



Lessons learned from building

Extractive Industries Audit Capacity

The Office of the Auditor General of Uganda

A good practice note

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Abbreviations

AFROSAI-E	African Organisation of English-speaking Supreme Audit Institutions
ASSL	Audit Service Sierra Leone
CSO	Civil Society Organisations
EI	Extractive Industries
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
IOC	International Oil Company
MEMD	Ministry of Energy and Mineral Development
MoU	Memorandum of Understanding
NEMA	National Environment Management Authority
NRGI	Natural Resource Governance Institute
OAGN	Office of the Auditor General of Norway
OAGU	Office of the Auditor General of Uganda
OAGZ	Office of the Auditor General of Zambia
OfD	Oil for Development
PAC	Public Accounts Committee
PAU	Petroleum Authority
PEPD	Petroleum Exploration and Production Department
PSA	Production Sharing Agreement
SAI	Supreme Audit Institution
SORA	Shared Overall Risk Assessments
URA	Uganda Revenue Authority
VFM	Value for Money (Performance Audit)
WGEI	INTOSAI Working Group on Audit of Extractive Industries

0 Introduction

There is a strong call within the INTOSAI community for more systematic compilation of the many experiences, tools and lessons held by SAIs and partners in auditing within the field of Extractive Industries (EI). Against this backdrop, the Offices of the Auditor Generals of Uganda (OAGU) and Norway (OAGN) decided to document OAGU's experiences in building up audit capacity in this field from a "lessons learned" perspective, identifying the lessons that SAI Uganda draws from the past years of audit work on EI. SAI Uganda has undertaken financial audits, compliance audits and value for money audits (performance audits) within the field of EI. The SAI has important experiences and lessons to share with other SAIs and stakeholders in building capacity in this field. In addition to building capacity in the office, SAI Uganda has taken upon itself the role of being the secretariat for the Working Group on Extractive Industries (WGEI).¹

For other SAIs, SAI Uganda's experiences are useful to know about in preparing, conducting and reporting audits within the field of EI. For other stakeholders, such as development partners and civil society organisations working on EI-related issues, lessons learned may provide inputs as to how they may support or use SAIs' reports on EI to ensure that EI audits may improve governance and operations within extractive industries.

Focus group discussions and interviews with SAI Uganda staff and management, interviews with external stakeholders (i.e. audited entities, other government entities, one international oil company and two NGOs) and review of key documents constitute the data and foundation for the lessons learned in this note. Other supporting documents and details about data collection and methodology are available on this website (WGEI website link to be included)

1 Lesson 1: Leadership – setting the tone at the top

1.1 Top-level backing and emphasis on EI

Internal interviews at management and staff level emphasised the importance of setting the tone at the top. The tone at the top in OAGU voiced strong support and clear direction for giving priority to EI auditing. More specifically, the tone at the top manifested itself in strategic thinking and organisational initiatives across the office, most notably: 1) Support for staff undertaking specialised education, 2) An energy sector task force² and 3) An Energy/EI strategy.³

Altogether, the strategic efforts and resulting activities demonstrate a tone at the top that saw the need to invest time and effort at a strategic level and organisational level in order to ensure that OAGU acquired the necessary skills to audit the EI sector. The management emphasised that capacity building included staff at the management level. For instance, the Assistant Auditor General – Audit pursued a Master's Degree in oil and gas, on her spare time.

¹ The exercise does not include assessing OAGU's work as WGEI chair or the results of this work in developing guidance and good practice – for two reasons: 1) It is outside the scope, as this note is to demonstrate lessons learned from a SAI building up EI audit capacity; 2) Including WGEI in this exercise would require a broader scope and timeline, e.g. interviews with several SAIs and other stakeholders. We only assess the work of development partners in providing support to building EI audit capacity as it falls within the OAGU processes.

² In OAGU, audits of extractive industries audit falls within the overall portfolio and responsibility for auditing the energy sector.

³ Cf. Energy and Extractive Industry Sector Audit Strategic Plans 2012-2016 and the subsequent plan for the period 2016-2021.

Moreover, as oil and gas projects move in phases, from development to production, SAI Uganda's management has voiced that they see that there is a need for continuous efforts to develop and maintain skills distinct to these phases within the SAI.

