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## **AUDITING THE AUDITOR:**

**EXAMINING THE ROLE OF SUPREME AUDIT  
INSTITUTIONS IN AUDITING THE EXTRACTIVE  
INDUSTRY IN AFRICA**

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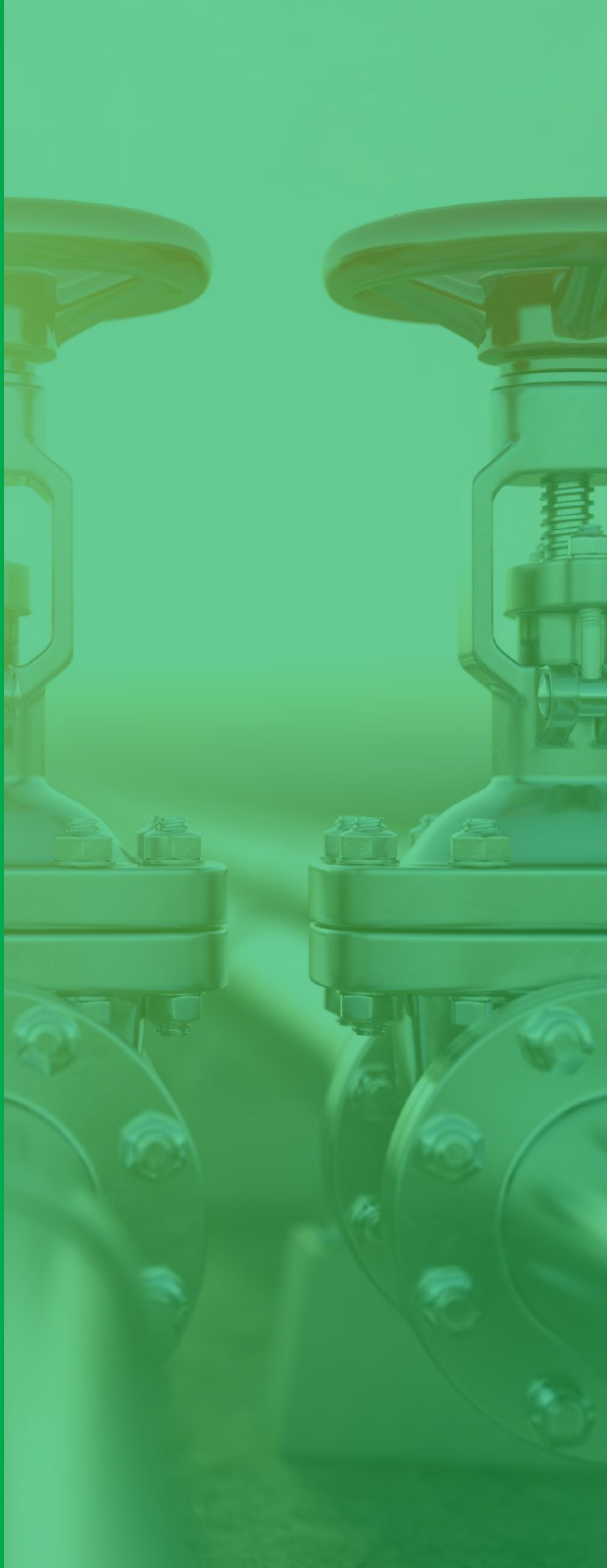


**OXFAM**

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# EXECUTIVE SUMMARY

Studies have established that the extractive industries (EI) have the potential to significantly contribute to a country's socio-economic development if harnessed well. A good number of countries in Africa have an active and well-established extractive sectors, while others are nascent but growing steadily.

Unfortunately, in Africa, the paradox of poverty amidst plenty prevails. This is linked to poor governance of the sector, misappropriation of accrued revenues and complex tax minimization strategies often used by multi-national corporations which deny resource-rich countries a fair share

of revenues that would be invested in providing social services like health and education. Performance of comprehensive audits and effective utilization of findings would significantly remedy this situation. These audits are carried out by Supreme Audit Institutions (SAIs).

## SUPREME AUDIT INSTITUTIONS (SAIs)



SAIs are the lead public sector audit organisation or national agencies responsible or auditing government revenue and expenditure in a country.

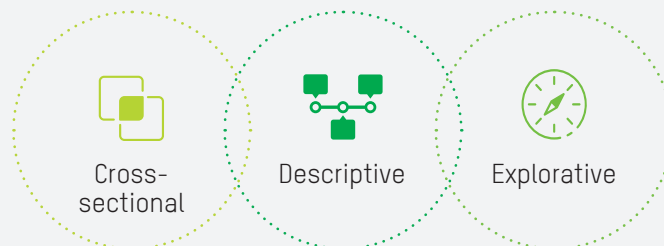
### MAIN PURPOSE

To oversee the management of public funds and the quality and credibility of governments' reported audits and their compliance with existing Laws and Regulations.

SAIs are in a constitutionally empowered position to play a critical role in the improvement of transparency and accountability in the extractive industry sector through the timely performance and publication of relevant audits.

## THE REPORT

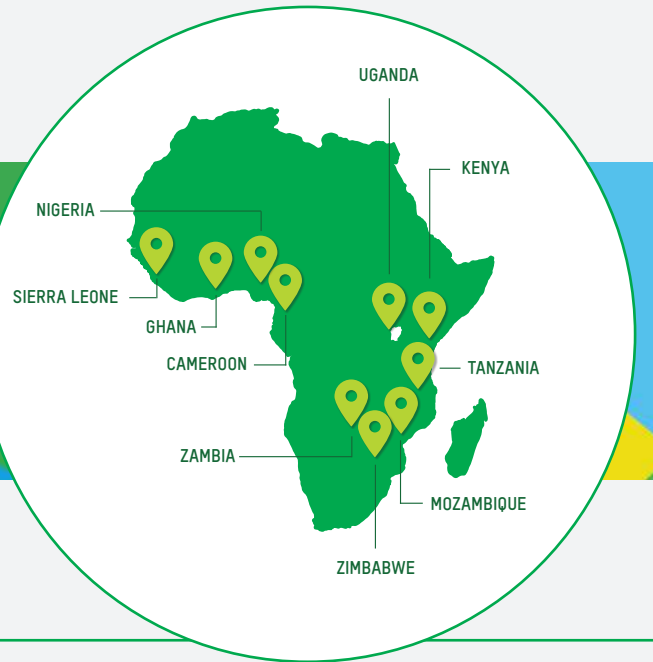
uses a combination of:



research strategies to perform a qualitative and quantitative analysis to obtain an understanding of SAI practices in auditing the extractive industries.

The study explores potential mitigating factors that are negatively impacting on the efficiency and effectiveness of SAI EI audits across various African countries.

The research has compiled up to date country summaries on 10 selected countries with the aim of zeroing in on the research objectives at country level for further understanding.



 RESEARCH COUNTRY

## RESEARCH FINDINGS



Despite there being a communication disjoint between the SAIs and key stakeholders in the EI sector, there is a general awareness of the audits being performed and published by SAIs.



The SAI auditors and the EI sector stakeholders agree that SAI audit reports have not been effective towards the improvement of transparency and accountability within the industry.



The number of SAI audits being performed per audit cycle have been insufficient to make meaningful impact in the improvement of transparency and accountability in the EI sector.



The few audits performed by SAIs, most have a high probability of not being tabled before parliament, thereby making them unavailable to the public.



The relevance of the audits towards addressing issues in the extractive industries sector are inadequate. This is linked to lack of SAI expertise in the industry.



The SAI risk assessments of the EI are not consultative. SAIs audit subject matters focus only on two steps of an interdependent seven step EI value chain thereby leaving the rest of the chain exposed.



SAIs and key stakeholders in the EI are recommended to creating an environment which capacitates SAI audits to contribute meaningfully to transparency and accountability in the sector.



There is need for improved coordination between SAIs and key stakeholders in the form of knowledge sharing, lobbying of state institutions to implement SAI audit recommendations and safeguard SAI independence.

# ABBREVIATIONS

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<b>AFROSAI-E</b>	African Organisation of English-speaking Supreme Audit Institutions
<b>AMV</b>	The Africa Mining Vision
<b>CAM</b>	Compliance Audit Manual
<b>CGT</b>	Capital Gains Tax
<b>DTA</b>	Double Taxation Agreements
<b>EI</b>	Extractive Industries
<b>EIA</b>	Environmental Impact Assessment
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>FAM</b>	Financial Audit Manual
<b>GAAR</b>	General Anti-Avoidance Rule
<b>GFI</b>	Global Financial Integrity
<b>GHG</b>	Greenhouse Gas
<b>IEA</b>	Information Exchange Agreements
<b>IFFs</b>	Illicit Financial Flows
<b>IOC</b>	International Oil Company
<b>ISSAI</b>	International Standards Of Supreme Audit Institutions
<b>MNE</b>	Multinational Entity
<b>MSG</b>	Multistakeholder Steering Group
<b>NRGI</b>	Natural Resource Governance Institute
<b>OECD</b>	Organisation For Economic Co-Operation And Development
<b>PAM</b>	Performance Audit Manual
<b>PSA/PSC</b>	Production Sharing Agreement/Contract
<b>SAI</b>	Supreme Audit Institution
<b>SDG</b>	Sustainable Development Goals
<b>SOE</b>	State-Owned Enterprise
<b>TP</b>	Transfer pricing

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# 1. INTRODUCTION

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**A good number of countries in Africa have active and well-established extractive sectors while others are nascent but growing steadily. Studies have established that the extractive industries (EI) have the potential to significantly contribute to a country's socio-economic development if harnessed well.<sup>1</sup> The benefits are derived directly through income streams such as taxes, and royalties and indirectly from a share of the revenues generated and economic linkages with other sectors.**

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However, in the African continent, the potential for great benefit to resource-rich countries has not been certain in most cases which has been attributed to the paradox of plenty. The paradox of plenty is linked to poor governance of the sector and misappropriation of accrued revenues.<sup>2</sup> Endemic corruption and other forms of malfeasance within the government agencies entrusted with managing the sector has robbed some countries of the much needed EI revenues leaving citizens floundering in poverty.<sup>3</sup> Oil, gas and mining multinational companies have also in some instances been complicit in the plunder.<sup>4</sup> Hence the lack of transparency and accountability regarding payments and contracts entered into and the revenues that these governments are receiving from these investments has led to little or no benefit of the EI sector to many African resource rich countries.<sup>5</sup> This background shifts the spotlight to the role of SAIs in securing the resource proceeds for the benefit of citizens in mineral rich countries.

**SAIs are the national agencies with the primary purpose of overseeing the management of public funds and checking the quality and credibility of government reported financial data.**

This is achieved through auditing of government revenue and spending. SAIs are in most cases constitutionally empowered and positioned to play a critical role in the improvement of transparency and accountability in the industry through the performance of relevant audits.

Audits of the EI are becoming popular both on the national level where SAIs carry out their mandate and on the international agenda where there is a key focus on the transparency of natural resource exploitation.<sup>8</sup>

In the extractives industries, these audits verify and authenticate the payments by oil, gas, and mining companies as well as the fate of these revenues within government financial pipeline. Ordinarily, these financial verifications are meant to flag any discrepancies and maleficence from the declared company figures in the name of "transparency and accountability". It is at this point where through either fraud or error - inaccurate and incomplete records are submitted resulting in companies operating in the EI sector paying less in terms of due taxes and royalties. This kind of situation is prevalent in several countries with weak Public Finance Management (PFM) systems and normally leads to massive

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<sup>1</sup> United States of America Senate. "The petroleum and poverty paradox: Assessing U.S. and international community efforts to fight the resource curse: Report to the members of the committee on foreign relations United States Senate". One hundred tenth congress, Second session. (October 16, 2008).

<sup>2</sup> Ibid pg. 2

<sup>3</sup> Anwar Shah, "Corruption in Oil and Gas and the Extractive Industries Transparency Initiative", SWUFE, China. Cepal Conference presentation, (2013).

<sup>4</sup> Africa Mining Brief, "how-international-oil-companies-steal-Nigeria's-crude-oil", <https://africanminingbrief.com/how-international-oil-companies-steal-nigerias-crude-oil>, accessed online: September 2020.

<sup>5</sup> INTOSAI-Donor Cooperation, "Extractive Industries Audit: The role of Supreme Audit Institutions", <https://www.idi.no/elibrary/external-publication/791>, accessed online: 16 April 2021.

<sup>6</sup> Staphenurst Rick, "Features & Functions of Supreme Audit Institutions", World Bank Open Knowledge Repository, <https://openknowledge.worldbank.org/handle/1098619424>, accessed online: 6 April 2021.

<sup>7</sup> Ibid

<sup>8</sup> INTOSAI-Donor Cooperation, "Extractive Industries Audit: The role of Supreme Audit Institutions", <https://www.idi.no/elibrary/external-publication/791>, accessed online: 16 April 2021.



revenue leakages of public funds. Several leading scholars have discussed these activities under the ban of Illicit Financial Flows (IFFs).<sup>9</sup>

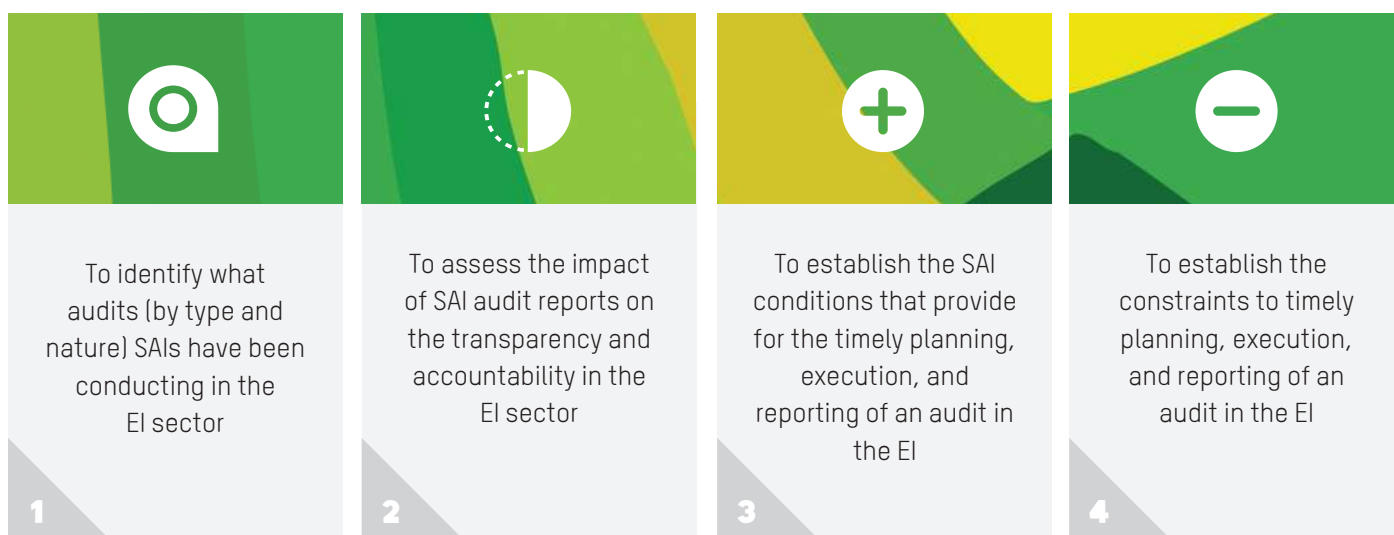
The World Bank has defined the EI value chain under the following seven elements: award of contracts, regulation and monitoring operations, collection of taxes and royalties, revenue management, implementation of sustainable development policies and projects, legal framework and government decisions regarding natural resources.<sup>10</sup> This creates a complexity within this sector especially for Sub-Saharan countries with nascent EI sectors. Literature review has revealed that, the peculiarity of the extractive sector adds on to the challenges of effectively auditing the operations across the EI value chain.<sup>11</sup> The peculiarity of the sector stems from the various layers of the value chain which in most cases also involves sub-contractors and international suppliers. With this kind of composite institutional infrastructure, it becomes difficult for an average auditor at a SAI to fully comprehend all the elements of the financial reports presented by the companies. In

some cases, the oil and gas sector, at law - companies are permitted to recover all costs incurred from the exploration period up to the point that active pumping of oil commences, and this recovered cost is derived from the first oil that a country begins to sell.<sup>12</sup>

Arguably SAIs might need to employ more sophisticated methods of effectively auditing EI financial statements and other obligations. Another important factor is the regularity of audit rounds so that gaps can be flagged in good time. Supposedly SAIs also have the responsibility of facilitating the public to access audit information and to participate in the activities of formulating regulations that guide the SAIs.<sup>13</sup> It can be noted that for African countries to accrue the benefits of being endowed with great natural mineral wealth, robust transparency and accountability are requisite. At the same time due to the peculiarities and complexities of the EI sector, this transparency and accountability is not guaranteed. SAIs by virtue of their constitutional mandates are in a unique and empowered position to contribute positively to the transparency and accountability.

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**The objectives of this research paper are to obtain an understanding of SAI practices in auditing the extractive industries and explore potential mitigation factors to reduce on the aspects negatively impacting on the efficiency and effectiveness of SAI EI audits across various Africa countries. To achieve this aim, the research pursues four main research objectives:**



<sup>9</sup> African Union. "High-Level Panel on Illicit Financial Flows from Africa", Mbeki Report (2015).

