This report will summarize the results and experiences of the cooperative audit project on extractive industries that was conducted by the SAIs of Ghana, Kenya, Nigeria, South Africa, South Sudan, Tanzania and Uganda members in 2014 and 2015.
Introduction

The IDI/AFROSAI-E Cooperative Audit Project on Extractive Industries has been a series of parallel performance audits on the topic of National Content in the oil and gas sector. The participating Supreme Audit Institutions (SAI)s were Ghana, Kenya, Nigeria, South Africa, South Sudan, Tanzania and Uganda.

The original purpose of the project was to help SAIs identify risk areas in the Extractive Industries area and help them formulate an audit approach that they could execute. The ultimate goal was that each SAI should complete an audit on a topic related to public sector management of the extractive industries sector.

The following will outline the methods applied by the project, the results achieved and the experiences we believe are valuable for future projects of this type.

Methods

In order to start and complete the projects IDI and AFROSAI-E organized three workshops: a topic selection meeting in February 2014, an audit planning meeting in April 2014 and a report review event in November 2014.

Topic Selection

The initial group invited to participate in the projects were: Ghana, Kenya, Nigeria, South Sudan, Tanzania and Uganda. They were represented by their prospective team leaders. At the event in February, after a brief introduction to public sector management of the sector, each of the participating SAIs was invited to prepare a presentation of the current status of the sector in their countries. Following that, the teams were divided into two smaller groups to brainstorm on risks that impacted each country using the extractive industries value chain:

<table>
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<tr>
<th>LEGAL FRAMEWORK</th>
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<tr>
<td><strong>Three main types of legislative requirements:</strong></td>
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<td>• Constitution - Legislation - Regulations or instructions</td>
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<th>SEISMIC SURVEYS AND DATAMANAGEMENT</th>
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<td><strong>Understanding the process:</strong></td>
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<td>- Existence of database - Ownership of survey data - Environmental considerations</td>
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<tr>
<th>AWARD OF CONTRACTS AND LICENSES</th>
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<tr>
<td><strong>Three main types of contracts:</strong></td>
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<td>- Production sharing contracts - Concession agreements - Technical service agreements</td>
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After the brainstorming session the teams had identified many topics for audit. From the point of view of the organizers it was up to the SAI to select which audit topic they wanted to work on at this point. However, the SAIs collectively decided that they should work together on a single topic and the single topic that interested all parties was National or local content: examining the benefits in terms of increased local employment and use of local suppliers that result from the oil and gas industry. We drew a distinction between local and national, because in some countries the governments were concerned with benefit accruing to nationals, whereas others had specific aims of seeing benefits accruing to local communities affected by the oil and gas industry. The SAI representatives agreed that a performance audit was the right modality for addressing this issue.

Once the team leaders had decided on a topic and audit approach they brought the proposal for audit back to their Auditors General, who signed a commitment to carry out the audits proposed. After the workshop, the SAI of South Africa also joined the group.

Planning Meeting
The project continued with a planning meeting in Nairobi, Kenya in April 2014. The objective of this meeting was to produce an outline planning matrix that all the teams could use as a starting point for planning their audits. The workshop was conducted using facilitators from the SAIs of Brazil, Kenya, Norway, Tanzania and Uganda.
The teams identified that the key audit objective was to assess the extent to which government bodies responsible for implementing local content policies were able to do so successfully. This overall objective was broken down into three main areas of examination:

1. Assessing the legal and institutional framework for local content and whether it is designed to achieve local/national content objectives.
2. To assess the performance on implementation
3. To assess the monitoring by government bodies to ensure local content implementation

These main areas of examination were decomposed into questions that, collectively, could help conclude on whether the governments examined were achieving the desired levels of local or national content.

The teams were then tasked with completing their examination and draft report for a review meeting in November 2014.

**Review Meeting**
At the review meeting in November 2014, the teams presented their draft reports. They were given the opportunity to review each other's reports and received feedback from the facilitators. The event was completed with each team committing to a timeline for completion of the report.