1.2 Energy Sector Strategic Audit Plans and alignment with corporate planning

SAI Uganda made a separate Energy Sector Strategic Audit Plan in 2012. A second plan succeeded the first one in 2016, now called an "Energy and Extractive Industry Sector Audit Strategic Plan 2016-2021". Both plans align with SAI Uganda's Corporate plans for the same periods, which was important in order to ensure that the SAI considered EI as an integrated strategic area in the organisation. The plans identified, e.g., the need to improve staff skills in the audit of the energy sector through training staff in oil and gas, mining and electricity audit, developing appropriate manuals and guidelines for these audits, experience sharing with other SAIs, and expanding the size and skill base of the energy sector audit team.⁴ In addition, there were other strategic organisational measures implemented by management that show their commitment to making the SAI better equipped to audit the field of EI. One of these were the annual operational planning activities, commonly referred to as the risk assessment processes. These activities have taken into account strategic components of The Energy/EI Sector Strategic Audit Plans.

2 Lesson 2: Building specialised EI teams & competence

2.1 Specialised education and on-the-job training – a long-term perspective

SAI Uganda has built capacity on the oil and gas sector through staff attending specialised education. The energy sector team comprise of staff mostly in the directorates of Central government 2 (Financial audits), Value for Money and the WGEI secretariat. Out of 26 staff, 17 have master's degrees in oil and gas and related areas, and several of them have pursued their degrees during their time at SAI Uganda. The training funds that International Oil Companies (IOCs) pay according to the terms in the Production Sharing Agreements (PSA) have covered the education costs.⁵ Once completed, the graduates are tied to government service for three years. Such a tie is important in order to ensure that the SAI benefits from their staff's increased knowledge.

In addition, other OAGU staff, including staff in management positions, have taken courses run by an international NGO specialising in extractives governance.⁶ The SAI has also built competence on legal issues, through specialised training courses and support by other SAIs. In focus groups, auditors expressed that the long-term training has increased the understanding of the field of EI, and has resulted in more efficient and effective audits. The Ministry of Energy and Mineral Development (MEMD) has coordinated training of the SAI's staff in specialised oil and gas courses, while SAI Uganda has invited the ministry to their workshops. MEMD expressed in an interview that both parties have built capacity through such training.

In addition to formal training, SAI Uganda has placed great emphasis on on-the-job training of the auditors, i.e. through undertaking the audits and gaining knowledge from their audit work over time. The SAI's experience is that building capacity takes time, and that the auditors must have the opportunity to explore what they have learnt through doing relevant audits, in order for the SAI to

⁴ Cf. OAG Corporate Plans 2011-2016, 2016-2021, Energy Sector Strategic Audit Plans 2012-2016, 2016-2021.

⁵ The Petroleum Authority of Uganda manages these funds. OAGU has been successful in almost all its applications for funds.

⁶ I.e. the Natural Resource Governance Institute.

utilise the increased capacity effectively. It is, moreover, crucial to make use of the trained resources over time, allowing staff to work on the EI sector over time. SAI Uganda has made efforts to ensure staff stability, but sees it as an area that requires continuous attention as such efforts have to take into account the general resource planning and staff allocation activities throughout the office.

2.2 Energy sector task force uniting EI audit sector expertise across audit types – creating internal synergies

The establishment of an Energy Sector Task Force in 2014 is yet an example of the tone at the top – anchoring EI audit work in an organisational initiative across the SAI. This task force has provided a forum for internal discussion on energy and minerals related matters, and it was responsible for developing the EI/Energy sector strategy⁷ The directorate responsible for financial audit of the energy sector (CG2) hosts the force.

According to staff, those who have received relevant training/specialised education on oil and gas/EI take part in the task force when it comes to annual risk assessments,⁸ reviewing and discussing audits and in preparing the Energy Sector Strategy. The participation in the task force has served as a means to ensure that trained staff cooperate across the directorates of the office and to sustain and further develop oil and gas competence over time through exchange of knowledge and experience across the SAI. Research papers from the various long-term trainings undertaken have also fed into the work of the task force.

The task force has thus provided an important venue for different audit teams to meet, and has assisted in creating synergies across the office. Sai Uganda states that these synergies have in turn resulted in improved internal and external communication. Through monthly task force meetings, staff of different directorates discuss and share information on new developments. Also, undertaking joint directorate risk assessments has helped the SAI avoid duplication of work.⁹

2.3 Recruitment of staff: A multidisciplinary approach when needed

SAI Uganda takes a multidisciplinary approach when establishing audit teams, when they consider that such an approach benefits the audit. For instance, SAI Uganda would staff the audit teams with people from several directorates. Moreover, the corporate plans put emphasis on recruitment of staff from various disciplines/skills, in order to meet the diversity of audit topics and the audited entity.¹⁰ In addition to accountants, these staff include people with background from environmental studies, social sciences, economics, law and geology.

