious
I M P A C T						

Use the Key below to assess the **overall assessment of the risk** depending on where the risk lies in the above key

5	4	3	1-2

## RISK ASSESSMENT IN EI MONITORING AND EVALUATION

### Monitoring and Evaluation in EI Risk Assessment data capture template

The purpose of the risk template below is to guide identification and assessment of risks in Extractive Industry monitoring

S/No	Aspects monitored	Risk indicator	Risks	Risk Rating		Overall Assessment of Risk
				Likelihood	Impact	
1	National/Local Content	Low total contract amount awarded to national/local companies vis-à-vis total EI contract awards.	Limited national participation	3	5	15 (Critical)
2	Production volumes and quality	1.Uncalibrated metering equipment 2.Significant reduction in government revenues	Inaccurate estimation and reporting of resource volumes	2	5	10 (High)
3	Health and Safety	No EI guidelines on HSE management	Risk of structural failure, fire in mining and petroleum operations	2	3	6 (Moderate)
4	Costs	Cost claims for ineligible expenditure (costs not related to extractive industry activities) where applicable depending on the EI fiscal regime	Overstatement of recoverable expenditure	2	2	4 (Low)



Thank  
You!

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