<sup>10</sup> World Bank, "Extractive Industries Value Chain. A Comprehensive Integrated Approach to Developing Extractive Industries", Extractive Industries for Development Series 3 (2009).

<sup>11</sup> AFROSAL-E, "Guideline: Audit considerations for extractive industries" Pretoria, (2019) pg13.

<sup>12</sup> Ibid pg.30

<sup>13</sup> Ibid pg.26

## 2. LITERATURE REVIEW

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This literature review section of the research aims to review the body cannon of knowledge by assessing the gaps in literature on the subject matter related to obtaining an understanding of SAI practices in auditing the extractive industries and explore potential mitigation factors for that are negatively impacting on the efficiency and effectiveness of SAI EI audits across various African countries.

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### 2.1 ROLE OF SAIs IN THE EXTRACTIVES INDUSTRY

Supreme audit institutions (SAIs) are the lead public sector audit organisation in a country. Their principal task is to examine whether public funds are spent economically, efficiently, and effectively in compliance with existing Laws and Regulations. Well-functioning SAIs play an important role in confirming that controls are operating effectively, identifying waste, and suggesting ways in which government organisations can operate better. By ensuring that money is well spent, they can contribute to national development and poverty reduction.<sup>14</sup>

The publication of extractive companies' audit reports, in addition to other disclosures, helps in transparency becoming an integral and routine feature of natural resources governance and management systems. These disclosures allow stakeholders and citizens to scrutinise companies' operations, thereby providing an avenue for public debate around the management of natural resources. The disclosures<sup>15</sup> help to address pressing governance challenges, enabling the government and the public to have oversight of important revenue streams at a time when most economies in the continent are under strain.

The Africa Mining Vision (AMV) acknowledges the shortcomings of SAIs in terms of capacity (technical and financial) and links this to the reduced share of mineral

revenues accruing to African countries. The AMV thereby called on individual countries to improve the capacity of SAIs (and to sustain it) to physically audit mineral production and exports.<sup>16</sup> There has been some progress in this regard by some countries, however, for others more needs to be done to slow down massive financial outflows -some of it illicit - from the continent. The African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) has over the past several years tried to enhance the capacity of SAIs across the continent by conducting technical up-training and fostering inter-SAI collaborations. This includes most recent research which has revealed that the impact of COVID-19 pandemic has had a negative impact on the progress which African countries had made with respects to the AMV to which SAIs are seen as part of the solution towards getting back on track.<sup>17</sup>

### 2.2 TYPES OF SAI AUDITS IN THE EXTRACTIVE SECTOR

The importance of EI audits cannot be emphasized more. In 2004, the government of the Republic of Congo contracted external audit firms to audit the costs of its oil permits. A total of 13 audit reports for 2004 and 2005 were published, based on permits held by Total and ENI. The audits found that the companies had overstated their costs by \$127 million.<sup>18</sup> Fiscally, this is a significant amount of money for

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<sup>14</sup> OECD, "Good Practices in Supporting Supreme Audit Institutions" (2011)

<sup>15</sup> The elements of the extractive sector that need disclosure are licenses; exploration, production, and exports; beneficial ownership; contract transparency; state participation in the extractive sector; revenue collection and allocation; and social and economic spending.

<sup>16</sup> AUC, AfDB & UNECA, "Building a sustainable future for Africa's extractive industry: From vision to Action", Action Plan for Implementing The Africa Mining Vision, (2011).

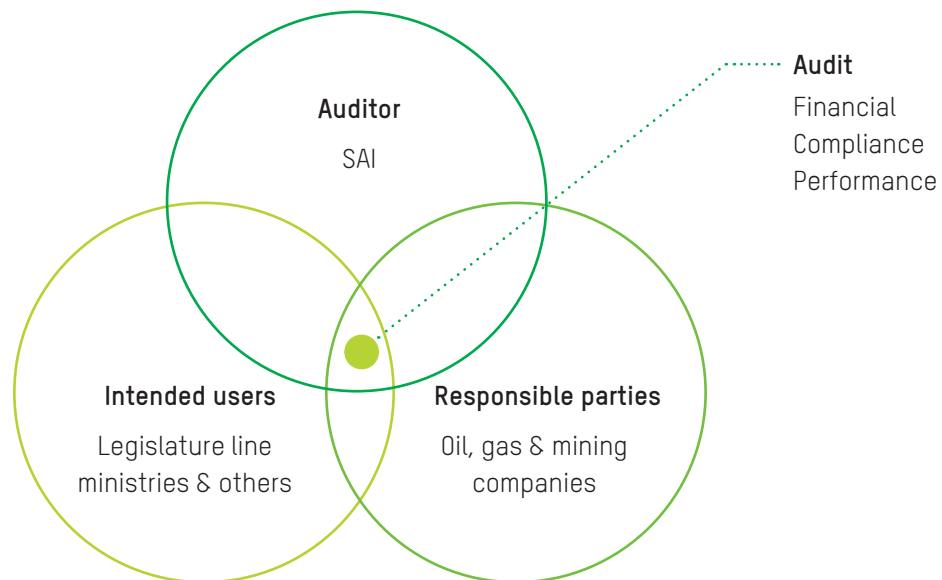
<sup>17</sup> Edmond. B. Shoko, "SAI Audit Considerations to the Impact of COVID 19 on the Extractive Industries Sector", Kampala (2020) <http://www.wgei.org/wp-content/uploads/2020/10>, accessed online: January 2021.

<sup>18</sup> Oxfam, "Examining the Crude Details: Government Audits of Oil & Gas Project Costs to Maximize Revenue Collection", Oxfam Briefing Paper, (Nov. 2018).

a small economy like the Congo that heavily relies on the oil sector – as of 2019 the oil sector accounted for 55% of the GDP, 80% of government revenue, and 85% of exports.<sup>19</sup> It is

therefore imperative that SAIs, as statutory audit agencies, play the principal role in conducting these kinds of audits.

There exist three main types of EI audits namely financial audit, compliance audit and performance audit:



## FINANCIAL AUDITING

These are audits to determine whether an entities financial information is presented in accordance with the applicable financial reporting and regulatory frameworks.<sup>20</sup> Here, the auditors look for material misstatement and errors that can have material impact on the information presented in the financial statement.<sup>21</sup>

## COMPLIANCE AUDITING

These are independent assessments of whether activities, financial transactions, and information are, in all material respect, in compliance with the authorities which govern the audited entity.<sup>22</sup> These authorities may include policy, established codes, regulations, rules, laws, budgetary resolutions, general principles or agreed terms governing sound public sector financial management and conduct of public officials.<sup>23</sup>

<sup>19</sup> AfDB, "Africa Economic Outlook 2020: Developing Africa's Workforce for the Future", Centurion, (2021)

<sup>20</sup> ISSAI 100.22

<sup>21</sup> AFROSAI-E, "Compliance Audit Manual", Exposure Draft version 1.0, Pretoria, (2017)

<sup>22</sup> ISSAI 400.12

<sup>23</sup> Geoff Dubrow, "Are Supreme Audit Institutions fit for purpose in the age of COVID-19 and beyond?" Westminster Foundation for Democracy, Budget policy brief, London, (2020).

## PERFORMANCE AUDITING

These are audits that focus on whether interventions, programs, systems, operations and institutions are an independent, objective and reliable examination of whether an extractive company's systems, operations, programmes or activities are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement.<sup>24</sup> Performance is examined against suitable criteria, and the reasons of deviations from those criteria are analyzed.<sup>25</sup> The aim is to answer key audit questions and provide recommendations for improvements to be implemented. This audit is carried out by an external, impartial party to help eliminate bias and keep things fair. SAIs can conduct these three types of audits separately or they can combine them and do them at the same time.

### 2.3 WHAT TRIGGERS AUDITS IN THE EXTRACTIVES INDUSTRIES SECTOR?

El revenue administration has been one of the foremost challenges to many governments in the management of the sector. It is mainly at this point that revenues from the exploitation of mineral resources are lost and many countries have tried – with varying degrees of success – to ensure they collect all that is due, with minimal leakages,<sup>26</sup> that is by instituting audits on the oil, gas and mining companies and their associates. In most of the countries these extractive industry audits are treated just like those of any other public institution in which case regular audits are conducted.

The nature of the audits performed range from country to country but the most common are the financial audits. SAIs in some countries have not been able to conduct these audits – in spite of the statutory mandate to do so – as regularly desired because of various challenges.<sup>27</sup>

The failure to conduct these regular audits can permit revenue leakages as observed in the case of Kenya where the government failed to conduct timely cost audits of the oil exploration company and in the end had to contend with an

inflated recoverable cost burden. Since the country has not begun pumping crude oil, one of the operating oil companies – Tullow Oil Kenya – has up to now been incurring costs which it will recover once oil starts flowing. The Kenyan government through the OAG and international audit consultants only conducted audits on the company's financials covering the years 2014 to 2018.<sup>28</sup>

Besides the regular audits, partisan politics is also a big push factor. There have been many instances where SAIs rush to conduct specific audits – mainly financial – due to political queries. For instance, when reports surfaced regarding the loss of billions of dollars in revenues from the Nigerian National Petroleum Company (NNPC), the Minister of Finance called for a special audit to account for the reported missing revenues.<sup>29</sup> Opposition leaders are known to rightfully flag questionable transactions within the sector as was the case in the Goldenberg<sup>30</sup> saga in Kenya in the early 1990s. In 2018 the Mozambique government ordered for the audit of the Sasol and Anadarko oil and gas companies after reports emerged that the companies had inflated their 'recoverable costs.' For the three-year period 2015–2017, Anadarko, the operator of Rovuma Basin Area One had declared 904.7 million dollars in recoverable costs. The government disputed this

<sup>24</sup> ISSAI 300.9

<sup>25</sup> Supra note 23

<sup>26</sup> Don. Hubert, "Government Revenues from Mining: A Case Study of Caledonia's Blanket Mine" Harare, (2016).

<sup>27</sup> AFROSAI-E, "Guideline: Audit considerations for extractive industries", Pretoria, (2019).

<sup>28</sup> OXFAM, "Examining the Crude Details: Government Audits of Oil & Gas Project Costs to Maximize Revenue Collection", Oxfam Briefing Paper, (Nov. 2018).

<sup>29</sup> Will. Ross, "Call for oil revenue audit in Nigeria after 'billions lost'", (2014). <https://www.bbc.com/news/av/world-africa-26538692>, accessed online: December 2020.

<sup>30</sup> The Goldenberg scandal was a political scandal where the Kenyan government was found to have subsidised exports of gold far beyond standard arrangements during the 1990s, by paying the company Goldenberg International 35% more (in Kenyan shillings) than their foreign currency earnings. Although it notionally appears that the scheme was intended to earn hard currency for the country, it is estimated to have cost Kenya the equivalent of more than 10% of the country's annual GDP and it is possible that no or minimal amounts of gold were exported. BBC, "Moi 'ordered' Goldenberg payment", (2014), <http://news.bbc.co.uk/2/hi/africa/3495689.stm>, Accessed online: November 2020.

figure saying that 11.2 million dollars of this sum was not eligible for cost recovery.<sup>31</sup> Even before the government decreed audits the civil society in the country had already canvassed for the audits to be conducted having discovered the financial irregularities.<sup>32</sup> As countries make efforts to capture an appropriate share of the value of their minerals in order to meet domestic revenue mobilisation (DRM) targets, the focus on SAIs effectiveness has increased.

The AFROSAI-e recommends a very proactive approach by SAIs to EI auditing such that any malfeasances can be flagged in good time.<sup>33</sup> For SAIs to become triggers of regularity and special audits the prevailing policy framework will need to provide proper leeway in this regard.

## 2.4 CONDITIONS FOR EFFECTIVE EXTRACTIVES INDUSTRIES AUDITING

Fundamentally, public sector auditing in most countries adopts the International Standards of Supreme Audit Institutions (ISSAIs)<sup>34</sup>. This fundamental principle of the ISSAI standards is reinforced by several factors that are regarded as prerequisites of an effective audit exercise. The foremost requirement regarding audit of EI is in-depth knowledge and understanding of the sector. Some countries did not conduct EI audits because of this lack of sufficient technical capacity. For instance, the Office of the Auditor General in Uganda (OAGU) did not initially audit the oil operations because at the time there was no local capacity in the SAI to undertake the task. Audits of the oil operations were conducted by private audit firms assisted by a couple of officials at the OAGU.

Later, the Norwegian SAI sponsored the training of several OAGU staff on oil and gas knowledge and skills. The

enhanced technical capacity enabled the OAGU to conduct the audits on their own without requiring the services of private audit firms.<sup>35</sup> Consequently, in 2016 the Auditor General of Uganda disallowed \$80.5 million worth of petroleum costs for all petroleum agreements (Pas) for the period 2004 to 2011.<sup>36</sup>

Meticulous planning and implementation is critical because the EI sector is unique in many respects. The composite nature of the sector – layered with different operations and transactions – makes it a difficult ground for the average auditors who may not have undertaken further specific training on EI. Besides knowledge about audit procedures and tests, the designated audit team should acquire expertise concerning the activity subject to audit as well as the legal regulations under which contracts are executed.<sup>37</sup>

Another EI audit success factor is communication with stakeholders, primarily the relationship amongst the key government departments that interact with the sector or the SAI. These are: The Ministries of Oil and Mineral Resources, the revenue authority, the anti-corruption agencies, the public prosecutor, and parliament. For greater intra-governmental coordination, the audit findings should be disclosed to these other government agencies.<sup>38</sup> Additionally, and for accountability and transparency reasons, the SAI needs to share the audit information with other stakeholders such as the public, civil society and the national Extractive Industries Transparency Initiative (EITI) office (if applicable).

SAIs also require institutional autonomy, to enable the audit agencies to perform their duties without fear or favour.<sup>39</sup> Many SAIs have experienced interference from powerful elements or political figures and in fact, it is not a secret that politicians and powerful figures have vested interests

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<sup>31</sup> OGLINKSNEWS, "Mozambique: Sasol Accused of Inflating Recoverable Costs", <https://oglinks.news/sasol/news/Mozambique-accused-of-inflating-recoverable-costs&the2019General>, Accessed online: November 2020.

<sup>32</sup> Centre for Public Integrity, "ROVUMA REVENUES AT RISK: Inflated Exploration Costs Undermining Future Government Revenue?", Good Governance, Transparency, and Integrity - Edition No 05/2014, (June 2014)

<sup>33</sup> Supra note 27.

<sup>34</sup> INTOSAI, "The INTOSAI Framework of Professional Pronouncements", <https://www.issai.org>, accessed online: August 2020.

<sup>35</sup> INTOSAI Donor Cooperation, "Enhancing the benefits of extractive industries to citizens – The Uganda Story" <https://intosaidonor.org/stories/enhancing-the-benefits-of-extractive-industries-to-citizens-the-uganda-story/>, Accessed online: December 2020.

<sup>36</sup> Annual Report of the Auditor General on the Financial Statements of the Government of Uganda for the Financial Year Ended 30th June 2016 (Kampala, 2016), p. 17.

<sup>37</sup> The role of Supreme Audit Institutions, INTOSAI-Donor Secretariat (within the IDI) in cooperation with AFROSAI-E, 5 September 2013. in cooperation with AFROSAI-E, 5 September 2013.

<sup>38</sup> OXFAM, "Examining the Crude Details: Government Audits of Oil & Gas Project Costs to Maximize Revenue Collection", Oxfam Briefing Paper, (Nov. 2018).

<sup>39</sup> Jon Pierre & Jenny de Fine Licht, "How do supreme audit institutions manage their autonomy and impact? A comparative analysis, Journal of European Public Policy", 26:2, 226-245, DOI: 10.1080/13501763.2017.1408669, (2019)

in the extractive industries. In many countries, sector players have made huge financial contributions to political campaigns in a bid to secure reciprocal support from the same political forces by way of protecting their interests.<sup>40</sup> In a system where a SAI is captive to the politicians' whims the integrity of EI audits comes into question. Therefore, absolute independence of SAIs remains to be a key pillar in the credibility of the audit reports produced. Several instances can be mentioned in Africa whereby countries experience massive illicit financial flows aided by the political elite.



## Nigeria has lost more than \$400 billion to oil thieves since the country gained independence in 1960.

Dr Obi Ezekwesili  
Former Vice President of the World Bank in Africa

Nigeria began producing oil in the 1970s and since that time so much of the oil revenue has been plundered by successive political regimes. A former Vice President of the World Bank in Africa indicated that "Nigeria has lost more than \$400 billion to oil thieves since the country gained independence in 1960.<sup>41</sup> This is despite the existence during this period of a SAI that was presumably conducting regularity audits of the oil sector. The independence of a SAI can be legislated upon but if the regime of the day is corrupt, the auditing procedures and reports will be compromised.

## 2.5 LIMITATIONS TO EFFECTIVE EXTRACTIVES INDUSTRY AUDITING

If the conditions mentioned in the preceding section are not fulfilled, a SAI would operate under a very strained working environment. In addition to this the uniqueness of the extractive sector compounds the challenge of effectively auditing the operations across the value chain.<sup>42</sup>

The peculiarity of the sector stems from the various layers of the value chain which in most cases also involves sub-contractors and international suppliers.