In resource-limited settings, a SAI may rather consider how it may train its existing audit staff and/or hire external consultants when it deems it is needed, as the specialised expertise may shift – pending on the audit topic. In cases when non-accountant staff is to be hired, it is more important to ensure that these staff have the relevant competence and expertise to undertake VFM audits in various sectors. This implies that a SAI would give priority to recruiting staff with background in social sciences, law and economics rather than e.g. in engineering and geology.

⁷ Cf. Called Energy Sector Audit Strategic Plan 2011-2016 and Energy and Extractive Industry Sector Audit Strategic Plan 2016-2021.

⁸ OAGU's strategic risk assessment process also enables discussions across the office and communication across teams.

⁹ Cf. Energy Sector Strategic Audit Plan 2016-2021, p. 18.

¹⁰ Cf. OAGU's Corporate plan: "The fact that as staff are required to work with a diverse range of public and private stakeholders with varying management and delivery priorities, "the people recruited by the OAG should reflect this diversity and multi-disciplinary skillset" (p. 24). The Office is committed to providing continuous development and training opportunities that update essential and professional skills."

SAI Uganda has discretion to hire its own staff and has some flexibility in salary levels, which has enabled the SAI to ensure targeted recruitment according to the prevailing staff needs in the organisation, and in competition with other oil and gas stakeholders. However, in the recent past, owing to demand from new government agencies, the SAI has experienced about 10% staff turnover (four staff), which is substantially higher than the general, low staff turnover at the SAI (at about 2%).

2.4 An energy sector database

In order to increase access to and sharing of information on energy and minerals, SAI Uganda set up an energy sector database.¹¹ The database contains all laws and regulations of the Energy sector, relevant entities, EI concessions and licences, information on PSAs' recoverable costs audited, and statutory audits undertaken. Moreover, the database holds statistical information on mining companies in Uganda, the total volumes of petroleum products imported, and the total amount of electricity generated, transmitted and distributed.

The task force is responsible for assuring the quality of the database content. All auditors, regardless of organisational affiliation, benefit from access to the database.

3 Lesson 3: Proactive and a model organisation

3.1 Staying ahead after exploration phase - developing dedicated EI capacity

By initiating capacity building and undertaking audits in the field of EI while the sector was still in its infant stages (i.e. in the exploration phase), SAI Uganda is regarded as being a proactive organisation within the field of EI.¹² According to SAI Uganda's management, the SAI has strategically given importance to staying ahead of other government entities, and ahead of the developments in the sector. Hence, the SAI has sought to be a model organisation in building capacity and knowledge on EI, and in undertaking several audits in this field. As emphasised in the strategy, management sees it as a continuous effort staying on top and ahead of developments in the sector.

3.2 Early engagement with external stakeholders to make them aware of SAI Uganda's EI capacity - being in the forefront

SAI Uganda also made an early effort to inform relevant stakeholders about how the SAI took a proactive role in the field of EI. For instance, SAI Uganda has hosted an EI conference, inviting parliamentarians, civil servants, media and CSOs. The SAI's confidence in auditing the field of extractive industries has gradually increased over the years. According to people interviewed in government institutions, SAI Uganda is commended for being in the forefront in the field of EI, highlighting areas that government need to pay attention to in the EI sector. SAI Uganda has pointed out gaps and issues that the ministry and other government entities have overlooked, and has helped MEMD in expediting some processes in cases of delay.¹³ One example is a VFM audit on National Content. Another example is a VFM audit on compensation of project-affected persons.¹⁴ Thus, as revealed in interviews and through audit, SAI Uganda has succeeded in communicating and demonstrating its capacity to be in the forefront.

¹¹ The database can be accessed here: <http://energysector.oag.go.ug>. The energy sector database is in a WordPress installation. The database is de facto a website holding static information that provides links to various energy related information.

¹² Source: Interviews with staff in government entities in Uganda.

¹³ Source: Interview with MEMD.

¹⁴ Interview with MEMD.

4 Lesson 4: Exchange of experience and competence

4.1 On-the-job training and collaboration with other SAIs

SAI Uganda has received peer support from SAI Norway through joint work on EI audits in all areas (financial, compliance and performance audit) since 2012. The support has also included input from SAI Norway on strategic organisational processes, such as development of the risk assessment phase (SORA), audit manuals and related activities. Through the collaboration with SAI Norway, SAI Uganda has also benefitted from dialogue, networking and joint training with several Ugandan and Norwegian government entities who are partners in the Oil for Development Programme funded by the Government of Norway.

