

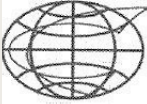
BRIEFING NOTE

THE ROLE OF SUPREME AUDIT INSTITUTIONS IN THE GOOD GOVERNANCE OF THE EXTRACTIVE INDUSTRY



(REVISED 2024)

QUALITY ASSURANCE CERTIFICATE CHAIR OF THE GOAL 3: KNOWLEDGE SHARING AND KNOWLEDGE SERVICES COMMITTEE



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Quality Assurance Certificate of the Goal Chair

Based on the assurance provided by the **INTOSAI Working group on Audit of Extractive Industries (WGEI)** and the assessment by the Goal Chair, it is certified that "**Updated Briefing Note: The Role of Supreme Audit Institutions in the Good Governance of the Extractive Industry**", which is placed at level **3 (three)** of Quality Assurance as defined in the paper on "Quality Assurance on Public goods developed outside Due Process" approved by the INTOSAI Governing Board in November 2017 has been developed by following the Quality Assurance processes as detailed in the quality Assurance Certificate given by the Working Group Chair.

The product is valid till 28th October 2027 and if it is not reviewed and updated by 28th October 2027, it will cease to be a public good of INTOSAI developed outside the Due Process.

Girish Chandra Murmu
Chair of INTOSAI Knowledge Sharing and
Knowledge Service Committee

QUALITY ASSURANCE CERTIFICATE CHAIR OF THE WORKING GROUP ON AUDIT OF EXTRACTIVE INDUSTRIES (WGEI)



Quality Assurance Certificate **Chair of the Working Group on Audit of the Extractive Industries**

This is to certify that "*the Updated Briefing note on the Role of Supreme Audit Institutions in the Good Governance of the Extractive Industry*" which is placed at level **3 (three)** of Quality Assurance as defined in the paper on "Quality Assurance on Public goods developed outside Due Process" approved by the INTOSAI Governing Board in November 2017 has been developed by following the Quality Assurance processes as detailed below:

- (i) *WGEI members resolved to review Briefing Note at meeting in July 2024.*
- (ii) *Taskforce discussed and agreed on changes for a first draft of the Briefing Note update in November 2023.*
- (iii) *During December and January, the task force members continuously amended versions of the draft by email.*
- (iv) *The WGEI Secretariat sent the draft to WGEI members in July 2024 requesting input/comments.*
- (v) *Fifteen (15) WGEI members and the Steering Committee provided comments.*
- (vi) *The taskforce addressed the comments and made necessary adjustments in August 2024.*
- (vii) *Final draft shared with the WGEI Steering Committee in October 2024.*
- (viii) *The Steering Committee approved the revised Briefing Note at its annual meeting in Kigali, Rwanda in October 2024.*

The product developed is consistent with relevant INTOSAI Principles and Standards. The structure of the product is in line with the drafting convention of non-IFPP documents.

The product is valid till **28th October 2027** and if it is not reviewed and updated by **28th October 2027**, it will cease to be a public good of INTOSAI developed outside the Due Process.

A handwritten signature in blue ink, appearing to read 'Edward Akol', written over a horizontal line.

Edward Akol
Chair of the Working Group on Audit of the Extractive Industries



The Role of Supreme Audit Institutions in the Good Governance of the Extractive Industry

This briefing note aims to provide external stakeholders and the public a quick overview of the role of Supreme Audit Institutions (SAIs) and how SAIs can contribute to good governance in the extractive industries (EI) sector. The scope of the INTOSAI Working Group on Audit of Extractive Industries includes oil, gas and solid minerals.



<u>INTRODUCTION TO SUPREME AUDIT INSTITUTIONS</u>	11
A. <u>WHAT ARE SAIs</u>	11
B. <u>WHAT ARE THE BENEFITS OF SAIs</u>	14
C. <u>THREE MAIN TYPES OF SAIs</u>	16
<hr/>	
<u>THE ROLE OF SAIS IN THE EXTRACTIVE INDUSTRIES SECTOR</u>	18
A. <u>WHAT IS THE EXTRACTIVE INDUSTRIES (EI) SECTOR?</u>	19
B. <u>WHY ARE SAIs IMPORTANT FOR THE EXTRACTIVE INDUSTRY?</u>	21
C. <u>THE EI VALUE CHAIN AREAS OF AUDIT</u>	25
<hr/>	
<u>LINKS AND RESOURCES</u>	32



CHAPTER ONE

Introduction to Supreme Audit Institutions (SAIs)

A. What are SAIs

Supreme Audit Institutions (SAIs) are the highest Audit Institution of a country. SAIs are known mainly for their role in overseeing the management of public finances, i.e. government revenue and expenditure. Many SAIs also audit public entities' compliance with rules and regulations, and the performance of government programs and policies. By scrutinizing public financial management and performance, SAIs provide assurance that public resources are used prudently and efficiently for the benefit of the citizens.