With this kind of composite institutional infrastructure, it becomes difficult for an average auditor in a SAI to fully comprehend all the elements of the financial reports presented by the companies.<sup>43</sup> SAIs might need to employ more sophisticated methods of effectively auditing EI financial statements and other obligations. SAIs – especially those in Africa – are under tremendous pressure to adapt and to stay abreast in a modern technology-driven and changing global environment in the face of increased globalization and expectations from citizens and governments.<sup>44</sup> This challenge would be compounded if the country SAI is already reeling from inadequate capacity limitations.

The complex nature of the extractive sector and how it decouples with SAI auditing standards means that outsiders require a great deal of specific documented knowledge about the dynamics of such things as production volumes, commodity pricing (which is often erratic) as well as company practices if SAIs are to perform effective audits. Peculiar practices such as transfer pricing/mispricing present a technical challenge to SAIs especially when the SAI staff are inadequately trained on these financial practices. An example of this is how the effective performance of a compliance audit in the absence of codified production metering and fiscal metering rules complicates the establishment of a compliance audit criteria and effectively the essence of that audit.

With increased public expectations for high quality auditing, there is an increasing need for professionally qualified personnel in all areas: regularity, performance, and IT auditors; human resource experts; legal advisers and investigators; IT system developers; and communication specialists. The IT environment in particular creates pressure on SAIs to keep pace through introducing new audit methodologies and by being able to audit the rapidly changing IT systems and platforms.<sup>45</sup> So far there have been various initiatives to enhance the technical capacity of SAI officials in various countries. AFROSAI-e has maintained a

<sup>40</sup> <https://www.opensecrets.org/industries/lobbying.php?cycle=2020&ind=e01>

<sup>41</sup> [www.unodc.org/en/frontpage/nigerias-corruption-busters.html](http://www.unodc.org/en/frontpage/nigerias-corruption-busters.html)

<sup>42</sup> Supra note 27

<sup>43</sup> Ibid.

<sup>44</sup> AFROSAI-E, "AFROSAI-E Strategic plan 2020-2024", Pretoria [2020] pg. 9.

<sup>45</sup> SIDA, "Evaluation of the African Organization of English-speaking Supreme Audit Institutions", SIDA Decentralized Evaluation (2018) pg15.

range of training programs for its membership on extractives with support from development partners.<sup>46</sup> The World Bank on the other hand has provided technical assistance programs in countries like Sierra Leone and Kenya whereby SAIs were part of the beneficiaries.<sup>47</sup>

Another critical aspect of SAI efficiency is that of intergovernmental communication or the damaging lack of it. The EI sector financials are often looked at by a tripartite: The Revenue Authority, the Ministry of Minerals & Petroleum and the Audit Office. For an effective audit process all these government departments ought to speak to each other in terms of sharing pertinent information that could bolster the integrity of audit reports.

The auditors mainly rely on information provided to them by the sector regulator (usually the line Ministry for Mineral Resources and Petroleum or in some cases the State Oil Company) to support the audit processes. Such data as mineral production volumes is not directly accessible to many SAIs in the region but is obtained from secondary sources in government. Cases of information non-disclosure/hoarding have been reported in countries such as Ghana where the SAI staff essentially struggle to conduct audits with insufficient data.<sup>48</sup> This raises the arguments made by AFROSAI-E on the need for SAIs to conduct more “Real-time” audits which in essence require the auditor to be present at the time of the transaction.<sup>49</sup>

## 2.6 FATE OF EXTRACTIVE INDUSTRY AUDIT REPORTS

Conventionally, audit reports are only as good as they can be utilised by the end users. In this regard the end users range from public, government agencies, parliament, and the civil society. This differs from country to country, but the intention is to have these end users familiarise and engage with the audit findings. The principal of public sovereignty of the mineral resources - extractive resources are juridically owned by the public and often only held in trust, by the

government – rationalises the need for all EI audits to be made public. Additionally, where EI audit reports are made, they must make sense to the public, as the office is directly accountable to the public, through the relevant overseer such as Parliament.<sup>50</sup>

When SAI audit reports are sent to Parliament, members of Parliament need sufficient technical capacity to understand them and adequate political motivation to ensure that the executive acts on their recommendations. Many African Parliaments do not have sufficient technical capacity to understand, utilise or act on the audit reports from their SAIs. Indeed, there is a common perception held by many legislators themselves that the industry’s technical complexity is beyond their comprehension. In some of the countries the members of parliament do not have sufficient autonomy from the executive to be able to hold it to account.<sup>51</sup>

## 2.7 SAIs NEXUS WITH MULTILATERAL INITIATIVES

Some countries already have established international transparency frameworks such as the Extractive Industries Transparency Initiative (EITI), Publish What You Pay (PWYP) and Open Government Partnership (OGP). These initiatives have drawn worldwide attention to the need for increased transparency and accountability in the management of extractive industries. As a result, several African countries, including Nigeria, Angola and Congo-Brazzaville, now publish financial and other information in the press and on government websites, including the results of audits and other assessments that have highlighted management weaknesses and other shortcomings.<sup>52</sup>

The EITI process is the most established initiative on the continent with 24 countries participating. The process requires the disclosure of information along the extractive industry value chain from the point of extraction, to how revenues make their way through the government,

<sup>46</sup> AFROSAI-E, “Building Extractive Industry Audit Capacity in AFROSAI-E”, <http://www.wgei.org/capacity-building/building-extractive-industry-audit-capacity-in-afrosai-e/>, accessed online: September 2020.

<sup>47</sup> The World Bank, “Projects & Operations”, <https://projects.worldbank.org/en/projects>, accessed online: December 2020.

<sup>48</sup> OXFAM, “Examining the Crude Details: Government Audits of Oil & Gas Project Costs to Maximize Revenue Collection”, Oxfam Briefing Paper, (Nov. 2018).

<sup>49</sup> Edmond. B. Shoko, “SAI Resilience in addressing the auditor expectation gap during disaster periods: The case of sub-Saharan SAIs” AFROSAI-E, Pretoria, (2020). pp. 30.

<sup>50</sup> Gilbert. Makore, “Making Extractive Industries Audit Reports Publicly Accessible”, WGEI Newsletter Issue No. 15, (September 2019).

<sup>51</sup> AfDB and World Bank, “Strengthening Country External Audit Systems in Africa”, (2010).

<sup>52</sup> Shari Bryan & Barrie Hofmann, “Transparency and Accountability in Africa’s Extractive Industries: The Role of the Legislature”, National Democratic Institute for International Affairs, (2007).

and how they benefit the public. In each of the 54 implementing countries, the EITI is supported by a coalition of government (including SAIs), companies, and civil society representatives.<sup>53</sup>

SAIs and EITI have a lot in common. They both involve reconciling extractive sector accounts. They work across the resource governance decision chain. They hold themselves and others to high technical and ethical standards and both are focused on ensuring public resources are managed well and in accordance to citizens’ best interests.<sup>54</sup>

**The EITI process and reporting provides the following benefits to SAI auditors:**

<p><b>Easy access to information</b></p>	<p><b>Identification of discrepancies and recommendations</b></p>	<p><b>Encourages companies to disclose their beneficial ownership</b></p>	<p><b>Enhances openness in reporting</b></p>
<p>The EITI process provides SAIs with alternative ways of accessing documents from companies, through the national EITI secretariat.</p>	<p>These can be used by the SAI EI auditors for planning (risk assessment).</p>	<p>This aspect is very useful in assessing transfer pricing issues.</p>	<p>Implementing countries are expected to produce EITI Reports annually.</p>

In many EITI implementing countries, the multi-stakeholder group sends reporting (disclosure) templates from the government entities to the SAIs for certification while the EI companies’ disclosures are sent to their private auditors for certification, before reconciliation of the government receipts and the companies’ payments. The role of the SAI is therefore crucial in the EITI reconciliation process.

In other countries where the EITI is active the SAIs audit is complemented with the EITI’s payments validation processes thereby enhancing the credibility of EI audit reports produced in the country. Although EITI’s scope is broader across the EI value chain its reports provide very useful corroborative information that SAIs can take advantage of. New and potential EITI members like Uganda and Zimbabwe respectively, are collaborating with their SAIs from the outset to ensure that

these synergies are maximised.<sup>55</sup> Nigeria was one of the first countries to commit to the EITI principles. To date, the country’s local process – the Nigerian Extractive Industries Transparency Initiative (NEITI) – remains the most ambitious and the most advanced. Nigeria has conducted and published independent audits of payments and revenues and was the first to insist that information be published in a disaggregated fashion, making it possible to identify revenues company by company, category by category and well by well. NEITI has exposed numerous irregularities in the management and administration of oil revenues by the Nigerian National Petroleum Corporation (NNPC).<sup>56</sup> The Auditor General in 2019 forged a partnership with NEITI to share data and to collaborate on promoting integrity in data management on revenues from extractive industries.<sup>57</sup>

<sup>53</sup> EITI, “Who are we”, <https://eiti.org/who-we-are>, accessed online: January 2021.

<sup>54</sup> Dana. Wilkins and Edna.Osei-Appiah, “Four ways Supreme Audit Institutions and EITI can bolster each other”, <https://eiti.org/blog/four-ways-supreme-audit-institutions-eiti-can-bolster-each-other>, accessed online: November 2020.

<sup>55</sup> Sam Bartlett, “Strengthening collaboration between the EITI and Supreme Audit Institutions”, <https://eiti.org/blog/strengthening-collaboration-between-eiti-supreme-audit-institutions>, Accessed online: January 2021.

<sup>56</sup> Ibid. pg.25

<sup>57</sup> Harrison. Edeh, “NEITI, Auditor General to forge partnership on data sharing”, <https://businessday.ng/uncategorized/article/neiti-auditor-general-to-forge-partnership-on-data-sharing/>, Accessed online: November 2020.



## 2.7.1 STRENGTHENING LINKAGES BETWEEN SAIS AND THE EITI PROCESS<sup>58</sup>

There is not much historical evidence about the linkages between the EITI process and SAIs in Africa. However there have been engagements between the two parties in some countries, with some mutually beneficial outcomes. For example EITI members Tanzania and Zambia have over the last couple of years moved to strengthen the EITI

relationship with the SAIs to improve the timeliness and reliability of information. Other newer members of EITI such as Zimbabwe and Uganda have already instituted frameworks that place the SAIs among its core collaborators. According to EITI, below are some of the ways that SAIs can link to the EITI process in the countries that have signed up to the Standard;



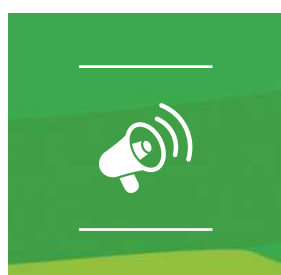
**SAIs can provide reliable data for EITI analysis and vice versa.** In order to reconcile company payments with government receipts, EITI bodies must rely on government data. However, it has been conventionally found that SAI data can sometimes face quality challenges, despite this being the main source of data from the extractive companies. The EITI in Ghana is one of those chapters that have a close relationship with the SAIs – in this case the Ghana Audit Service. As EITI countries begin to mainstream, it is likely that SAIs will play an increasingly important data verification role. This notwithstanding, not all SAIs operate according to international auditing standards called for by the EITI, an issue that may compromise the integrity of the EITI reports.



**SAIs can build on EITI findings, and vice versa.** Given their complementary mandates and processes, SAIs and EITI bodies are well-positioned to cross-reference each other's findings and reinforce important recommendations. For example it is common for the EITI process to make recommendations to the public borne out of SAI reports (e.g., discrepancies, inefficiencies and unverifiable figures).



**SAIs can use EITI reports to identify major risk areas and dig deeper into disclosure discrepancies.** This has been useful in Ghana and Zambia where SAIs and the EITI reinforce each other's calls for greater transparency and accountability. This is possible if there is legitimacy and effectiveness of both the SAI and the EITI process, that is devoid of any undue influence. While at this SAIs can also advise national EITI bodies on auditing systems. This is because SAIs have a deeper expertise and broader view of government data across different government institutions. Additionally SAIs have expertise in verifying non-financial data that EITI has only recently begun to cover, such as company production figures and contractual obligations.



**Raising public awareness and support.** SAI reports are primarily consumed by parliaments. The EITI on its part has a broader audience. If the two collaborate there could be greater awareness of the functions and reports of the SAI. The broader public awareness is useful for any SAI because then a critical mass of the citizens can potentially rally around the objectives of the SAI and even mobilise for good governance of the EI sector

<sup>58</sup> Dana. Wilkins and Edna.Osei-Appiah, "Four ways Supreme Audit Institutions and EITI can bolster each other", <https://eiti.org/blog/four-ways-supreme-audit-institutions-eiti-can-bolster-each-other>, Accessed online: November 2020.

## 2.8 REVIEW DEDUCTION

The reviewed literature suggests that a lot of efforts and interest by governments and development agencies, together with the citizens, in the improvement of transparency and accountability in the EI sector. There is a going consensus that the EI sector is very important to the development of economic wellbeing of countries and as such transparency and accountability is of paramount significance. However, SAIs as beacons of transparency and accountability in the public sector are noted also to be

operating in a very tough and complex environment when pursuing audits in EI sector.

In conclusion, this literature review has successfully considered the challenges and the important perspectives on understanding of SAI practices in auditing the extractive industries and exploring potential mitigation factors in areas are negatively impacting on the efficiency and effectiveness of SAI EI audits across various African countries.



### 3. METHODOLOGY

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The research is both exploratory and descriptive by nature. To address the research objectives more effectively, this research undertook a cross-sectional study making use of both quantitative and qualitative approaches.



7 October-  
14 November  
**2020**



Researchers collected  
quantitative and  
qualitative data...



...from a sample of SAIs and  
key stakeholders in the EI  
sector in Africa

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The main research tool used were two structured questionnaires. The two questionnaire samples have been provided as annex to the research. This data set was labelled and classified as “SAI Respondents” and “Stakeholder Respondents”, respectively.

Data was collected from SAI and stakeholder respondents with a research focus on 10 African countries (Cameroon, Ghana, Kenya, Mozambique, Nigeria, Sierra Leone, Tanzania, Uganda, Zambia, and Zimbabwe). These are countries are endowed in extractive mineral wealth and OXFAM has a footprint working in those countries. Responses from stakeholders in the extractive industries of those countries which varied from parliamentarians, civil society organisations and other development agencies were obtained using another structured questionnaire. In both research instruments, qualitative data was collected by incorporating open-ended questions in both instruments.

For both data sets (SAI and Stakeholder respondents), two instrument types were used to collect data namely; Interviews and Questionnaires being the main tool. Data collected comprised of secondary and primary data. Secondary data was collected through the review of documents, while primary data was collected by using both quantitative approaches (through the posing of structured questions) and qualitative approaches (through the posing of open questions).

Interviews were conducted with senior knowledgeable

individuals. These included some of the SAI audit executives, Parliamentarians, and heads of Civil society organisations with the aim of addressing the research questions. All interviews were driven by unstructured, ad-hoc and open-ended questions to get more in-depth answers to questions. Interviews were used in the last stage of the research to confirm and validate the results of the questionnaire, which was the primary research instrument.

The primary research instrument that was used in this study, was the questionnaire distributed to SAI respondents. All questions posed in the questionnaire were perceptual. A Cronbach Alpha coefficient analysis was performed using the SPSS platform to measure the reliability of each of the four sections of the questionnaire.<sup>59</sup> A desirable reliability coefficient would fall in the range of 0.8 to 0.9.<sup>60</sup> The reliability coefficients obtained in relation to this research were deemed to be enough, based on this criterion as they ranged between 0.88 and 0.98. The questionnaire to SAIs was therefore deemed sufficiently reliable for use in this research. The questionnaire to the stakeholder respondents, although not central to this paper, yielded some very useful feedback from the respondents, which was considered in the analysis of data in the determination of the impact of SAI audit reports. The reliability coefficients obtained in relation to the research instrument used on the stakeholder respondents were deemed to be enough, based on this criterion as they ranged between 0.88 and 0.98.

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<sup>59</sup> Guilford, J and Fruchter, B, “Fundamental statistics in psychology and education”, [1978]. <https://trove.nla.gov.au/work/8949273>, accessed online: May 2020.

<sup>60</sup> Anastasi, A. “Psychological testing”. 1976. 4<sup>th</sup> ed. Macmillan.

## 4. ANALYSIS

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While this research seeks to report from a African context, the research has deliberately focussed on 10 countries. (Cameroon, Ghana, Kenya, Mozambique, Nigeria, Sierra Leone, Tanzania, Uganda, Zambia, and Zimbabwe).