SAI Uganda participated quite early on in a collaborative local content audit initiative with other SAIs, facilitated by IDI and AFROSAI-E. These institutions held workshops for six SAIs at strategic milestones of the audits. SAI Uganda has also benchmarked against other SAIs within the WGEI community, and has compared its existing standards against the AFROSAI-E guideline on extractive industries. SAI Uganda has participated at several EI workshops and trainings organized by AFROSAI-E, as well as initiatives through IDI. Furthermore, SAI Uganda has on several occasions lent members of staff to other SAIs for capacity development, for instance through providing support to Audit Service Sierra Leone on transfer pricing.

4.2 Collaboration and alignment with other government entities

One significant collaboration that SAI Uganda has developed over time is with the Petroleum Authority of Uganda (PAU), as both institutions are involved in work on cost recovery. PAU approves IOCs' budgets, and the SAI approves the final accounts. In addition, the SAI has developed a good working relationship with Uganda Revenue Authority (URA). The collaboration with URA is important when it comes to securing common policies and approaches, e.g. on gathering and sharing relevant tax/revenue information from/on the IOCs and transfer pricing issues. The parties signed a MoU on "Information Sharing and Exchange on Petroleum Sector Audits" in late 2018. The MoU also covers mutual technical assistance such as joint trainings, staff secondment and joint policy development and formulation.¹⁵ Both institutions regard the collaboration as important.

5 Lesson 5: Developing EI audit processes over time

5.1 Risk analysis: Developed a risk database

With support from SAI Norway, SAI Uganda has implemented a "Shared Overall Risk Assessment" (SORA). In addition, SAI Uganda has developed a risk database. The SORA process and the database have enabled the office to work more strategically over time in selecting audit topics related to EI, according to SAI Uganda's staff. Moreover, the SORA assists SAI Uganda in improving the understanding of risks over time, according to its staff and management. In its risk assessment work, the SAI has also utilized the AFROSAI-E EI Value Chain template.

¹⁵ SAI Uganda and URA have complementary mandates auditing IOCs. The collaboration with URA is important when it comes to securing common policies and approaches, e.g. on gathering and sharing relevant tax/revenue information from/on the IOCs and transfer pricing issues.

5.2 Data collection: Improved access to data over time

As concerns data collection, SAI Uganda has witnessed improvements over time in audited entities, as they have increasingly come to understand the SAI's role and mandate. SAI Uganda has also requested more information from audited entities over time. This applies particularly for the IOCs.

Furthermore, the dialogue and cooperation with URA in the phase of data collection in audits constitute a lessons learned in terms of how dialogue may render mutual benefits, resulting in improved work processes, scope and quality of audits.

The dialogue with other parties (IOCs, audited entities) has also improved over time. As one IOC sees it, the dialogue has demonstrated that SAI Uganda understands the business and the challenges that the IOCs face, albeit pointing out that they audit according to existing laws and regulations.

5.3 Reporting: Bringing together audited entities in exit meetings

SAI Uganda conducts joint exit meetings with the auditee and other relevant government entities. In the exit meetings with IOCs concerning the Cost Recovery Audits, the involved government entities are also present. This also applies to financial audits on the Uganda Petroleum Fund. This approach ensures that the government bodies with their specific mandates all speak with the same voice and that they may address any issues raised by the auditee (e.g. the IOC) directly. The different entities have their specific mandates concerning the Cost Recovery Audits and Audit of the Petroleum Fund. The exit meeting and the process leading up to it benefits the entities and contribute to coordination across government entities.

6 Lesson 6: External engagement beyond the audit cycle is an important and recurrent activity

6.1 Sensitisation of Parliament - requires an ongoing process

SAI Uganda has made efforts to sensitise Parliament on the audits the SAI has conducted within the field of EI. As members of Parliament keep changing and the EI sector develops over time, SAI Uganda acknowledges that sensitisation and dialogue with the Parliament, and in particular with the Public Accounts Committee (PAC), is an ongoing and continuous process. In an interview, the Chairman of the PAC commended SAI Uganda for its work, while also pointing to the need for continuous sensitisation and engagement – as audits within the field of EI include complex technical matters.¹⁶ The Parliament has deliberated on some VFM audit reports on EI.

6.2 Stakeholder Engagements have enhanced knowledge sharing

SAI Uganda participates in most workshops and discussions organised by stakeholders in the oil and gas sector. Such participation has enhanced knowledge sharing among stakeholders on the operations and new developments in the sector. Moreover, the knowledge gained through stakeholder engagement has enabled the SAI in undertaking more relevant, efficient and effective audits – and has resulted in implementation of recommendations in the audit reports by audited entities (see note on added value for examples). Moreover, SAI Uganda has held meetings with civil society organisations in order to present findings of EI audits and making them aware of these findings. Stakeholder engagement is an ongoing and continuous process for SAI Uganda.

¹⁶ Interview with PAC Chairman, Kampala, 13 March 2019.