AUDITING REVENUES FROM NATURAL RESOURCE EXTRACTION – NEW GUIDANCE FOR AUDITORS

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Overview

• What is CCAF?
• The Practice Guide Series
• Current Project on Auditing Extractive Industries
• Scope of the New Practice Guides
• Gaps and Questions – How You Can Help Us
What is CCAF?
What is CCAF and What Does it Do?

- Canadian non-profit organization
- Operating since 1980
- Our Mission:

  “To promote and strengthen public sector performance audit, oversight and accountability in Canada and abroad through research, education and knowledge sharing”.

CCAF-FCVI
Our Programs

- International programs
  - Fellowships and mentoring
  - Workshops and capacity assessments
- National programs
  - Audit Methodology
  - Workshops, symposiums, conferences
  - Research and discussion papers
- Audit News Database and Newsletter
- For more information: [www.ccafcfcvi.com](http://www.ccafcfcvi.com)
CCAF Practice Guide Series

Practice Guide
TO AUDITING EFFICIENCY

Practice Guide
TO AUDITING OVERSIGHT

Practice Guide
TO AUDITING GENDER EQUALITY
• A user-friendly, web-based methodology tool
• The Series’ objective is:
  "To provide public sector auditors with current guidance and good practices that will help them to plan, carry out and report on legislative and internal audits”.
• Each Practice Guide covers a specific topic:
  • Efficiency (2014), Oversight (2015), Gender Equality (2016)
Structure of the Practice Guides

- Part 1 – Concepts and Context
  - Background information on the chosen topic
  - Why it’s important to audit the chosen topic
  - List of published audits on the chosen topic (with hyperlinks)

- Part 2 – Audit Methodology
  - Audit selection
  - Planning phase
  - Examination phase
  - Reporting Phase

- References (with hyperlinks)
- Glossary
Contents of the Planning Phase

- Acquiring Knowledge of Business (KoB) and Assessing Risks
  - Examples of KoB questions
  - Examples of risk indicators
- Determining the Audit Focus and Audit Approach
- Drafting Audit Objectives
  - Examples of audit objectives
- Selecting Audit Criteria
  - Examples of audit criteria
Auditing Extractive Industries
Auditing Extractive Industries

- Decision to produce a Practice Guide on the extraction of natural resources taken in 2015.

- Canada has an abundance of natural resources:
  - World’s 3rd largest oil reserves
  - Ranks 20th for largest gas reserves
  - Producing more than 60 different minerals and metals
  - The mining industry accounts for 5% of Canada’s GDP and nearly 20% of its exports.
Two New Practice Guides

• Decision taken to produce two new Practice Guides:
  • Oil and Gas sector
  • Mining Sector

• Each guide will cover two main topics:
  • Revenues from natural resources extraction
  • Financial assurances for site remediation

• CCAF will complete the Oil and Gas guide first
Practice Guide
TO AUDITING OIL AND GAS REVENUES AND FINANCIAL ASSURANCES FOR SITE REMEDIATION

• First draft of the Oil & Gas guide is completed
• Currently consulting with Canadian audit offices and selected WGEI members
• Target release date: October 2016
Currently drafting the mining guide

Same structure as the oil & gas guide

Consultations to start this fall

Target release date: January 2017
Scope of the New Practice Guide
The Practice Guide:

- Covers the upstream portion of the oil and gas industry (exploration and production).
  - Excludes the downstream portion (refining, distribution and sale)
- Focuses on private sector extraction activities on public lands.
  - Operations of state-owned oil and gas corporations are not discussed.
- Focuses on royalties, production taxes, fees and financial assurances.
  - Excludes regular income and sales taxes.
- Does not cover the spending of oil and gas revenues.
Types of Revenues and Guarantees

- Royalties and production taxes
- Leases
- Licence and permit fees
- Bonuses
- Penalties and fines
- Financial assurances for site remediation
- Contributions to remediation funds
Audit Areas

The Practice Guide provide detailed guidance to audit:

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

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

This section covers:

• Evidence sources and audit tests
  • Documentary evidence; Interviews; Testing of controls and IT systems; Site visits

• Challenges in auditing the oil and gas sector
  • Lack of knowledge about extractive industries
  • Need for capacity building; staff retention; expertise
  • Mandate limitations
  • Access to information
  • Site visits
The Practice Guide also includes:

- A short section on the Reporting Phase:
  - Setting the Context
  - Drafting Recommendations
- References to published audits and to relevant publications on oil and gas revenues and financial assurances for site remediation
- A glossary of key terms used in the guide
How You Can Help Us
Gaps and Questions (oil & gas; mining)

- Auctions for exploration rights
- Transfer pricing
- Leveraging the work of financial auditors
- Challenges to auditing oil & gas/mining revenues and financial assurances for site remediation, especially:
  - Mandate limitations
  - Access to information
  - Retention of specialized staff
- Recent audits on the oil & gas and mining sectors
- Country-specific examples
Next Steps

- Comments from selected WGEI countries
- Discussion Group on the Practice Guide
- Exchanges by e-mail after the WGEI meeting
- Publication of the oil and gas guide this fall
- Consultations on the Mining guide this fall and publication over the winter
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