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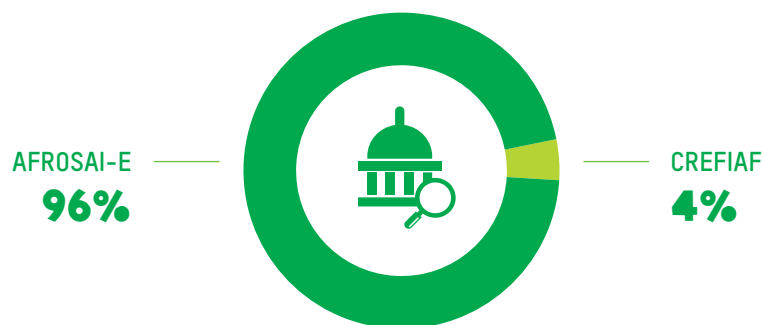
### 4.1 GENERAL INFORMATION

As variable as the demographics of sub Saharan Africa are, equally variant are the SAIs that call this part of Africa their home. SAIs in Africa are part of AFROSAI and

they are further subdivided into AFROSAI-E (for Anglophone SAIs) and CREFIAF (for Francophone SAIs).

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Figure 1: Classification of SAI respondents per AFROSAI member sub regions



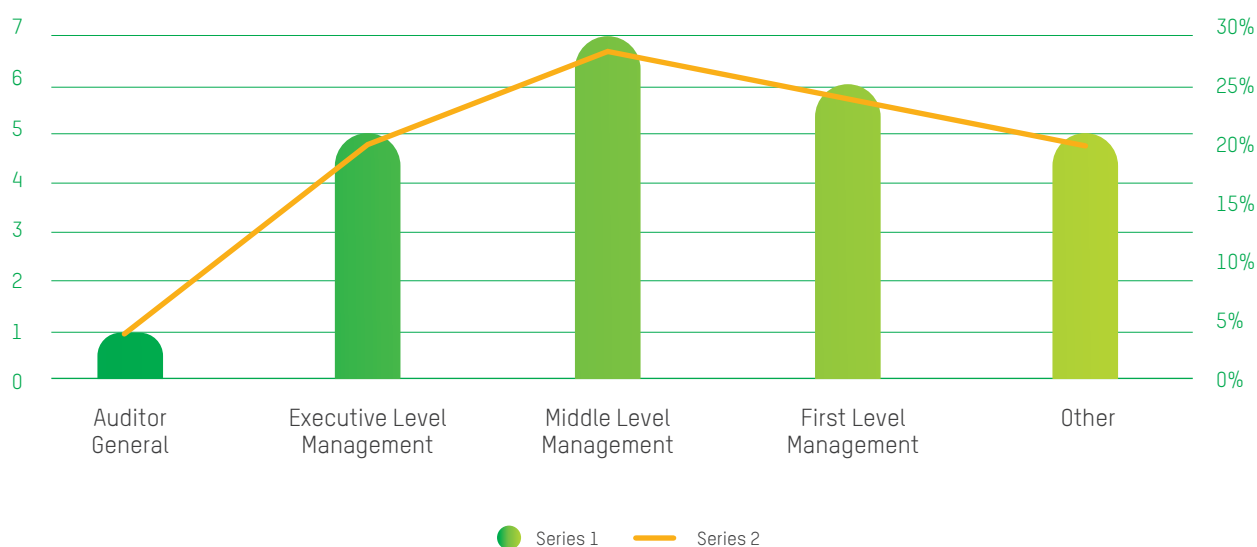
We had responses from both CREFIAF (4%) and AFROSAI-E (96%) member SAIs. What is key to note at this stage, is that although the AFROSAI members are further subdivided into Anglo and Franco phone, they still all aspire to the same values and norms as espoused in the INTOSAI Lima declaration of 1977. The Lima Declaration was signed during the IX

INCOSAI in 1977, in Lima, Peru. This document is considered as the Magna Carta of government auditing, as it laid the foundation of public control. The declaration points out fundamental areas for audits and audit institutions, which are necessary for achieving independent and objective results.

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<sup>61</sup> United Nations, "Political definition of "Major regions", according to the UN". Archived from the original on 20 April 2010. Retrieved 25 May 2020.

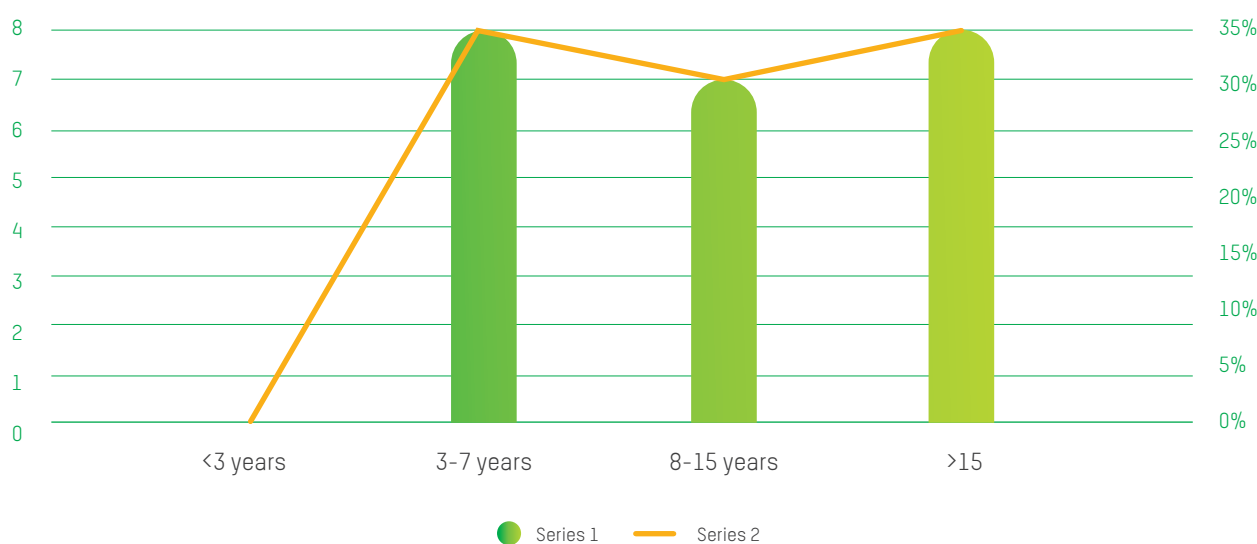
**Figure 2: Position of responsibility at the SAI of respective respondents**



This paper attempts to address matters which are perceived to be both strategic and operational by nature. The hierarchical level and amount of experience by years in the SAI environment of the respondent is important. The higher up the organisational ranks the respondent is, the more likely it is, that they are aware of strategic matters affecting the SAI. Whilst the opposite is true, the lower the rank of the respondent the more familiar they are with some operational matters which affect audits in the field. Approximately 54% of respondents are Auditors General, executive, and middle

level of management, who are perceived to possess a very high understanding of strategic issues within the SAI environment. It is also noted that 46% of the respondents are first level management and "Other". Our review of those who classified themselves as "Other" and went on to specify their roles at the SAI reveals that they are low ranking SAI staff. These would be expected to have greater insights on operational matters affecting the production of SAI audits as they are directly performing audits in the field.

**Figure 3: Level of experience in a SAI environment of respondent**



The level of experience of responses in the SAI environment as per Figure 3 indicates that 100% of respondents have over 3 years of experience whilst 65% have over 8 years' experience in the environment. From a combined review of the hierarchical and level of experience of the respondents, it is concluded that the research obtained response and feedback from an equitably balanced cohort of respondents who have adequate strategic and operational views to the subject matter being researched on.

## 4.2 THE EXTENT OF AUDITS BEING PERFORMED BY SAIs

Based on the literature review, the fact that SAIs have a constitutional mandate and a public expectation to perform audits in the EI sector is a well known phenomenon. The

knowledge gap which has been established by the literature review is to what extent and in what way are SAIs meeting these Constitutional and civil obligations as per stakeholder expectation. This research has taken cognisance of a dichotomy within this knowledge gap.

The first aspect is that for SAIs to fulfil their mandate and meet stakeholder expectations vis-à-vis the extractive industries sector, first they need to have performed relevant and value adding audits. Literature review has indicated that SAIs do perform more audits than they actually report on for reasons known best to them of which this research has not taken the liberty to pursue. The second aspect is that merely performing an audit by SAIs and not making the report public is defeating to the end of having such an institution having pursued audits in this area. The research analysis seeks to find satisfaction through analysis of both these situations.

Figure 4: Audits performed by SAIs in the past 3 years



The research has revealed that in the past 3 years, 87% of the SAIs being represented have done audits in the extractive industries sector in their countries. This represents a fairly high level of audit activity in the extractive industries

sector in Africa. It can be concluded that many SAIs are performing audits in the extractive industries towards meeting their constitutional and civil obligations as per stakeholder expectation.

Figure 5: Nature of audits being performed by SAIs



As per literature review, in its framework of pronouncements, INTOSAI recognises three types of audits (performance, financial and compliance). However, in practice, it is noted that practitioners classify IT and special audits as standalone audits. Special audits are usually driven by purpose, as they are in the simplest form “agreed upon procedures”. According to respondents, 46% of the audits which SAIs are performing in the extractive industries in their countries are Compliance audits by nature. This represents the highest types of audits being performed followed by Performance audits at 38%. It is peculiar to note that INTOSAI Standards on Compliance audit were effectively introduced

to SAIs in the year 2016. Compliance audits seek to report on compliance with laws and regulations under a specific audit subject matter. Within 4 years of having ISSAI 4000, most SAIs are finding this compliance audit standard as the preferred response to audit risks identified in the extractive industries. Since SAIs are performing risk-based audits as revealed by Figure 8, it can be concluded that most risks within the EI sector in Africa are linked to compliance with laws and regulations within the extractive industries sector. It is important to note that auditors are and have been performing audits across the entire spectrum of the three types of INTOSAI audits.

**Figure 6: Average rate of audits being performed by SAIs per audit cycle**

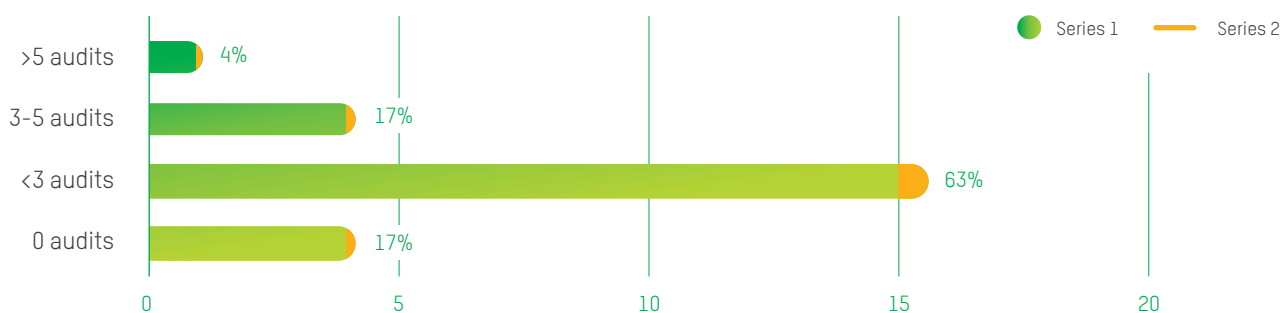
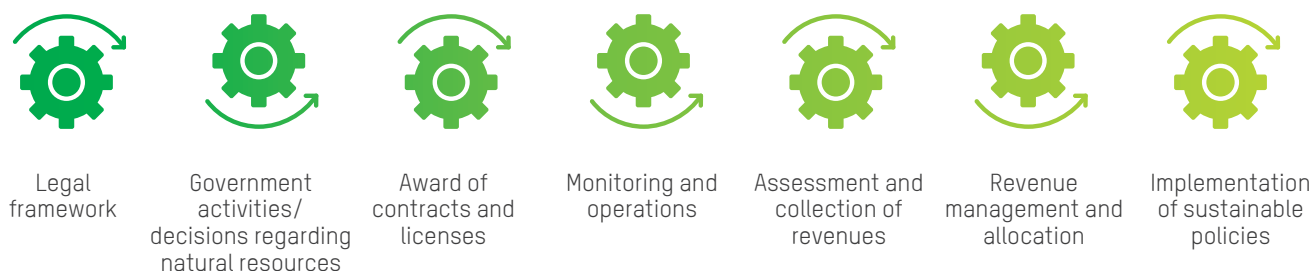


Figure 5 on the nature of audits being performed in the past 3 years has indicated that approximately 84% of audits being conducted in the extractive Industries are either Compliance or Performance audits. These are viewed as non-traditional audits as traditionally SAIs would focus more of financial audits. As non-traditional audits, most SAIs are still building human resource capacity to perform these audit disciplines as supported by research finding Figures 10 and 11.

Figure 5 established the capacity and efficiency of SAIs to perform Compliance and performance audits in the extractive industries.

Figure 6 on the average rate of audit performance, it is noted that the majority of SAI at 63% of respondents do not have the capacity to perform more than 3 audits in the extractive industries in their countries per audit cycle. It is notable that 17% of respondents revealed that their SAIs do not have the capacity to perform a single audit in the extractive industries sector. It can be concluded that there is a direct link between the rate at which SAIs are doing EI sector audits and the nature of the audit. The more non-traditional the audits being pursued are, the less audits performed per audit cycle.

**Figure 7: Parts of the 7 Step EI value chain being audited by SAIs**



Literature review has dwelled significantly on the AFROSAI-E Extractive Industries seven step Value Chain. This seven-step value chain, most African SAIs use as a way of framing their risk assessment of the extractive industries sector in their countries. By using this value chain, SAIs have a logical approach to risk assessment which ensures a rigorous assessment of the extractive industries in their countries. Based on the respondents the bulk of audits being performed in the extractive industries are in "Monitoring of operations" (17%) and "Assessment and collection of revenues" (20%). On average, 12% of audits being done are spread evenly along the other 5 steps of the EI value chain. The stage of the value chain being audited most also talks directly to the nature of audits being performed as per Figure 5. It can be concluded that the concentration of audits being performed by SAIs is significantly skewed to two steps of the EI values chain, as such there is a risk that the other steps of the value chain

are not getting adequate audit attention to the detriment of the entire value chain.

There is no one step of the EI value chain that is more important than the other as they work in concert. Considering the very few numbers of audits being performed per audit cycle as per Figure 6 which are less than 3. There is a high probability that some aspects of the EI value chain have gone unaudited for several audit cycles. This has the potential of weakening the ability of nations from exploiting their EI sector fully since the EI value chain works as a system. Of particular concern is the "Legal framework" step (12%) and the "Government activities/ Decisions regarding natural resources and exploration" step (12%) of the value chain where the least audits have been done. This is concerning as they are the foundation steps to establishing a robust extractive industries sector which is beneficial to the citizens of the country.

**Figure 8: Audit engagement trigger sources for SAIs**

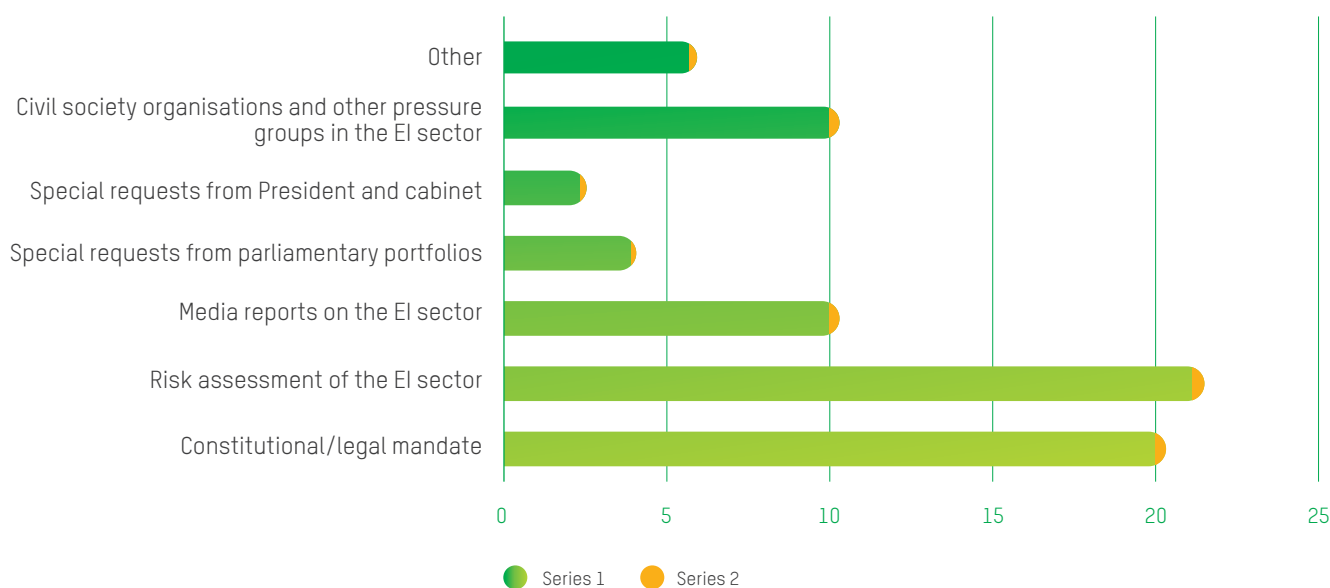


Figure 7 depicts the steps of the EI value chain being audited. Whilst there is a clear desire by SAIs to perform audits in "Monitoring of operations" (17%) and "Assessment and collection of revenues" (20%). It is paramount to establish what really triggers these audits as the audit trigger does have to a great extent influence on what, where and when an audit is going to be performed in the extractive industries sector.