In most countries the SAI[1] will report audit findings along with recommendations to the parliament of that particular country. The parliament will then follow up by making its own recommendations and if needed carry out hearings with the responsible accounting officers. Usually, this parliamentary follow-up is performed by a Public Accounts Committee (PAC). Parliaments represent the citizens, and the SAI is an instrument to assist parliament with oversight over government's management. Through this mechanism, SAIs help ensure governments' accountability to their citizens.

[1] There are three established institutional models of SAIs: Westminster, Judicial and Board. For further reading, see [Features and Functions of Supreme Audit Institutions](#) (2001, October). PREM notes Public sector. The World Bank.

CHAPTER ONE

About a quarter of the SAIs in the world also have a jurisdictional mandate, which allows them to directly hold managers of public funds liable for irregularities identified during audits or referred to them by a third party. SAIs with jurisdictional powers can issue enforceable judgments on financial management irregularities, hold individuals personally liable, and impose sanctions as part of their mandate. These activities enhance accountability and protect public resources by combining audit functions with judicial authority, ensuring integrity in public management. [2]

A key factor for effective audit of government institutions is the level of independence the audit institution has from the government hierarchies that it is supposed to audit. Independence refers to financial and administrative autonomy enabling the SAI to make decisions without interference and the freedom to determine the scope of audit. An independent and professional SAI is therefore an important actor in a country's accountability chain, as it promotes public sector transparency and accountability.

[2] Supreme Audit Institutions (SAIs) with jurisdictional functions engage in direct liability proceedings as outlined in INTOSAI-P 50, which details their authority to issue judgments and enforce accountability for irregularities in public fund management (INTOSAI-P 50, §2.1.1).

CHAPTER ONE

The International Organization of Supreme Audit Institutions (INTOSAI) operates as an umbrella organization for the international SAI community. For more than 70 years, it has provided an institutionalized framework for SAIs to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries. There are several INTOSAI regional bodies: AFROSAI (Africa), ARABOSAI (Arab countries), ASOSAI (Asia), CAROSAI (Caribbean region), EUROSAI (Europe), OLACEFS (Latin America and Caribbean countries) and PASAI (Pacific region).

In the INTOSAI community, the **Working Group on the Audit of Extractive Industries (WGEI)** was established in 2013 to facilitate knowledge sharing and networking for SAIs related to audit of the EI sector in order to promote good governance and sustainable development in the extractive industries. The scope of the working group includes oil, gas and solid minerals. WGEI currently composes of 46 members from different INTOSAI regions and is chaired by SAI Uganda.

CHAPTER ONE

B. What are the benefits of SAIs?

SAIs deliver value and benefits to their respective countries by:

- (i) Strengthening the accountability, transparency and integrity of government and public sector entities
- (ii) Demonstrating ongoing relevance to citizens, Parliament and other stakeholders and
- (iii) Being a model organization through leading by example

These three objectives can be met by following the accompanying 12 principles, illustrated through the figure below (ISSAI 12[3]):

[3] INTOSAI-P 12: The Value and Benefits of Supreme Audit Institutions-making a difference to the lives of citizens

CHAPTER ONE

Figure 1: The 12 principles of the value and benefits of SAIs under each objective



CHAPTER ONE

C. Three main types of audit

INTOSAI Professional Pronouncements are the formal and authoritative announcements or declarations of the INTOSAI Community. All the pronouncements are organized and numbered according to their status and purpose in a single framework. This framework (IFPP) contains three categories of professional pronouncements: The Principles (INTOSAI-P), The International Standards of Supreme Audit Institutions (ISSAI) and the Guidance (GUID).

Professional standards and guidelines promote credibility, transparency, quality and professionalism in public sector auditing. They also support the members of INTOSAI in the development of their own professional approach in accordance with their mandates and with national laws and regulations.

In accordance with the "*ISSAI 100: Fundamental Principles of Public Sector Auditing*", the three main types of public sector audits are as follows:"[4]

[4] The ISSAI framework also gives guidance on subject matter specific audits, such as audit of information systems, environmental audit or audit of public debt. These audits will follow the standards of financial, performance or compliance audit.

CHAPTER ONE

Financial audit

This is an audit of financial statements with the purpose of enhancing the degree of confidence of intended users of the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

Compliance audit

The objective of compliance auditing is to enable the SAI to address whether the activities of public sector entities are in accordance with applicable authorities (laws, regulations and rules) governing those entities.

