AFROSAI-Es guideline and Compliance Audit

R. Esther Thomas – 25 August 2016
STATEMENT OF INTENT

Making a difference in the performance of SAIs

OUR MISSION

AFROSAI-E is, through innovation, committed to cooperate with and support its member SAIs to enhance their institutional capacity to successfully fulfil their audit mandates, thereby making a difference to the lives of citizens

VALUE STATEMENT

Innovation and Creativity
Developing Competence
Enhancing Confidence
Improving Credibility
GUIDELINE:
AUDIT CONSIDERATIONS FOR EXTRACTIVE INDUSTRIES

NOVEMBER 2015
It aims to provide:

- Consistent understanding of key concepts and audit approach for auditing extractive industries
- a simple, step-by-step approach for auditing revenue received from extractive industries and
- Further information on the key elements / focus areas, including the process of exploration, bidding, revenue collection and management
- risks and potential key controls are provided
Oil and gas focus

- The oil and gas industry is used as the main case study in this guideline.
- The key ideas presented in the context of oil and gas are equally applicable for the countries with mineral wealth extracted through mining, such as:
  - ownership rights to the resource
  - economic rent
  - profit sharing between government and private companies
  - the importance of measuring production volume to determine profit sharing
  - the importance of developing the sector in a sustainable manner
### LEGAL FRAMEWORK

Three main types of legislative requirements:
- Constitution
- Legislation
- Regulations or instructions

### SEISMIC SURVEYS AND DATAMANAGEMENT

Understanding the process:
- Existence of database
- Ownership of survey data
- Environmental considerations

### AWARD OF CONTRACTS AND LICENSES

Three main types of contracts:
- Production sharing contracts
- Concession agreements
- Technical service agreements

### MONITORING OF OPERATIONS

- Metering equipment
- Health, security and environment
LEGAL FRAMEWORK
Three main types of legislative requirements:
- Constitution
- Legislation
- Regulations or instructions

SEISMIC SURVEYS AND DATAMANAGEMENT
Understanding the process:
- Existence of database
- Ownership of survey data
- Environmental considerations

AWARD OF CONTRACTS AND LICENSES
Three main types of contracts:
- Production sharing contracts
- Concession agreements
- Technical service agreements

MONITORING OF OPERATIONS
- Metering equipment
- Health, security and environment

COLLECTION OF TAXES AND ROYALTIES
Sources of revenue:
- Taxes
- Royalties

Specific risks:
- Theft of petroleum
- Transfer pricing

REVENUE MANAGEMENT AND ALLOCATION
Sustainable use of revenue:
- Avoid "dutch disease"
- Establishment of petroleum fund

IMPLEMENTATION OF SUSTAINABLE POLICIES
- Environmental concerns
- Local community involvement
High Level Audit considerations

Legal framework

1. What are the legal requirements of the government's management of the petroleum sector? A mapping of the legal framework is a prerequisite for developing an audit program for compliance audit.

2. How is the role of the SAI spelled out in the legislation? The SAI may be given a direct role in i.e. verifying the recoverable costs, receiving declaration of assets of officials.

3. The legal framework constitutes the bulk of policy that is approved by Parliament. The implementation of those policies presents a lot of possibilities for Performance/Value for Money Audit. The SAI can review the framework and attempt to identify Performance audit themes, based on Parliament's intentions when improving the legal framework.
Audit types

• Financial: revenues collected by gov.entity
• Compliance: contracts, monitoring operations, collecting and management of data
• Performance: 3E, evaluating of policies, etc.
• Environment: Risk and controls regulating environmental matters
• Transversal: may cover specific topics or aspects affecting more than one government entity
AFROSAI-E initiatives

• Training workshop in April on EI
• Aim: basic understanding of the sector, value chain, contracts and transfer pricing
• Follow-up workshop 21-23 Sept with focus on Risk assessment along value chain
Compliance Audit

• Compliance Auditing Manual according to ISSAI 4000 – work in progress

• Pilot audit workshop 5-9 September 2016 in South Africa

• High level overview of Compliance Auditing
Objective of Compliance Audit

To provide intended user(s) with information on whether the audited public entities follow parliamentary decisions, laws, legislative acts, policy, established codes and agreed upon terms

- Relevant authorities governing the subject matter to be audited
- Authorities are sources of audit criteria, (regardless of the source) auditor performs the audit and forms a conclusion with the selected level of assurance, in accordance with the requirements in ISSAI 4000
Subject Matter

Subject matter refers to the information, condition or activity that is measured or evaluated against suitable criteria to the circumstances of the audit.

It can be activities, financial transactions, or information.
Key Concepts

- What the audit is about, i.e. subject matter
- Sources for those criteria (authorities)
- Who the parties involved in the audit are
- What assurance to provide – reasonable or limited
- Determine engagement type, direct reporting or attestation
Attestation engagement and Direct reporting engagement

**Attestation engagements**

In attestation engagements the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence.

**Direct reporting**

In direct reporting engagements it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality.
Compliance Audit Process

Planning the Audit

Performing the audit and gathering evidence

Evaluating evidence and forming conclusions

Reporting

Initial considerations
THANK YOU
CONTACT AFROSAI-E

www.afrosai-e.org.za

estherrt@agsa.co.za
afrosai-e@agsa.co.za
secretariat@afrosai-e.org.za

AFROSAI-E

@AFROSAIE