Based on research findings represented in figure 8, 29% of SAI audits are being triggered by risk assessments along the EI value chain and this represents the most common trigger. It is also notable that 28% of respondents believe that audits are triggered by the constitutional mandate. Whilst the constitutional mandate is generally broad, it would rarely influence the specific subject matter and consequently the step in the value chain being audited.

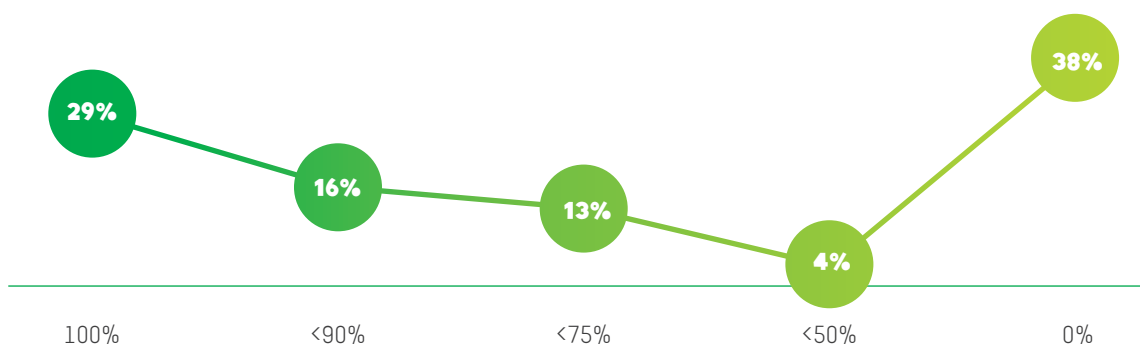


Whilst it is generally accepted that SAIs do follow a risk-based audit approach. There seems to be a low participation by parliament in requesting SAIs to do specific audit reports at 4%. Combined with Media reports on the EI sector (14%) and Civil Society Organisations and other pressure groups in the EI Sector (14%). These trigger sources are representative of the main SAI report stakeholders, the

citizens. It can be concluded that in as much as SAIs do follow their risk-based approach as the primary trigger to audit engagements, SAIs have shown a great sensitivity to considering other audit engagement trigger sources. This has the potential effect of enriching and improving the relevance of their audit provided that their risk assessments are accurate and complete.

### 4.3 CHALLENGES OF PERFORMING, REPORTING AND PUBLICISING EI AUDITS

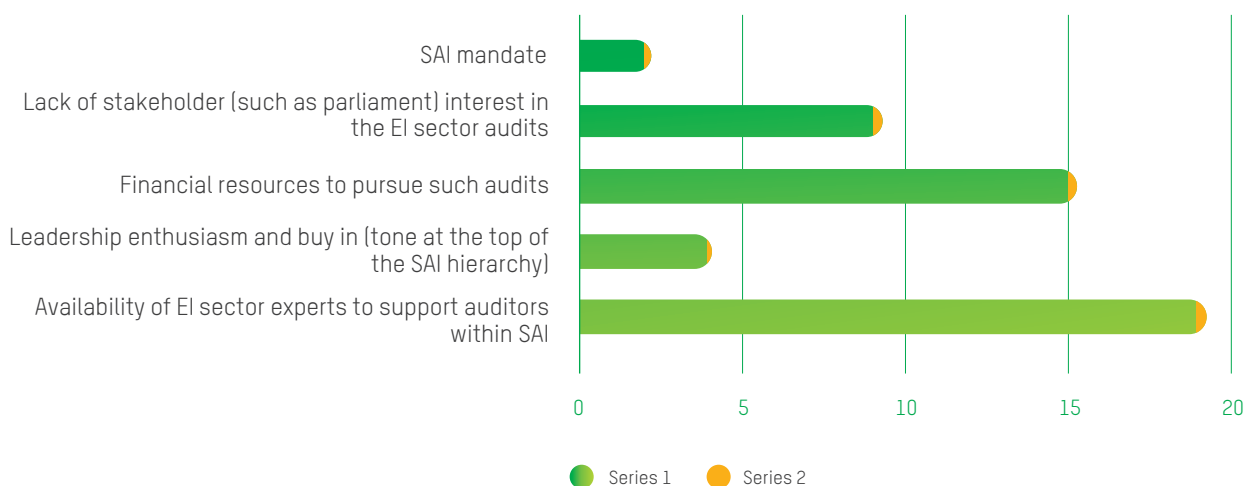
Figure 9: Percentage of Audit reports tabled in parliament by SAIs



The second aspect of the dichotomy is that merely performing and audit by SAIs and not making the report public is defeating to the end of having such an institution having pursued audits in this area in the first place. The pressure for SAIs to perform, report and make public their audits in the EI sector should ideally be driven by their constitutional mandate. Research reveals as represented in Figure 9 that only 29% of the SAIs have reported and made public all the audits they have performed in the extractive industries

sector. It seems we have more audits being performed and not being made public by 38% of the SAIs represented. The analysis reveals that whenever a SAI performs an audit in the extractive industries sector, there is a higher probability that audit report is not going to be made public by tabling it to parliament. Could this shyness by the SAIs to report on their work be more internally motivated than they are externally attributable?

Figure 10: Nature of challenges being faced by SAIs when performing EI audits



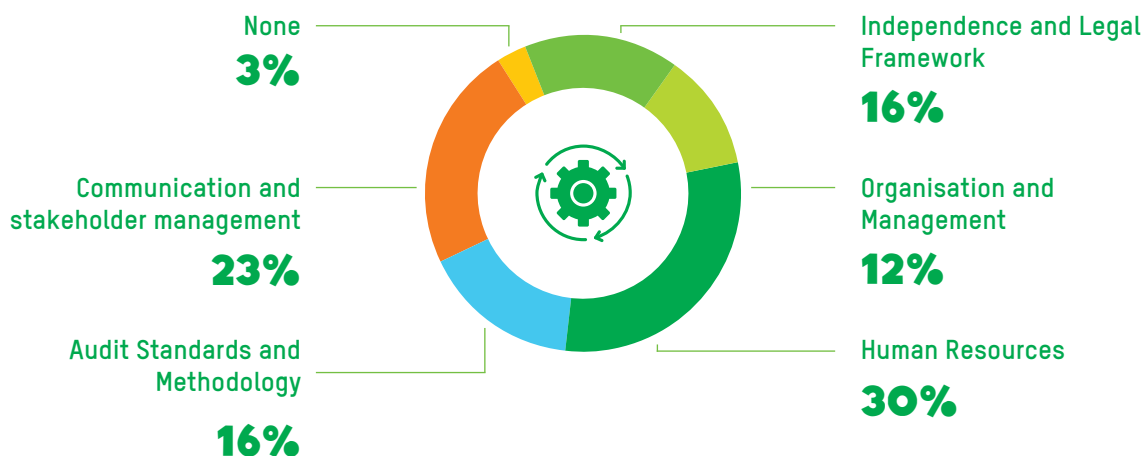
It is evident from this research data and analysis that although SAIs are performing audits in the EI sector as depicted by Figure 4. SAIs are not performing many audits by number in the EI sector. The few audits that are being pursued are concentrated on two areas of a 7-step EI value chain (See Figure 7). Over and above that, the few concentrated audits being performed have a higher probability of not being made publicly available by tabling through parliament. SAIs are evidently facing challenges in the performance, reporting and publicising of quality and numerically sufficient audit reports performed in the EI sector of their countries.

Figure 10 shows the nature of challenges and it shows that availability of EI sector experts to support auditors within SAI at 39% is seen as the greatest contribution to SAI challenges in performance, reporting and publicising of audit reports. This is followed closely by financial resources to pursue such audits at 31%. Combined, these two factors represent 70% of the reasons SAIs are struggling in this area of auditing the extractive industries sector. It is however interesting to

note that respondents postulate that a “Lack of stakeholder (such as parliament) interest in the EI sector audits” (18%) is one of the contributory challenges SAIs are facing. This becomes interesting since Figure 8 has indicated that 32% of SAIs consider stakeholder areas of interest as trigger sources for their audit engagements. If civil society is not interested in the EI sector according to SAIs, this becomes a direct deprivation of a significant trigger source for audit engagements in the EI sector.

A well-known and carried myth as per literature review is that SAIs do not perform, report, and make public due to an inadequate constitutional mandate supporting the SAIs. This research has debunked this myth as only 4% of the respondents have singled out insufficiency of the SAI mandate as a challenge. Over and above that, Figure 8 shows that 28% of respondents submit that audits by SAIs in the EI sector are triggered by the constitutional mandate, which is the second recognised trigger source for audit engagement as per this research.

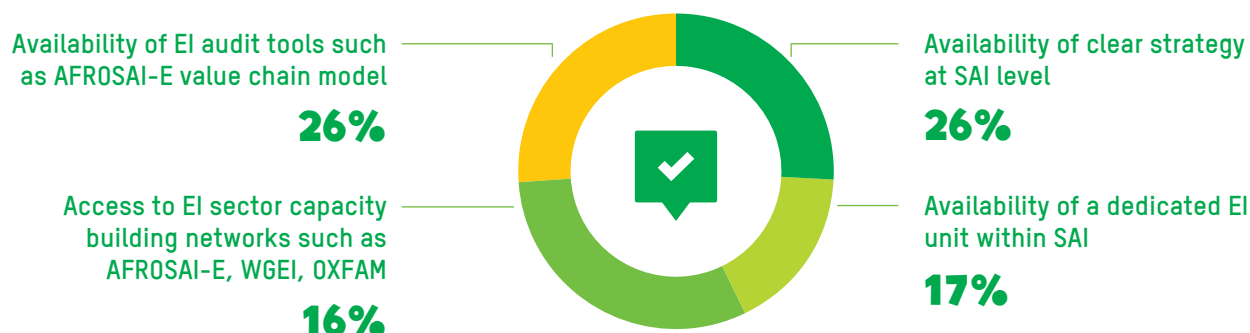
**Figure 11: Institutional capacity building areas to address SAI EI audit capacity needs**



As per Figure 10, most of the challenges SAIs are facing in their quest to meet their constitutional mandate and meet stakeholder expectation are internal organisational issues. The research has gone a step further to establish which aspects of the SAI structures need capacity building for SAIs to perform, report and publicise more relevant audit reports. Research reveals that 30% of respondents submit that the human resources aspect of the SAI needs to be capacitated. This is also supported by results from Figure 10 which indicated that “Availability of EI sector experts to support auditors within SAI” is the main challenge SAIs are facing.

An interesting development from Figure 11, is the submission that SAIs need more capacity building in “Independence and legal framework”. At face value, this seems to contradict the debunking of the “Inadequate SAI mandate” myth. However, this is not so, as this capacity variable does not consist of the SAI mandate only. It also talks to the independence of SAIs. Literature review has indicated that the extractive industries is an area which is complex and riddled with corruption. To be able to respond adequately to corruption SAIs need to be capacitated to become more independent.

Figure 12: Identified audit success drivers



This research does recognise that SAIs have experienced some success in the audit of extractive industries. According to figure 12, 57% of the main success factors have been linked to the continued capacity building of the SAI. SAIs having “Access to EI sector capacity building networks such as AFROSAI-E, WGEI, OXFAM” and SAI having available to them EI auditing tools have assisted SAIs in delivering on their mandate. Good planning in the form of having a clear strategy at SAI level on how to approach these audits seems to be a winning formula too.

#### 4.4 IMPACT OF AUDIT PUBLICISED REPORTS

Conventionally, audit reports are only as good as they can be utilised by the end users. In this regard the end users range from public, government agencies, parliament, and the civil society. This differs from country to country, but the intention is to have these end users to familiarise and

engage with the audit findings. The principal of the public sovereignty of the mineral resources - extractive resources are juridically owned by the public and often only held in trust, by the government - rationalises the need for all EI audits to be made public. Additionally, where EI audit reports are made, they must make sense to the public, as the office is directly accountable to the public, through the relevant overseer such as Parliament.<sup>62</sup> To assess the extent to which SAI audit recommendations from their audits in the extractive industries sector have been implemented by stakeholders, a two tier approach is adopted. This two tier approach advances that perspectives should be gathered from both the producers of the reports (SAI auditors) and the users of the same reports (stakeholders).

Section 4.1 has already discussed to satisfaction the demography of SAI respondents to this research. As per the literature review, several users of the SAI audit reports exist.

Figure 13: Nature of EI sector Stakeholder respondents



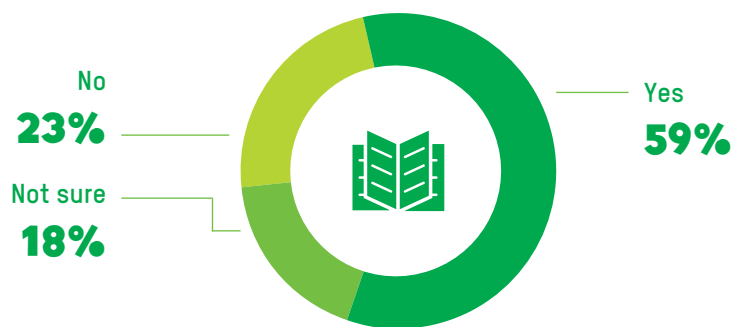
<sup>62</sup> Supra note 50.

The respondents to the research are depicted as per Figure 13 above. It is noted that the bulk of the respondents are “Special Interest Group (e.g. CSO/NGO)”. Supposedly this dovetails with the interest in extractive industries that has been revealed by the research as per Figure 8 which shows how valuable an audit engagement trigger source these special interest groups are. Further more, when this respondent group was invited via a structured questionnaire (A method described in Chapter 3 of this research) to rate the importance of good governance in the public management of the extractive industries sector in the development of

their country. All of the “stakeholder” respondents where of the nortion that the extractive industry is very important to the development of their countries – having all chosen the maximum rating of 5 on a likert scale (Refer to Question 2 of “Stakeholder Respondent” questionnaire in Annex 6.2).

It can be concluded that the demography of “stakeholder” respondents to this research represents of a sufficiently knowledgeable and EI sector interested cohort. This cohort is in a position to contribute to the analysis, conclusions and recommendations to the research objectives.

**Figure 14: Extent of EI sector stakeholder awareness of existence of published SAI Reports**



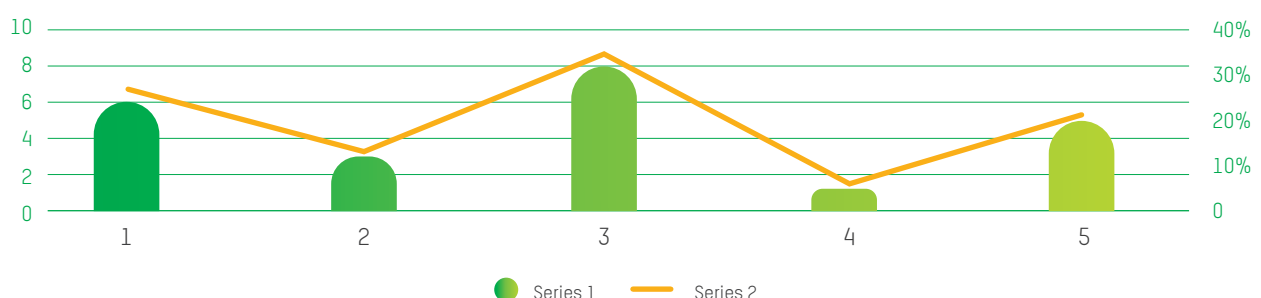
According to Figures 6 and 9, SAIs at most are performing less than 3 audits per audit cycle and of which only 29% of SAIs are reporting and making public 100% of the audits they have pursued. This research has concluded these statistics are indicative that there is need for SAIs to perform and publish more audits to improve the transparency and accountability in the extractive industries sector.

Despite these conclusions, figure 14 depicts that 59% of stakeholders in the EI sector have indicated that they are aware of publisized SAI audit reports in the EI sector. This could be signalling a certain level of disconnect between the SAI and stakeholder communication.

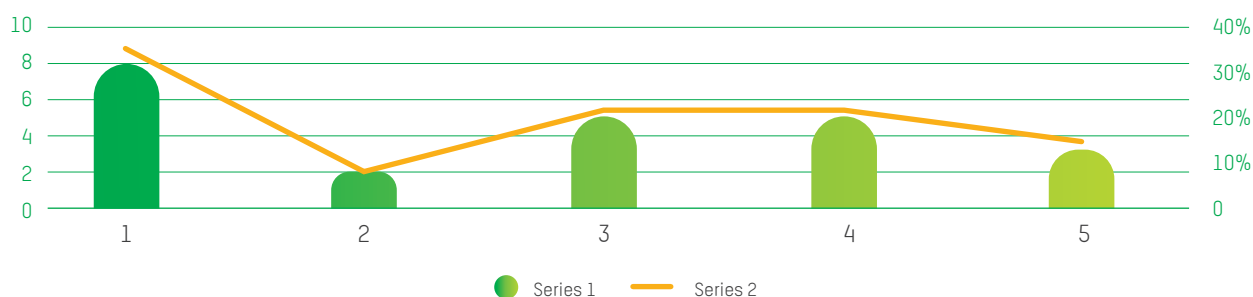
#### 4.4.1 TRIANGULATIONS OF STAKEHOLDER AND SAI AUDITOR PERCEPTIONS

To assess the extent to which SAI audit recommendations from their audits in the extractive industries sector have been implemented by stakeholders, a two tier approach is adopted. Perspectives should be gathered from both the producers of the reports (SAI auditors) and the users of the same reports (stakeholders). The research has managed to triangulate perceptions from SAI auditors and stakeholders on the impact of SAI audit reports on the transparency and accountability in the EI sector.