Performance audit

Sometimes referred to as “value for money”-audit, focuses on whether government undertakings, systems, operations, programs, activities or organizations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements.

CHAPTER TWO

The Role of SAIs in the Extractive Industries Sector

The Role of Supreme Audit Institutions in the Good Governance of the Extractive Industry (EI)

The role of SAIs is to oversee:

- ...the management of public finances
- ...that public entities comply with rules and regulations
- ...the performance of government programs and policies

SAIs play an important role in the EI sector in order to ensure the following:

Legal and regulatory framework

Existence of adequate laws, regulations, policies and institutions for each step of EI value chain

Exploration and data management

Data are properly managed and secured

Award of contracts and licenses

Award of licenses are transparent and conducted in accordance with laws and regulations

Monitoring of operations

Government conducts monitoring of EI operations in line with laws and regulations

Assessment and collection of revenues

Effective systems of collection of government revenues

Revenue management and allocation

Government manages EI revenues prudently

Implementation of sustainable policies

Sustainable development in the EI considering economic, social and environmental aspects related to the SDGs

Transparency

Accountability

Sustainable Development

CHAPTER TWO

A. EI sector overview

Extractive industries usually refer to the oil, gas and mining industries. Extractive processes include oil and gas extraction, mining, dredging and quarrying, and it can be both on land and under water. There are varieties of public and private stakeholders within the EI-sector that all have unique perspectives about the effect of EI activities. The illustration below shows a simplified overview of the key players and stakeholders in the EI-sector.

Figure 2: Overview of the key players and stakeholders in the extractive industries sector



CHAPTER TWO

Key Stakeholders	Examples
SAI community	SAIs, INTOSAI and its regional bodies, WGEI, INTOSAI Development Initiative (IDI) and global training facilities (GTF).
Government authorities	Ministries responsible for policies in the extractive industries sector, regulatory agencies, agencies responsible for environmental protection, revenue authorities, etc.
Oil, gas and mining companies	National Oil Companies (NOCs) and State Owned Mining Enterprises, Multinational and National Companies like : Total Energies, Exxon Mobil, BP, PETROBRAS, CNOOC, PEMEX, ARAMCO, PETROECUADOR, Glencore, Rio Tinto, Barrick Gold
EI organizations	International Petroleum Industry Environmental Conservation Association (IPIECA), International Council on Mining and Metals (ICMM)
Multilateral organizations	World Bank, International Monetary Fund (IMF), United Nations (UN), OECD,
Local Community	Communities living around or near mining/ extraction sites, Communities whose land is used for mining activities, etc
NGOs	Extractive Industries Transparency Initiative(EITI), Publish What You Pay (PWYP), Natural Resource Governance Institute (NRGI)

CHAPTER TWO

B. Why are SAIs important for the extractive industry?

Research over the last decades has shown that several resource-rich countries do poorly on both development and governance indices. Essentially, empirical studies found that some resource-rich countries had lower economic growth and less democracy compared to countries without an abundance of natural resources. This phenomenon is known as the resource curse or the paradox of plenty. There are many reasons for this, but it is clear that the challenges are related to transparency and accountability in the government. As the role of SAIs is to increase the accountability and transparency of government management of public resources, the importance of SAIs in ensuring good governance of a country's resources becomes more evident.

Transparency and good governance

Good governance and the principles that govern it such as accountability, transparency, equity, and participation are the guarantee for any SAI to contribute strongly and effectively to better and more transparent oversight of the industry, improve governance and help to ensure that natural resources are managed in the best interest of the public.

CHAPTER TWO

SAIs' mandate and contribution span the entire EI value chain, from the development of strong legal frameworks, to fair and transparent revenue collection and distribution, and the monitoring of environmental impact and sustainable policies. The role of SAIs in the extractive industries may vary between countries, depending on the mandate and the knowledge of the SAI itself, the maturity of the sector and the regulatory framework in place.

Sustainability and the energy transition

Furthermore, there is a close link between extractive industries and the UN Sustainable Development Goals (SDGs). The 17 SDGs mainly focus on three dimensions, namely economic growth, social inclusion and environmental protection, which are related to extractive industries. SAIs play an important role in the implementation of the SDGs and in ensuring that the EI sector contributes to achieving these goals.

