Value Chain: Industry and Government Perspective

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Presentation Outline

1. OBJECTIVE

2. THE INDUSTRY PERSPECTIVE - PETROLEUM

3. INDUSTRY PERSPECTIVE - MINERALS

4. GOVERNMENT PERSPECTIVE
Objective

• Participants to appreciate the various stages and activities of the EI
The Industry Perspective - Petroleum

Process of getting petroleum out of the ground to the market

3 steps
Upstream (exploration and extraction)
Mid stream (transportation)
Downstream (refining, marketing, end use)
The Industry Perspective - Petroleum

Source: Blommestein Analytics- Energy Analysis | Oil
https://stein-analytics.com/analysis/energy/oil/ (obtained on 14th March 2021)
The Industry Perspective - Minerals

Value chain of each mineral differs. However a generic mineral value chain involves:

- Exploration and Development
- Production
- Marketing

Common reference to mining life cycle
The Industry Perspective - Minerals

Mine life cycle

- **Exploration**: 1-10 years
  - Exploration
  - Feasibility
- **Development**: 2-10 years
  - Detailed site investigation, design, estimation, evaluation and permitting
- **Production**: 1-3 years
  - Construction
- **Operation**: 2-100 years
  - Production
- **Closure**: 1-10 years
  - Closure
- **Post-Closure**: In perpetuity
  - Post-closure

The Government Perspective

Source: AFROSAI-E GUIDELINE - “AUDIT CONSIDERATIONS FOR THE AUDIT OF EXTRACTIVE INDUSTRIES” (2019)
Policies and legal framework

Relates to the policies, laws, regulations that govern the EI sector in a country (includes international treaties). Ideally they should be clear and consistent.

It cuts across all the other steps of the value chain.

They shape the relationships, roles and responsibilities of all stakeholders (Citizens, Government, EI Companies, etc) in the sector

Found in a number of legal instruments touching on different subjects eg Petroleum, mining, procurement, taxation, Public Finance and Management, Health, Safety and Environment, etc
Government activities/decision to explore/extract

- Mapping an area with potential reserves (aerial surveys, Seismic surveys etc)
- Data management (ownership, storage, access and utilisation)
- Environmental impact assessment / baseline assessment
- Decision of opening up these areas for exploration (must balance a number of interests eg community, industry, environment, etc)
- Establishing relevant institutions
Award of contract/license

• Involves assigning of exploration, development or production rights (according to law)
• Bidding process (competitive or direct negotiations)
• bidding variables (work programme, royalties, net profit, combination of terms)
• Fiscal regime (concession, service agreement, PSC etc)
• Deciding on the different terms of the contract/license.
• Pay attention to discretionary powers granted to public officials (tax incentives, negotiating contract terms)
Monitoring of Operations

- Several activities need to be monitored like operations & compliance with laws (work programmes, health & safety, production volumes and quality, environmental impact).

- Government usually sets up institutions to monitor the various activities and the roles of these should be clear to avoid conflict and inefficiency.

- Auditor's role is to ensure that the responsible institutions perform their roles.
Assessment and collection of revenue

- Host governments can raise substantial revenue from EI
- Depending on the fiscal regime, revenues can take the form of royalties, share of the resource, dividend, taxes, surface fees, bonuses, etc
- Revenue is susceptible to miscalculation or non-remittance
- Auditors ought to know the institution(s) responsible for assessment and collection, permitted expenditure deductions, arm’s length principle, production reporting requirements, prices obtained
Revenue Management & Allocation

• The revenues from EI are volatile & unsustainable.
• These can be used to transform nations but can also disrupt economies.
• Governments handle these revenues in various ways;
  ➢ To fund nation’s budgetary needs
  ➢ Establish special funds (stabilization funds, saving funds, investment funds)
  ➢ Transfers to affected local communities
• Established laws on what to save and what to spend, how to invest the money (nationally or internationally)
• External stakeholders are calling for transparence in the management of EI revenues like Publish what you pay, EITI
Implementation of sustainable development policies

- EI have the potential to cause environmental damage, social disruption and economic insatiability
- Aim is to maximize the benefits (development) and minimize the harm of EI activities (environment, communities)

- Relevant areas include environment, local content, health and safety, resettlement, decommissioning, social issues, etc
- Sustainable development goals
- Cuts across the entire value chain
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