**Figure 15: Percieved impact of audit reports on the EI sector**



**Figure 16: Rate of audit recommendation implementation by SAI auditees in the EI sector**



From a SAI auditors perspective, the impact of EI audits is evidenced by the extent to which auditees implement their audit recommendations. This is further supported by the changes or rather improvements in transparency and accountability that are then experienced in the EI sector as a result of implementing these recommendations. As such, a positive correlation is expected between implementation of audit recommendations by auditees and the perceived impact of SAI audit report. In essence, the more SAI audit recommendations are implemented by auditees, the more impactful SAI audit reports are viewed to be.

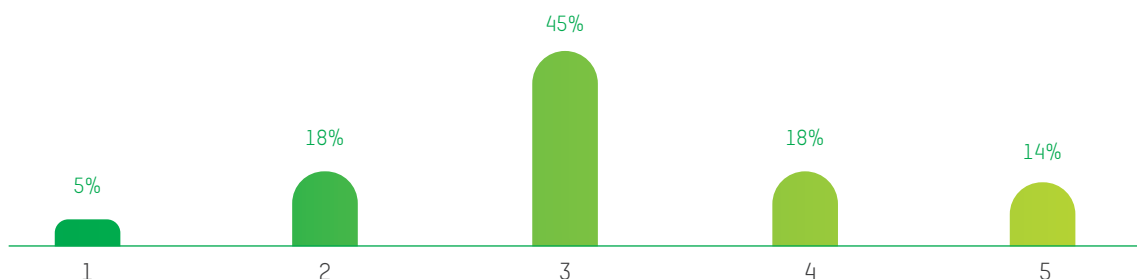
The juxtaposed Figures 15 and 16 are SAI auditor perspectives on the impact of their audits and the rate at which their audit recommendations are being implemented

by their auditees. It is noted that the majority of SAI auditors (65% having ranked 3 and below on the likert scale) are of the submission that their auditees are not implementing their audit report recommendations. This is in line with the rationale of their ultimate conclusion whereby the majority have since concluded that their audits have not been very impactful as indicated by 74% of SAI auditor respondents having ranked 3 and below on the likert scale.

**THREE-WAY TEST OF SAI AUDIT REPORT IMPACT**

The three way test puts into consideration the stakeholder perceptions on the Usefulness, Effectiveness and Relevance of SAI audit reports in the EI sector. The efficacy of these three have been discussed in depth as per the literature review.

**Figure 17: Perceptions on the usefulness of published SAI Reports by EI sector stakeholders**



As per Figure 17 on the Likert scale, 77% (having given a 3 to 5 ranking) of stakeholder respondents are of the opinion that the audit reports by the SAIs are indeed useful. The usefulness of the reports is enshrined in how stakeholders are finding utility in their availability.

In contrast, stakeholders are of the submission that these useful SAI reports are not as relevant as they would want them to be. Figure 18 depicts a 77% (having given a 3 to 1 ranking). This could be linked to the results depicted in Figure 7 which reveals that SAI have been focusing on two areas in a 7 step EI value chain. This lack of focus could be the reason why SAI audits reports are not being viewed as relevant.

**Figure 18: Perceived Relevance of published AG reports**

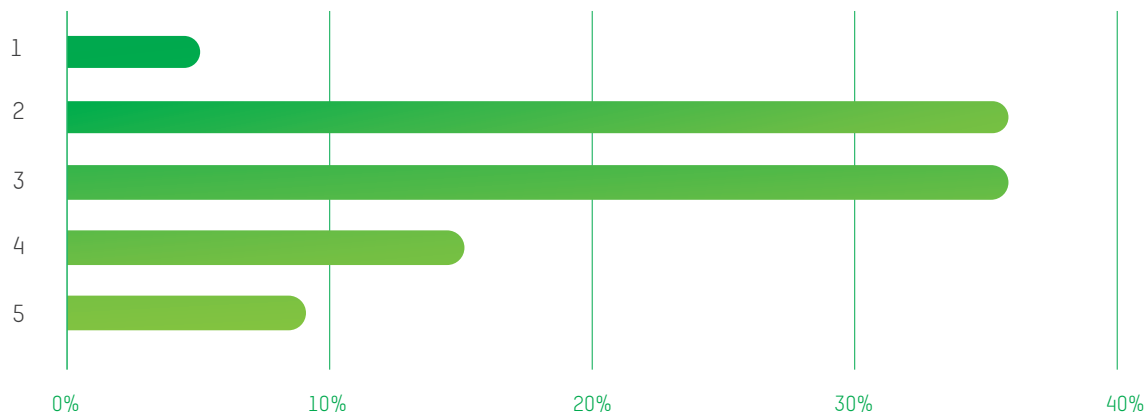
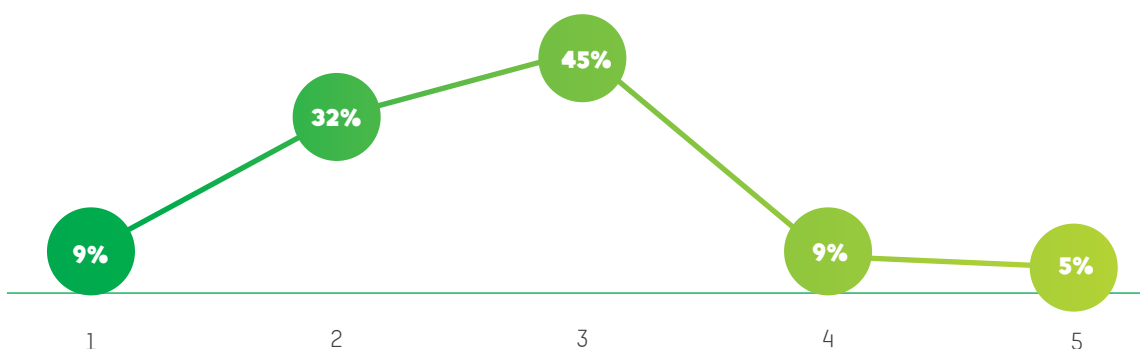


Figure 19 indicates that stakeholders are of the opinion that SAI audit reports in the EI sector are ineffective. With 86% respondents having given a 3 to 1 ranking on the Likert scale. It can be concluded that although stakeholders are

finding some utility in the SAI reports being published on the EI sector. SAI reports are viewed as generally irrelevant and as such they are not effective in the improvement of transparency and accountability in the EI sector.

**Figure 19: Perceived effectiveness of SAI reports by EI sector Stakeholders.**



In conclusion, the triangulations of stakeholder and SAI Auditor perceptions on the impact of SAI audit reports on the transparency and accountability in the extractive industries sector reveals that both the SAI auditors and

the stakeholders are of the opinion that these reports are not making a significant impact. The most notable reasons behind the lack of impact can be traced and linked to the fact that:



The rate of producing and publishing audit reports by SAIs is very low per audit cycle.



For the few audits that the SAIs are performing and publishing, their auditees are largely not implementing the recommendations.




SAIs are not performing audits equitably throughout the 7 step EI value chain and as such the relevance of their audits is being negatively affected.


# CONCLUSIONS AND RECOMMENDATIONS


This research paper aims to obtain an understanding of SAI practices in auditing the extractive industries and explore potential mitigating factors that are negatively impacting on the efficiency and effectiveness of SAI EI audits across various African countries.


## 5.1 CONCLUSIONS

From the analysis performed and towards identifying what audits (by type and nature) SAIs have been conducting in the extractive industries sector, the following conclusions are made:

- 

Most SAIs have the basic capacity and are seen to be performing audits in the extractive industries towards meeting their constitutional and civil obligations as per stakeholder expectation. However, the number of audits being performed per audit cycle are numerically insufficient to fully compliment the EI sector audit needs towards effective transparency and accountability of the sector.
- 

SAIs follow a risk-based approach as the primary trigger to audit engagements. SAIs have shown a great sensitivity to considering other audit engagement trigger sources such as media reports, civil society and parliament requests albeit in modest proportions. This has the positive potential effect of enriching and improving the relevance of their audit provided that their risk assessments are accurate and complete.
- 

The concentration of audits being performed by SAIs in the EI sector is significantly skewed to two steps of the seven step EI values chain "Monitoring of operations" and "Assessment & collection of revenues". As such there is a risk that the other five steps of the value chain are not getting adequate audit attention to the detriment of the entire value chain. The EI value chain works as an interdependent system with no one step assuming a "self-contained" status.
- 

Most SAI risk assessments indicate that significant risks within the EI sector in Africa are linked to compliance with laws and regulations within the extractive industries sector.

It is important to note that auditors are and have been performing audits across the entire spectrum of the three types of INTOSAI audits. Of which, 84% of audits being conducted in the extractive Industries are either Compliance or Performance audits. These are however viewed as non-traditional audits as Westminster styled SAIs are more capacitated to perform financial audits and have been doing so for the greater part of their existence.

5

As SAIs are developing their capacity to perform Compliance and Performance audits, there is a direct link between the rate at which SAIs are doing EI sector audits and the nature of the audit. The more non-traditional the audits being pursued are, the less audits performed per audit cycle.

Towards assessing the impact of SAI audit reports on the transparency and accountability in the extractive industries sector, the following conclusions are made:

1

Whenever a SAI performs an audit in the extractive industries sector, there is a higher probability that the audit report is not going to be made public by tabling it to parliament for various internally motivated reasons which range from the quality of the audit to its timeous conclusion.

2

Despite the weaknesses in making reports publicly available, a slight majority of stakeholders in the EI sector have indicated that they are aware of some and not all publicized SAI audit reports in the EI sector. This could be signalling a certain level of disconnect between the SAI and stakeholder communication.

3

Both the SAI auditors and the stakeholders are of the opinion that published SAI audit reports in the EI sector are not making a significant impact. The most notable reasons behind the lack of impact can be traced and linked to the fact that:



The rate of producing and publishing audit reports by SAIs is very low per audit cycle



For the few audits that the SAIs are performing and publishing, their auditees are largely not implementing the recommendations therein



SAIs are not performing audits equitably throughout the 7 step EI value chain and as such the relevance of their audits is being negatively affected as viewed by their stakeholders.

Towards establishing the SAI conditions that provide for the timely planning, execution, and reporting of an audit in the extractive industries, the following conclusions are made:

1

Several African SAIs have experienced some success in the audit of extractive industries by timely planning, executing, and publicly reporting of such audits.

2

The main success factors have been linked to the continued capacity building of the SAI personnel performing EI audits and SAI independence.



3

SAIs having “Access to EI sector capacity building networks such as AFROSAI-E, WGEI, OXFAM” and SAIs having available to them EI auditing tools have assisted SAIs in delivering on their mandate to timely planning, executing, and publicly reporting of such audits.

4

Good planning which includes prioritisation of resources in the form of having a clear strategy at SAI level on how to approach these EI audits seems to be another conditionality for the timely planning, execution, and reporting of an audit in the extractive industries.

Towards the establishment of the constraints to timely planning, execution, and reporting of an audit in the extractive industries the following conclusions are made:

1

The unavailability of EI sector experts to support auditors in their performance, reporting and publicising of EI audit reports is submitted as the greatest constraint to SAIs.

2

The availability of financial resources to pursue such audits at SAI level is viewed as the second greatest constraint to SAIs meeting their constitutional duties regards EI audits.

3

The “Lack of stakeholder (such as parliament and civil society) interest in the EI sector audits” is one of the contributory challenges SAIs are facing.

## 5.2 RECOMMENDATIONS

The following recommendations are put through:

SAIs should deliberately capacitate themselves and prioritise available resources to perform more quality and

relevant audits in the EI sector. These audits should be timely planned, executed and publicly reported within a particular audit cycle. SAIs can consider performing the following towards capacitating themselves:

1

Periodically perform a risk assessment of their country EI sector along the EI value chain using various risk assessment tools available to SAIs through INTOSAI working groups and EI linked institutions once every three years. Towards enabling the risk assessment process to identify relevant risks. The assessment should be done in consultation with various key players and stakeholders in the country EI sector.

2

Develop an EI risk assessment risk register which is reviewed for relevance annually until it is updated once every 3 years via a periodic risk assessment.



3

Develop and implement a 3 to 5-year strategic plan to respond to the risks identified through the country EI sector risk assessment. The strategic plan should consider capacity building initiatives that are required for the SAI to respond adequately to the identified risks. Capacity building initiatives should include areas such as Human Resources, Communication and Stakeholder Management amongst other.



4

As part of implementation of the 3 to 5-year strategic plan, SAIs should deliberately include in their annual plan an intention to plan, perform and report publicly at least more than 3 audits in the EI sector per audit cycle. The number of SAIs performed per cycle can be increased and improved through a SAI maturity model which is linked to the 3 to 5-year strategic plan.

Stakeholders in the EI sector should deliberately support SAIs to perform more quality and relevant audits in the EI sector. Stakeholders may consider performing the following towards supporting SAIs:



1

Other governmental agencies should enact/institute internal policies that compel their officials to share critical EI- related information with the SAIs so as to enhance the veracity of audit reports. Besides the policies, interagency rapport can be nurtured especially by the senior government officials.



2

Parliaments across Africa have a responsibility to oversee prudent governance of the EI sector. Therefore, parliament needs to engage with the audit reports more proactively and not shelving of audit reports even when malfeasances have been detected. The civil society may play a role in compelling parliament to act when need arises.



3

Anti-corruption agencies where applicable, should show greater proactivity in pursuing culprits as flagged by the audit reports. This helps to set precedents about sanctioning and would be a useful deterrence to potential malpractices by extractive industries.



4

Different stakeholders working together (after identifying each other) can be able to create a forum amongst themselves which annually tracks and comments on the nature and timing of SAI audits and implementation of audit recommendations by auditees.



5

Stakeholders should show a keen interest in government and parliamentary affairs which impact on the independence of the SAI. Of particular interest should be the bolstering and maintenance of SAI operational and financial independence.

6

Different stakeholders should participate in the periodic SAI risk assessment process of the country EI sector along the EI value chain. Whilst the extent of participation will be determined by the SAI, the stakeholders should commit to be involved as much as possible.

Together, SAIs and key players & stakeholders in the EI sector should coordinate and collaborate towards improving transparency and accountability in the EI sector of their countries. The following areas of coordination and collaboration can be considered:

1

SAIs should invite stakeholders and key players in the EI sector to participate and meaningfully participate in their periodic risk assessment of the country EI sector along the EI value chain.

2

Stakeholders and key players in the EI sector should invite SAIs to participate in their forum which discuss issues in the EI sector of their countries.

3

Post the parliamentary report tabling process, SAIs should share their audit reports directly with stakeholders and key players in the EI sector and solicit for their comments where possible.

4

Sharing of strategic information should be encouraged between SAIs and Stakeholders & key players in the EI sector. These include SAI strategic plans, Stakeholder research documents and so forth.

## 6. ANNEXURES

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### INTRODUCTION

Below is a country summary of the 10 African countries (Cameroon, Ghana, Kenya, Mozambique, Nigeria, Sierra Leone, Tanzania, Uganda, Zambia, and Zimbabwe) which the research has chosen to place specific focus on towards meeting the aims of this research paper which are to obtain an understanding of SAI practices in auditing the extractive industries and explore potential mitigation factors for that are negatively impacting on the efficiency and effectiveness of SAI EI audits across various African countries. The summaries are deducted from the qualitative and quantitative data obtained through the methodology as per Section 3. of this research.

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### 6.1 INDIVIDUAL COUNTRY SUMMARIES

#### SIERRA LEONE



Based on the analysis of data and literature review, Sierra Leone has substantial natural resource wealth with large-scale production of iron ore, diamonds, rutile, and bauxite as well as small-scale and artisanal mining of gold and diamonds. The country possesses one of the largest rutile reserves in the world.<sup>63</sup> If Sierra Leone's diamond industry – much of which is smuggled out – is to make a positive contribution to the socio-economic development of the nation the collection of revenues from the sector will need to be well monitored.

The World Bank estimates that the value of diamonds smuggled out of the country each year is now between 50 and 90% of total production. The Mines and Minerals Act, 2009 sets out royalties payable-15% for special stones, defined as those precious stones whose market value is above five-hundred thousand United States Dollars, 6.5% for precious stones, 5% for precious metals and 3% for all other minerals. However, many companies have been noted to be paying lower royalties than stated out in legislation.<sup>64</sup> This paper was not able to establish the criteria used by the government to grant these kinds of royalty concessions, or if at all it is legal for the companies to self-discount in the manner.