The energy transition is a key component to achieving many of these goals. The energy transition refers to the global shift from non-renewable fossil fuels, such as coal and oil, to renewable energy sources, such as solar and wind power. This transition is essential to combat climate change and reduce air and water pollution. SDG 7, in particular, directly addresses the issue of energy. This objective aims to:

CHAPTER TWO

“Ensure access to affordable, reliable, sustainable and modern energy for all”. This includes targets like substantially increasing the share of renewable energy in the global energy mix and doubling the global rate of improvement in energy efficiency by 2030. The transition to renewable energy sources is also relevant to achieving SDG 14, which aims to ‘conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Similarly, the energy transition is also relevant to other SDGs. For example, SDG 13 - “Take urgent action to combat climate change and its impacts”. The transition to renewable energy is one of the key ways to reduce the greenhouse gas emissions that are driving climate change. Furthermore, the energy transition can contribute to SDG 8, which is to “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. The renewable energy industry has the potential to create many new jobs and contribute to economic growth.

However, the energy transition also presents challenges. For example, there may be resistance from established fossil fuel industries and concerns about job losses in those industries. Additionally, some forms of renewable energy, such as wind and solar energy, are intermittent and require energy storage solutions or flexible power grids to ensure a constant supply of energy.

CHAPTER TWO

In this context, the role of SAIs extends to auditing government policies, initiatives, and investments related to energy transition by identifying inefficiencies, revealing irregularities, and highlighting areas of improvement. The SAI's work is essential in ensuring not only the effectiveness of the transition but also the efficient use of public funds, assessing and evaluating whether the gradual transition from traditional to "renewable" energy leads to sustainable development and its impacts on economies and societies

CHAPTER TWO

C. The EI value chain and areas of audit

The EI value chain illustrates seven different steps[5] involved when transforming natural resources into revenue and ultimately economic growth and value for the citizens of a country. The value chain is frequently used to illustrate the government implication in each of the steps. Each step represents a critical and distinct area necessary for the generation of value (in revenue, employment, capacity building etc.) for the population of a country. The table below describes each step in the value chain, potential audit topics along the same lines as well and examples of relevant audit reports conducted by various SAIs.

[5] The 7-step EI value chain referred to here was developed in 2013 by the group of English-speaking African SAIs (AFROSAI-E), based on the World Bank classification.

CHAPTER TWO

The EI Value Chain	Description	Examples of Areas of Audit	Examples of Audit Reports
1. Legal and regulatory framework	A basis for sound management of the extractive industry sector is to have up-to-date laws and regulations, policies and institutions with clear segregation of duties.	The SAIs may audit whether laws are supported by relevant regulations and instructions, and point to overlap or blurred lines of responsibilities between institutions. SAIs could look at inconsistent implementation of rules and regulations and contradictions between the different laws.	Environment audit report on regulation and monitoring of drilling waste management in the Albertine region by National Environment Management Authority (NEMA) , (Uganda 2014)
2. Exploration and data management	In order for the extractive industry to develop the government needs to map its reserves. Data on oil and gas resources are mainly gathered through seismic surveys and drilling, and data on mineral resources are gathered from geological samples.	The SAIs may audit whether relevant data are properly managed and secured, and that government has control and ownership of the data generated.	Performance Audit on Hydrocarbon Exploration Efforts of Oil and Natural Gas Corporation Limited (Ministry of Petroleum and Natural Gas) (India 2012)

CHAPTER TWO

The EI Value Chain	Description	Examples of Areas of Audit	Examples of Audit Reports
	<p>A typical risk is that the relevant government entities (auditees) do not have updated data.</p>		
3. Award of contracts and licenses	<p>Contracts and/or licenses are granted by government to companies to explore, develop and produce extractive industries resources. This process should ideally follow the rules of a competitive procurement process to ensure that the most competent and cost-effective companies are chosen.</p>	<p>The SAI may audit whether the process of handing out contracts and licenses was transparent and designed to attract companies that are competent and do conform to government policies. SAIs may also audit whether the process is in line with laws and regulations and has resulted in award of the contract / license in the best interest of the country.</p>	<p>The Office of the Auditor General's investigation into administrative practice in connection with the awarding of production licenses in the petroleum sector (Norway 2010)</p>

CHAPTER TWO

The EI Value Chain	Description	Examples of Areas of Audit	Examples of Audit Reports
4. Monitoring of operations	The government shall monitor the activities of extractive industry companies on a number of areas. Production figures, both quality and quantity, should be verified by independent controllers. Risks related to health, safety and environment need to be addressed and followed up through inspections and review of safety routines, impact assessments etc.	The SAI may audit whether the government complies with its role as a regulator of the extractive industries. It may assess how government carries out inspections and gets assurance on the quality and accuracy of reported information from the EI companies.	Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes (USA 2010)