**Results**
It's the responsibility of the SAIs themselves to present their findings to their legislatures. In this section some preliminary common findings are summarized. The group collectively had 40 unique findings that they presented in their reports. Common findings were as follows:¹

- 4 SAIs found that there was a clear potential for greater local employment in the oil and gas sector in their countries.
- 4 SAIs found that national suppliers of goods and services were being used, but that there was a potential for greater use.
- All the SAIs identified weaknesses of the legal and regulatory framework related to local content. In three countries the regulation was not finalized.
- 4 SAIs found that responsibility for managing local content implementation had not been established by their government
- 4 SAIs found that the stakeholders involved in local content were not well-coordinated
- 5 SAIs found that Monitoring and Evaluation were insufficient.

¹ The scope and data of the audits differ across the countries. Although common findings are related to some countries, it does not mean that the problem is not relevant in the other countries. It may simply be that the issue has not been looked into in all the countries.
Successes, Failures and Lessons Learned

The cooperative audit projects had both successes and failures; we think that outlining both of these can provide valuable support for future initiatives such as this.

Successes

**Topic identification:** The session we held to identify the topics for audit worked well. The participants themselves were able to use the tool for structuring the sector and produce ideas for public sector audit in all of the steps in the value chain. This can still be used for identifying future topics. The facilitation technique applied here has also been applied at other SAIs in order to identify audit topics in the sector.

**Cooperation:** The teams worked really well together throughout the project. This was especially apparent in the final review stage, where the teams were reviewing each other's work and receiving feedback from facilitators. That can be quite a tough exercise, but everyone dealt with it in a professional manner and gained value from the exercise. In order to achieve this, the facilitators provided clear guidance on how to give feedback.

Failures

**Lack own country risk priority:** In identifying audit topics we were able to produce many ideas. However, it may have been preferable for the individual SAIs to have done more risk mapping ahead of time, based on actual risk observed in their own countries. That way we could have been more sure of what risk was common between the SAIs, which would have been a better point of departure for a cooperative project. Moreover, if the SAIs themselves had a clearer idea of what risks were high priority in their own country ahead of time, it would have been easier to make an informed decision about whether or not the common topic was a good use of resources for their SAI.

**Prioritizing cooperation over risk:** As mentioned, the group dynamics at the topic identification meeting pushed the project towards everyone doing the same topic. It became clear that this was not the desired outcome among all participating SAIs. One SAI stated an intention to do a separate topic, another ended up covering two completely different topics in the same report. In hindsight, it would probably have been better to encourage the participating SAIs to go cover what they believed to be the major risk and to only accept that all SAIs do the same topic if it was clearly identified as high risk by all SAIs. However, that begs the question that if the SAIs are not working on a common topic, is there any value to them planning together? There may be some value to the SAIs learning the theory behind audit planning together and applying it to their audits, but that sort of approach is already well covered in the AFROSAI-E region with the three module course in performance audit.

**Assessing the level of local content in each country was not carried out:** Only a couple of countries systematically collected data on actual local content in the country. The other teams collected data mostly related to what the government is doing regarding local content (such as establishing legal framework, coordination, measures and M&E). Few teams did for instance collect data on the extent to which nationals are employed in the petroleum sector or to what extent national suppliers are used. The audits might have benefitted from a more explicit audit question on the status of local content in each
country. Common type of data on such issues could have been interesting for cross-country comparisons.

**Lessons Learned**
The following are lessons we would recommend other parties considering a cooperative audit should consider:

- Using facilitation technique around a structured framework is an effective way to identify a lot of different audit topics
- Participants should not just bring knowledge of the sector but examples of observed risk in their own countries when gathering together to identify audit topics
- A cooperative audit on a specific common topic should only be initiated if the topic is observed as high risk in all participating countries
- Establishing common audit questions and a joint understanding of what type of data which must be collected to answer the audit questions is critical for developing common findings.
- Development of similar data collection templates and support during data collection must be considered, especially if collection of similar data is a bit complicated.