Although the NRA (National Revenue Agency) has received significant capacity building by the setup of a specialised unit - Extractive Industries Revenue Unit<sup>65</sup> – the office of the auditor general (SAI) has limited capacity to effectively audit the proceeds of the sector. There has been a keener interest by the public in the mining sector, compelling the government to conduct regular sector audits. This is a clear case of the principle that illustrates the clear nexus between public interest/awareness and the effectiveness of institutions. After experiencing a lengthy civil war, the citizens began realising the true potential – especially in alleviating poverty – of the country's minerals. They became more aware of their own agency in shaping the sector and the associated benefits. It is on this premise that

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<sup>63</sup> <https://eiti.org/sierra-leone>

<sup>64</sup> Extractive Hub, "Fiscal Regimes", <https://www.extractiveshub.org/topic/view/id/20/chapterId/36>, Accessed online: October 2020.

<sup>65</sup> Ibid

## SIERRA LEONE - CONTINUED

some stakeholders in the country have observed challenges such as lack of political will to engage with the audit processes.

This is evident because it has been observed that once Parliament has deliberated on audit reports from the SAI there is very little traction of the recommendations that arise. Other consumers of the reports such as the civil society have decried the low interest by the executive and relevant government agencies to effectively engage with the audit reports. In the latest compliance audit conducted in 2019 on the management of the issuance of exploration licenses, a follow up audit was expected to be done but shelved and the issues raised in the initial report continue to prevail.



## MOZAMBIQUE

Based on the analysis of data and literature review, Mozambique is a country that is endowed with large natural resource wealth including coal, rubies, natural gas, mineral and heavy sands, and potential for oil reserves. It is progressively becoming a natural gas major in the continent and globally. Over the years the sector has faced challenges in collecting and appropriating revenues from the sector to develop the country, which still ranks among the lowest-income countries – it ranked 180 out of 189 in the 2019 Human Development Index.<sup>66</sup>

In this regard, revenues from the extractives sector are very critical in sustaining the fiscal capacity of the country. In mid-2018 The Judicial Council of the Administrative Court opined that the failure to conduct regular audits of extractive industry companies had led to a lack of knowledge of the actual costs of companies' activities and other operating expenses. It emphasized that the National Petroleum Institute (INP) had not exercised control over costs designated as "pre-development" costs, which are included in the expenditure and revenues submitted by the concessionaires. Ideally, these are costs that effective regular (or special) audits would have flagged over the years. Additionally, quarterly recovery reports costs related to the extractive industry had not been submitted to the INP. These are findings of three extractive industry audits of the Administrative Court carried out in 2017.<sup>67</sup>

The tax authority, the "Autoridade Tributaria" (AT), has the mandate to administer these fiscal arrangements (on petroleum costs revenues) but the capacity and expertise required are limited according to industry observers. Technical assistance from donors such as Norway has enhanced the quality and regularity of the audit processes but given the sheer number of extractive operations in the country the expertise would need to be enhanced further. INP was criticised by stakeholders largely for not conducting regular cost recovery audit<sup>68</sup> of all oil companies operating in Mozambique – recoverable costs have become a hotbed of fiscal leakages through exaggerated costs by companies.

<sup>66</sup> UNDP, "Human development index ranking", <http://hdr.undp.org/en/content/2019-human-development-index-ranking>, Accessed online: August 2020.

<sup>67</sup> Mozambique Resources Post, "Mozambique Extractive: "Audits reveal failures in extractive industry control", [https://mozambiqueminingpost.com/2018/07/25/mozambique-extractive-audits-revealfailures-in-extractive-\(2018\)](https://mozambiqueminingpost.com/2018/07/25/mozambique-extractive-audits-revealfailures-in-extractive-(2018)) Accessed online on November 2020.

<sup>68</sup> For roughly two-thirds of petroleum producers, the core component of their fiscal regime is the production-sharing contract (PSC), of which the defining feature has been cost recovery. Inflated company expenditures are a major threat to government revenues from oil and gas. The more costs that companies report, the less profits there are to tax, which means less revenue for government. Developing countries stand to lose the most from cost overstatement given their outsized reliance on corporate income tax.

# NIGERIA



Based on the analysis of data and literature review, Nigeria's oil, and gas sector accounts for over 50% of government income and 90% of its foreign exchange earnings. Oil is hence a very important commodity in the country. The SAI in the country continuously conducts revenue audits on the revenues generated from the oil into the Federation Account on yearly basis. Being a major oil producer globally, the country's revenue pipeline is quite complex.

For instance, there has been a practice by the Nigerian National Petroleum Corporation (NNPC) and the Department of Petroleum Resources – oil revenue collecting agencies – to make unauthorised deductions from the collected oil proceeds. This is despite the fact that Section 162 of the Constitution of the Federal Republic of Nigeria 1999 states that payments to be made from Federation Account Revenues should be made by the Federation Account Allocation Committee (FAAC) and not by any collecting Agency.

In fact, the 2017 General Auditor's report recommended the ceasing of this 'take-for-self' practice. Despite the merits of the intended use of the deducted monies by NNPC, the conventional principle that preserves the role of the appropriation of funds for the official allocation agency needs to be respected.

So far, the SAI has conducted top-level audits on revenues received from the NNPC and DPR and not detailed audits on the entire value chain of the oil sector to ascertain whether the country is losing revenues along different points of the chain. By the time of writing this paper, the SAI was in the planning stage to begin conducting this kind of audits on the oil sector.

In October 2020, NNPC published its group-level audited financial statement for the first time in the corporation's 43-year history. The move represents a significant milestone for NNPC – being the main revenue generating organisation in Nigeria – and its vital role in increasing revenue to meet the government's budget constraints.<sup>69</sup>

<sup>69</sup> Murjanatu.Ibrahim. Gamawa, "What NNPC's financial statement shows us – and why it matters", [https://eiti.org/blog/what-nnpcs-financial-statement-shows-us-why-it-matters.\(2020\)](https://eiti.org/blog/what-nnpcs-financial-statement-shows-us-why-it-matters.(2020)) accessed online: January 2021.



Based on the analysis of data and literature review, the Kenyan SAI has got audit mandate over both the mining and hydrocarbon sectors. Since the mining sector has been significantly small until the entry of Base Titanium Company – contributing less than 1% to GDP – there is little historical information that exists on the SAI’s audit on the mining sector. The Office of the Auditor General (OAG Kenya) however indicated that regular monitoring of the mining sector had been going on for several years, mainly on compliance to contractual obligations.

The prominence of the sector emerged after Kenya discovered oil in 2012 and heralded a heightened interest by all stakeholders including the citizens. Despite this newfound interest very few of these stakeholders have much awareness on auditing of the sector or seen any audit report. The audit of the oil operations has been minimal and slow to start, although the Kenya Revenue Authority (KRA) has completed annual desk-based tax audits of all PSCs, as well as two field-based audits per year, since 2014.<sup>70</sup>

In 2018, the Ministry of Petroleum and Mining commissioned the first cost-recovery audit for the two PSCs that had begun a pilot oil production scheme (early oil scheme). The report indicated that the company had accumulated a recoverable bill of USD 2 Billion for work done on the Turkana oilfields. After a closer scrutiny of the report details the government concluded that 8% of the aforementioned amount was not eligible for cost recovery.

The civil society coalition for oil and gas – Kenya Civil Society Platform on Oil and Gas – maintains that the government should have conducted the cost recovery sooner. This is because the public audits have a legal timeframe which means there is a risk some prior financial years of the oil companies may fall outside this timeframe.

Compared to other countries that have a long history of well-established extractive sectors Kenya has done some considerable work in trying to streamline the extractives audit processes. For instance, Oxfam’s Examining the Crude Details Report found the lack of an effective inter-agency collaboration in the country’s upstream petroleum sector revenue management. The KRA, the Ministry of Petroleum and Mining, and the Office of the Auditor General (OAG) all compete to conduct various aspects of audits of the extractive sector. As the governing ministry the Ministry of Petroleum and Mining believes it is responsible for all the audits performed in the sector while the KRA laid claim to conduct all tax related audits. The Country’s SAI on the hand makes reference to its constitution mandate to conduct all forms of audit on the sector (especially on the oil sector since all oil companies in Kenya are on a joint venture with the state oil company – NOCK – and hence a public entity)

As part of efforts to address this challenge the Ministry of Petroleum and Mining, supported by the World Bank, initiated the development of a Commercial Database and Upstream Integrated Economic Planning System.<sup>71</sup> The database was aimed at tracking revenue management of the oil and gas operations and compliance by oil and gas companies. The system could thereby be a platform for sector audits and accessed by other government agencies such as the Kenya Revenue Authority and the National Oil Company of Kenya (NOCK).<sup>72</sup> This would help mitigate the scenario where multiple agencies plan to conduct parallel audits of the same entity.

<sup>70</sup> Oxfam, “Examining the Crude Details Project”, consultant Interview with Kenya Revenue Authority, (April 25, 2018).

<sup>71</sup> Business Today, “Exclusive interview with CS Munyes on mining in Kenya”, <https://www.youtube.com/watch?v=jWCVfU0E9m8>, accessed online: December 2020.

<sup>72</sup> World Bank, “Consultancy Services for Development of Commercial Database and Upstream Economic Planning System”, <http://projects.worldbank.org/procurement/noticeoverview?lang=en&id=0P00048759>, accessed online: December 2020.



Based on the analysis of data and literature review, Uganda is a seasoned mining country with over a dozen minerals actively mined across the country. Despite this somewhat established mining sector, its contribution to the economy remains minimal, contributing less than 1% to the GDP.<sup>73</sup> The new found oil – estimated oil reserves of about 6.5 billion barrels<sup>74</sup> – is expected to significantly change the size of sector in the economy.

Just like in Kenya Uganda is at the development stage with production expected to commence in the next couple of years. The Ugandan SAI has mainly focused on the petroleum sector because the national oil company, Uganda National Oil Company (UNOC) is in a joint venture with the oil explorer, Tullow Oil (The Company in November 2020 sold its assets in the Uganda project to Total<sup>75</sup>).

In 2016, the Auditor General of Uganda disallowed \$80.5 million worth of petroleum costs for all petroleum agreements (PAs) for the period 2004 to 2011. The costs were disallowed on the basis that they did not comply with the terms of the PSCs such as expenditure on exploration areas that are not in oil blocks under consideration.<sup>76</sup> These disallowances indirectly save the government some revenues.

To keep up with the oil developments the Ugandan SAI has evolved quickly as a necessity. In the last couple of years, the staff at the SAI have received various training including on the job training by private audit firm Ernst & Young (specifically on petroleum cost auditing). Initially, the OAG was outsourcing the audits but subsequent technical skills trainings have been undertaken and now there is a dedicated team in the OAG composed of multi-disciplinary staff including; accountants, lawyers and geologists.<sup>77</sup> At the political front the Ugandan parliament has been very active engaging with the oil development discourse, including at one point forming an Ad Hoc committee to oversight over the progress of the sector. Parliament also receives and deliberates on SAI audit reports on the oil operations in the country.

The Ugandan SAI is proactive in some respects such as appeals to other government agencies in charge of managing various aspects of the extractive sector. For instance, in 2019 the Auditor General appealed to the Petroleum Authority of Uganda (PAU) to expedite development of the National Content Monitoring System for the oil and gas sub-sector. The request was contained in the Auditor General's report to parliament for the period ending June 30, 2019. It specifically asked PAU to expedite development of the System for better tracking of National Content achievements by companies sub-contracted by the International Oil Companies [IOCs]. This was contained in a Performance Audit report released in April 2020.

<sup>73</sup> World Bank, "Developing Uganda mining sector", <https://www.worldbank.org/en/results/2013/03/19/developing-uganda-s-mining-sector>, accessed online: November 2020: As of 2010 and since no major new mineral production has come on board the contribution to GDP remains below 1%.

<sup>74</sup> Ugandan National Oil Company, "Exclusive interview with our CEO", <https://www.unoc.co.ug/news-oil-and-gas-sector-in-uganda-an-exclusive-interview-with-our-ceo/>, accessed online: January 2021.

<sup>75</sup> Oil&Gas360, "Tullow completes \$575 million sale of Uganda assets to Total", <https://www.oilandgas360.com/tullow-completes-575-million-sale-of-uganda-assets-to-total/>. Accessed online on November 2020.

<sup>76</sup> Annual Report of the Auditor General on the Financial Statements of the Government of Uganda for the Financial Year Ended 30th June 2016 (Kampala, 2016), p. 17.

<sup>77</sup> WGEI, "The Ugandan experience in the audit of petroleum activities", [http://www.wgei.org/sai-experience/the-ugandan-experience-in-the-audit-of-petroleum-activities/\(2016\)](http://www.wgei.org/sai-experience/the-ugandan-experience-in-the-audit-of-petroleum-activities/(2016)), accessed online: September 2020.



# GHANA



Based on the analysis of data and literature review, Ghana began producing oil and gas relatively recently – in 2010 – and is a small player in the Africa hydrocarbon sector. There are about 700million barrels of recoverable oil while the oil fields are estimated to have up to 6billion barrels of oil reserves. Despite its relatively small size of the oil sector Ghana has raised significant amounts of revenues from the oil and bolstered its domestic resource mobilisation. Auditing of the sector has mainly been conducted by the Ghana Revenue Authority (GRA) on the taxation aspects of all the petroleum agreements (PAs).

Additionally, GRA has so far conducted field-based tax audits<sup>78</sup> of the three PAs (out of 17) that are already producing oil. On the other hand, the Model Petroleum Agreement (2000) gives the Ghana National Petroleum Corporation (GNPC) – the state oil company – the right to review and approve all financial statements submitted by the oil companies in the country. GNPC can also commission an independent national auditing firm to conduct financial audits of oil companies within two years from the submission of any report or financial statement.

Another institution, the Petroleum Commission (PC) is given the right – under the Petroleum Exploration and Production Act (PEPA 2016) – to supervise or inspect petroleum activities to ensure they are carried out in accordance with the act. PC may inspect, test, or audit the works, equipment, operations, records, registers, and financial accounts of a licensee, contractor, subcontractor, or the corporation that is related to or used in petroleum activities. These are largely compliance and performance audits that are aimed to measure the oil companies’ adherence to the petroleum agreements. Based on the foregoing, the question that can be asked is on where the role of the Ghanaian SAI stands. The other three institutions (GRA, GNPC and PU) seem to be in charge of conducting all forms of audits for the extractive sector (oil in this case) with not much reference to the Office of the Auditor General. There also seems to be overlap of functions across the three government agencies.

The Ghana Audit Service is the country’s SAI and has very limited functions as far as extractive sector audits goes, mainly because of the functions that the former three agencies already have. The SAI does verification of petroleum revenues that are remitted from the oil corporations,<sup>79</sup> as well as monitoring the revenues coming from the mining sector. Just like many other SAIs the Ghana SAI faces technical capacity challenges that prevent it from auditing the country’s diversified hydrocarbon and mineral portfolio. Furthermore, the overlap of functions amongst the various government agencies would need to be addressed for the SAI to work effectively: This may call for review of certain institutional legal provisions.

<sup>78</sup> Ghana Revenue Administration Act (2016): Section 36 of the Revenue Administration Act (2016) gives the Ghana Revenue Authority (GRA) the right to audit oil and gas companies for tax purposes. The time limit for audit is six years as per the Act.

<sup>79</sup> Acheampong, T., “Simplified Guide to Petroleum Revenue Management in Ghana”, Public Interest and Accountability Committee, Ghana. (2017).

# ZIMBABWE



Based on the analysis of data and literature review, Zimbabwe has got a rich assortment of minerals: These are mainly gold, platinum, chrome, diamond, coal, and nickel. The mining sector contributed an average of 6.2% to the gross domestic product (GDP) between 2009 and 2015 and 8.4% from 2016 to 2018.<sup>80</sup>

Furthermore, the mining commodities account for about over 50.5% of the country's exports and thus a major foreign currency earner. There is general consensus even within government circles that the mining sector's contribution to the overall development of the country is still below the potential that it could achieve if it is adequately resourced to extract and value-add the mineral resources.<sup>81</sup> This is because, despite the seemingly rich reserve of mineral resources and active production the country's fiscal health has been depressed for many years. This can be attributed to various reasons, ranging from global mineral commodity price volatility to deleterious political activities.

The Zimbabwe Office of the Auditor General is legally mandated to conduct audits on the mineral sector (for revenues collected from the sector) although the office also recognises the limited scope it has in this exercise. Many stakeholders in the country believe there are massive revenue leakages across the value chain especially through illicit financial flows. Despite this apparent need for stronger audits the technical capacity available cannot sufficiently audit all the aspects of the sector. Some stakeholders in the country have been pushing the government to adopt the EITI to help promote transparency and curb the rampant corruption in the mining industry.

ZELA, a local NGO, intimated that the country's information pathways on the sector are limited such that stakeholders such as the civil society and citizens cannot access basic information such as the royalties paid by the mining companies to local authorities and the national government. The NGO further wants to push for the use of independent auditors because many non-state actors have little trust in the SAI.<sup>82</sup> Other stakeholders say there is no clear access to audit reports that the SAI produces on the EI sector. In November 2019, the SAI announced plans to conduct a special audit to ascertain the depth of contribution of the mining sector to national development and citizens' benefit. It remains to be seen how that process will transpire.<sup>83</sup>

<sup>80</sup> Devere, "Government works to improve mining sector", <https://www.devere-zimbabwe.co.zw/news/Government-works-to-improve-mining-sector>, accessed online: December 2020.