CHAPTER TWO

The EI Value Chain	Description	Examples of Areas of Audit	Examples of Audit Reports
5. Assessment and collection of revenues	<p>Government has a number of instruments at its disposal for revenue collection purposes. Royalties, production sharing, bonuses, taxes etc. are all intended to give government its fair share of revenue. Risks may relate to wrong calculation of revenue based on wrong input data, or inflation of costs by the companies.</p>	<p>The SAI may audit how the government agency tasked with collecting revenue has established an effective system for revenue collection, which ensures adoption of international best practice such as the OECD guidelines on transfer pricing. SAIs may audit to what extent the various tax rates in place are effective in generating income for the country, SAIs may also audit the completeness and correctness of the revenue related data and timely submission of such data.</p>	<p><u>Coordinated Audit about the Oversight of the Public revenues from the Exploration and Production in Brazil, Colombia and Peru (Joint Audit 2014).</u></p>

CHAPTER TWO

The EI Value Chain	Description	Examples of Areas of Audit	Examples of Audit Reports
6. Revenue management and allocation	<p>After collection of revenue, the next step is to allocate the funds. Revenue may be used for next year's budget, reserve funds, transfer to local communities etc. There may be a risk of mishandling of revenue. Revenue may be allocated to non-disclosed foreign bank accounts which do not follow the relevant investment rules.</p>	<p>The SAI may follow the revenue flow and reconcile figures. If they exist, EITI[1] reports may give valuable input to SAIs on discrepancies which may require further investigation.</p>	<p><u>Audit on financial management of the petroleum fund as well as compliance and performance audit (Ghana 2015).</u></p>
7. Implementation of sustainable policies	<p>It is important to consider the possible negative effects of the EI sector, such as environmental damage and EI resource dependency.</p>	<p>The SAI may audit how laws and regulations aimed at reducing the negative impact of the EI sector are being implemented and whether the system of control and oversight by government is effective.</p>	<p><u>The Netherlands as a European gas transmission hub: benefits, needs and risks (Netherlands 2014)</u></p>

CHAPTER TWO

The EI Value Chain	Description	Examples of Areas of Audit	Examples of Audit Reports
	Government may reduce these risks by overseeing environmental impact assessment and implementing local content policies.		

Links & Resources

INTOSAI WORKING BODIES

- International Organization of Supreme Audit Institutions (INTOSAI): www.intosai.org/
- Working Group on the Audit of Extractive Industries (WGEI): <https://wgei.intosaicommunity.net/about-intosai-wgei/>
- The various regional INTOSAI bodies[7]

AUDIT REPORTS ON EXTRACTIVE INDUSTRIES

- INTOSAI Community Portal - <https://wgei.intosaicommunity.net/audit-reports-2/>

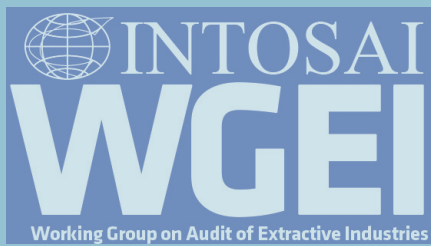
INITIATIVES AND KNOWLEDGE CENTERS

- Natural Resource Governance Institute (NRGI): www.resourcegovernance.org/
- Extractive Industries Transparency Initiative (EITI): www.eiti.org/
- Publish What You Pay, www.publishwhatyoupay.org/
- The World Bank on IE topics: www.worldbank.org/en/topic/extractiveindustries
- The Organization for Economic Co-operation and Development (OECD): www.oecd.org/ctp/transfer-pricing/
- U4 Anti-Corruption Resource Centre: www.u4.no/
- Chatham House – Resources: www.chathamhouse.org/research/topics/resources
- Tax Justice Network: <http://www.taxjustice.net/>
- One Petro: <https://www.onepetro.org/>
- Open Oil: <https://openoil.net/>
- Petropedia: <https://www.petro-pedia.com>
- Resource Contracts: <https://ResourceContracts.org>
- Intergovernmental Forum on Mining, Minerals, Metals and Sustainable development: <https://www.igfmining.org/>

[7] Link can be found through the INTOSAI webpage: www.intosai.org

FURTHER READING

- [*Features and functions of supreme audit institutions.* \(2001, October\). PREM notes Public Sector. The World Bank.](#)
- [*Working with Supreme Audit Institutions.* \(2005, July\). How to Note. DFID Department for International Development.](#)
- IDI study on extractive industries: idi.no/elibrary/independent-sais/1724-idi-study-on-oversight-of-extractive-industries/file



www.wgei.org