<sup>81</sup> Zimbabwe Economic Policy Analysis and Research Unit. "In-Depth Training Needs Assessment Survey in the Zimbabwe Mining Sector", Harare, (October 2016).

<sup>82</sup> Matiashe.Farai, "Zimbabwe: Stakeholders urge govt. to adopt the Extractive Industries Transparency Initiative (EITI) to promote transparency & curb corruption", <https://www.business-humanrights.org/en/latest-news/zimbabwe-stakeholders-urge-govt-to-adopt-the-extractive-industries-transparency-initiative-eiti-to-promote-transparency-curb-corruption/>, accessed online: January 2021.

<sup>83</sup> Nyarota.Donald, "Zimbabwe: Stakeholders Push for Mining Sector Revenue Audit", <https://allafrica.com/stories/201911280676.html>, accessed online: November 2020.



Based on the analysis of data and literature review, Zambia is well known for its copper mining, ranking second after the DRC in the continent in terms of the amount of copper produced. Besides copper the country also has active production of silver, cobalt, coal, lead, silver, zinc, emeralds, and gold. Recent EITI's reports (2019) indicate that the extractive sector accounts directly for 9.9% of GDP, 77% of exports, and 27.7% of government revenues. It is also estimated that indirectly, the mining sector may contribute as much as half of the GDP. The sector directly employs about 84,536 people representing 2.9% of total employed persons in Zambia.<sup>84</sup>

The current social-economic standing of the country – with dire economic statistics<sup>85</sup> – is part of evidence of the fact that many Zambian citizens have not benefited substantially from the huge mining sector. An industry observer recently stated:

*“There is no doubt that the mining sector has not been paying its fair share of taxes and have been involved in sophisticated tax avoidance schemes using highly skilled accountants and lawyers. There are mines that have been here for over twenty years and have never paid any income tax as they declare tax losses all the time but in the meantime their shareholders abroad do receive dividends.”*

– Kalima Nkonde (Lusaka journalist and industry observer)

During the current economic situation and the state of the mining sector, the Zambian SAI may well be an overlooked entity. According to the civil society in Zambia the extractive sector fell into the current problems owing to a cocktail of factors such as the residual impacts of bungled nationalisation of the sector, corruption (illicit financial flows) and inept regulatory institutions. The former Auditor General in 2014 once said of the problem.

*“Illegality and high rates of illicit financial flows in the extractive industry need to be curbed.”<sup>86</sup>*

The SAI in Zambia is one of those institutions and is critical in the mining revenues value chain in a country where massive illicit financial flows have been reported over the years. The Office of the Auditor General reviews the financial accounts of all mining companies and the Zambian Revenue Authority (which conducts its own internal reviews). The audit reports are then presented to Parliament's Public Accounts Committee and the Committee on Economic Affairs and Labour for review. According to government officials many of these reports have not been tabled in a timely manner thereby this affects the timeliness of implementation of any recommendations by parliament and other stakeholders.

Just like many other SAIs the Zambian SAI has limited technical capabilities to be able to conduct audits on operations and revenues from multinational mining companies. Zambia has been an EITI compliant country since 2012 and thereby there is greater collaboration with the Office of the Auditor General in facilitating the EITI Standard. To improve the quality of the reports it obtains from the SAI the EITI supported and facilitated the training of SAI staff on the pertinent aspects of mining sector auditing. The success of those trainings in terms of impact is yet to be systematically analysed.

<sup>84</sup> EITI, “Overview Zambia”, <https://eiti.org/zambia>, accessed online: January 2021.

<sup>85</sup> Zambia's sovereign debt reached unsustainable levels and in November 2020 there was an announcement the country was going to default on these debts, which forces readjustments such as restructure of the debts and consequent lowered credit rating for the country (source: <http://cadtm.org/G20-the-debt-solution>)

<sup>86</sup> <https://www.business-humanrights.org/pt/%C3%BAItimas-not%C3%ADcias/zambian-auditor-general-says-eiti-backed-training-will-increase-offices-competence-to-audit-mining-companies-reduce-illegality-in-sector/>

## TANZANIA



Based on the analysis of data and literature review, Tanzania is endowed with vast quantities and types of minerals and includes gold, iron ore, nickel, copper, cobalt, silver, diamond, tanzanite, ruby, garnet, limestone, soda ash, gypsum, salt, phosphate, coal, uranium and graphite.<sup>87</sup> The country is the 4th largest gold producer in Africa after South Africa, Ghana and Mali. Beginning in 1974, large natural gas reserves were discovered with production commencing in 2004. The sector has been central to the country's economic growth over the years. Mining contributed 5.1% to its GDP with USD 2.96 billion in 2018 and in 2019 minerals export accounted for 45% of the total value of Tanzania's exports – and gold represents 90% of this export value.<sup>88</sup>

As a strong contributor to economic growth, revenue management is a very important factor for the country. After receiving the auditor general's report in March 2017, the President of Tanzania ordered the country SAI (National Audit Office of Tanzania) to conduct a special audit of the mining sector to identify if companies were paying their fair share of taxes.<sup>89</sup> A couple of months later in July 2017 the government passed a number of sweeping changes to the Mining Act of 2010 – the legal and regulatory framework that regulates the country's natural resources. Notable changes included increase in mineral royalties, state participation in all mining companies, renegotiation of previous mining agreements and scrapping of international arbitration.<sup>90</sup>

The effectiveness of the agencies responsible for auditing the extractive sector came into scrutiny as the special audit demonstrated that companies were under-declaring the value of minerals destined for export to pay low royalties and taxes. The SAI has over the years experienced limitation of technical talent that would effectively review the figures presented by mining companies.

The entry of EITI in Tanzania bolstered the general mineral revenue management and transparency but the EITI Standard is limited on the extent of fiscal malfeasance that it can uncover. According to local NGOs the mining companies possess sophisticated methods of concealing tax evasion malpractices, that even the SAI or EITI may not be able to identify. The SAI does not directly audit the mining companies, but the office reviews the remittances from the sector to the Tanzania Revenue Authority (TRA) to ascertain compliance with the existing fiscal regime.

Within the last four years the SAI has also conducted financial audits (verification of recoverable cost for the petroleum companies) and compliance audits (natural gas exploration and development licensing process). The consequent reports from the SAI are normally presented to parliament but stakeholders in the country state that the legislators have a laid-back approach in reviewing these reports thereby leading to very weak recommendations.

<sup>87</sup> International Trade Administration, "Tanzania - Country Commercial Guide", <https://www.trade.gov/knowledge-product/tanzania-mining>, accessed online: December 2020.

<sup>88</sup> Tanzania Invest, "Mining in Tanzania", <https://www.tanzaniainvest.com/mining>. Accessed online on January 2021.

<sup>89</sup> Reuters, "Tanzania orders audit of mining companies' earnings over taxes", <https://www.reuters.com/article/ozabs-uk-tanzania-mining-idAFKBN1701T1-0ZABS>, Accessed online: October 2020.

<sup>90</sup> [1] The Natural Wealth and Resources (Permanent Sovereignty) Act, 2017. [2] The Natural Wealth and Resources (Review and Renegotiation of Unconscionable Terms) Act, 2017. [3] The Written Laws (Miscellaneous Amendments) Act, 2017

# CAMEROON



Based on the analysis of data and literature review, Cameroon is one of the leading producers of crude oil in Africa and is developing its production of natural gas. 90% of the produced oil originates from offshore fields. The 2015 figures from EITI indicate that the country earned USD 1.152 billion from extractive industry taxation. 93.66% of these revenues came from oil and gas production and gas transport (6.08%) as well as mining (0.26%). This clearly shows that the mining sector is very small although the country contains diverse reserves of unexploited minerals such as aluminium, bauxite, cobalt, diamonds, gold and iron ore. Additionally, there are pockets of artisanal and small-scale mining of gold and diamonds in the northern and eastern regions of the country.<sup>92</sup> Oil remains Cameroon's main export commodity, and despite falling global oil prices, still accounts for nearly 40% of exports.<sup>93</sup>

The National Hydrocarbons Corporation of Cameroon (SNH) is a public industrial and commercial company with financial autonomy and is responsible for the overall management of the oil and gas activities in the country. The Directorate of Tax (DGI) is the main body responsible for collecting taxes paid to the central government, while the SNH collects the state's share of in-kind revenues.

The country SAI - Ministry of the Supreme State Audit (MINCSP) – is also legally charged with conducting checks and balances of public entities such as SNH, although not much information is available on how effective and transparent the oversight has been. In the last three years the SAI has conducted only one compliance audit of the sector (The process of granting operating permits in the extractive sector).

This study did not obtain sufficient information to fully understand the pertinent details of the operations of the SAI but preliminary data shows that the MINCSP has limited powers and capacity to adequately monitor the fiscal affairs of the state oil company and the operating companies. It is imperative to mirror this situation against the knowledge that Cameroon suffers from weak governance. The country ranked 152 out of 180 countries in the 2018 Transparency International corruption perceptions index.<sup>94</sup> Having signed up to the EITI the government sponsored a law that makes it mandatory for companies to comply with transparency requirements as per the EITI. This is a good shot in the arm of transparency in the sector, however, EITI's scrutiny can only go so far. In terms of technical capacity building, as a member of AFROSAI, the SAI has had access to several capacity building initiatives which include training to the SAI officials.

<sup>91</sup> EITI, "Overview: Cameroon", <https://eiti.org/cameroon>, accessed online: January 2021.

<sup>92</sup> KPMG International, "Cameroon Country Mining Guide", KPMG Global Mining Institute, (2013).

<sup>93</sup> [https://theodora.com/wfbcurrent/cameroon/cameroon\\_economy.html](https://theodora.com/wfbcurrent/cameroon/cameroon_economy.html)

<sup>94</sup> The World Bank, "The World Bank in Cameroon: Overview", <https://www.worldbank.org/en/country/cameroon/overview>, accessed online: December 2020.

## 6.2 QUESTIONNAIRES

### SAls Questionnaire



Dear Sir/Madam

#### **INVITATION TO PARTICIPATE IN A RESEARCH SURVEY**

Towards improving the role of the office of the Auditor Generals in Sub-Saharan Africa in the audit of the extractive industries, OXFAM (Horn East and Central Africa Office) would like to invite you to participate in this research study on how audit reports of Sub-Saharan offices of the Auditor General have impacted in the transparency and accountability of the extractive industries sector in their countries. Attached to this letter is a short questionnaire which you are kindly requested to complete.

The research topic is **“Improving the Extractive Industries Auditing Practices: The role of Supreme Audit Institutions”**

To protect your anonymity, please do not enter your name or contact details on the questionnaire. The questionnaire will take no longer than 15 minutes of your time. Your response is of utmost importance to us. Should you have any further questions about this research you may contact Gerald Byarugaba [gerald.byarugaba@oxfam.org](mailto:gerald.byarugaba@oxfam.org)

Thanking you in advance for your participation.

Yours sincerely  
OXFAM (HECA)

## SECTION A: GENERAL INFORMATION

1. To which INTOSAI member body does your SAI belong to? (tick appropriately with a simple X as the tick)

AFROSAI-E	CREFIAF	OTHER (Please state)

2. Which of the following best describes your position within the hierarchy of the SAI? (tick appropriately with a simple X as the tick)

Auditor General	
Executive Level Management	
Middle level Management	
First Level Management	
Other (Please specify)	

3. How long have you been working for the SAI? (tick appropriately)

Less than 3 Years	
3 years to 7 years	
8 years to 15 years	
More than 15 years	

## SECTION B: SAI AUDITS IN THE E.I SECTOR

4. In the past 3 years, has your SAI done any audits in the extractive industries sector? (tick appropriately)

YES	NO	NOT SURE

5. If yes to Question 4 please indicate the nature, timing, and title of the 3 most recent audits below (Example given in the table below)

Type	Timing (Year)	Title
Performance Audit	2019/2020	"Collection of Dividends and Royalties"

6. On average how many audits in the EI sector does your SAI perform per annum or per audit cycle?  
(Tick appropriately)

Zero Audits	
Less than 3 audits	
3 to 5 audits	
More than 5 audits	

7. Along the AFROSAI-E 7 step EI value chain, which part of the EI Value chain has your SAI performed most audits on? (Tick all that are relevant)

Stage of Value Chain	
Legal framework	
Government activities/ Decisions regarding natural resources and exploration	
Award of contracts and licences	
Monitoring of operations	
Assessment and collection of revenues	
Revenue management and allocation	
Sustainable development	

8. What percentage of the Final Audit Reports on audits performed in the EI sector by your SAI have been presented to parliament (For Westminster model SAIs) or have gone through the judgement process (for Court model SAIs)? (Tick appropriately)

100% of the Audits	
Less than 90% of the audits	
Less than 75% of the audits	
Less than 50% of the audits	
0% of the audits	

9. To what extent have your SAI audit reports made an impact in the transparency and accountability of the Extractive Industries sector of your country? (Tick appropriately with 5 being highest impact and state your reasoning below in the space provided)

1	2	3	4	5

Reason 1: \_\_\_\_\_

Reason 2: \_\_\_\_\_

Reason 3: \_\_\_\_\_



10. To what extent do you believe audit recommendations from the Final Audit reports on audits performed in the EI sector have been implemented by the audited entities? (Tick appropriately with 5 being the highest extent of implementation)

1	2	3	4	5

11. Give at most 3 reasons to support your response to Question 10 above

Reason 1: \_\_\_\_\_

Reason 2: \_\_\_\_\_

Reason 3: \_\_\_\_\_

### SECTION C: CONDITIONS FOR EFFECTIVE EI SECTOR AUDITS BY SAIs

12. Based on your experience, what has been the main trigger for your SAI to perform audits and their related subject matter in the EI Sector of your country? (Tick all that are relevant)

Main Trigger	
Constitutional/Legal mandate	
Risk assessment of the EI sector	
Media reports on the EI sector	
Special requests from parliamentary portfolios	
Special requests from President and cabinet	
Civil Society Organisations and other pressure groups in the EI Sector	
Other (Please specify below)	

Other triggers: \_\_\_\_\_

13. In your experience what have been the main challenges towards performing and reporting on more audits in the EI sector of your country by your SAI (Tick all that are relevant)

Nature of Challenge	
Availability of EI sector experts to support auditors within SAI	
Leadership enthusiasm and buy in (tone at the top of the SAI hierarchy)	
Financial resources to pursue such audits	
Lack of stakeholder (such as parliament) interest in the EI sector audits	
SAI mandate	

State other challenges: \_\_\_\_\_

14. For the audits that you have successfully executed in the EI sector, what would you say where the success drivers? (Tick all that are relevant)

Success Driver	
Availability of clear strategy at SAI level	
Availability of a dedicated EI unit within SAI	
Access to EI sector capacity building networks such as AFROSAI-E, WGEI, OXFAM	
Availability of EI audit tools such as AFROSAI-E Value chain model	

State other success drivers: \_\_\_\_\_

15. In relation to the AFROSAI-E Institutional Capacity Building Framework (ICBF). Which ICBF domains of your SAI do you believe need to be capacitated in order to increase the number, quality and complexity of audits being performed in the EI sector by your SAI? (Tick all that are relevant)

ICBF DOMAIN	
Independence and Legal Framework	
Organization and Management	
Human Resources	
Audit Standards and Methodology	
Communication and Stakeholder Management	

16. Towards capacity building and knowledge sharing so that the SAI may perform more quality audits in the EI sector. List some of the institutions which the SAI interacts with including the nature of the interaction. (An example is shown in the table)

Institution	Nature of interaction
AFROSAI-E	
INTOSAI	
Other SAIs	

17. Are there any other suggestions that should be considered in this research or anything you would like to add towards improving the usefulness, relevance, and effectiveness of the audit reports from the office of the auditor general in ensuring transparency and accountability in the extractive industries sector of your country. (Give a maximum of 3)

1	
2	
3	

Thank you for taking our survey

...The End .....

## Stakeholders Questionnaire



Dear Sir/Madam

### **INVITATION TO PARTICIPATE IN AN EXTRACTIVE INDUSTRIES RESEARCH**

Towards improving the role of the office of the Auditor Generals in Sub-Saharan Africa in the audit of the extractive industries. OXFAM (Horn East and Central Africa Office - HECA) would like to invite you to participate in this research study on how audit reports of Sub-Saharan offices of the Auditor General have impacted in the transparency and accountability of the extractive industries sector in their countries. Attached to this letter is a questionnaire which you are kindly requested to complete.

The research topic is **"Improving the Extractive Industries Auditing Practices: The role of Supreme Audit Institutions"**

To protect your anonymity, please do not enter your name or contact details on the questionnaire. The questionnaire will take no longer than 15 minutes of your time. Your response is of utmost importance to us. Should you have any further questions about this research you may contact Gerald Byarugaba [gerald.byarugaba@oxfam.org](mailto:gerald.byarugaba@oxfam.org) or [research@salayacapital.org](mailto:research@salayacapital.org).

Thanking you for your participation in advance.

Yours sincerely  
**OXFAM (HECA)**

Country	
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## SECTION A: GENERAL INFORMATION

1. Which of the following stakeholder groups would you say best describes you? (tick appropriately with a simple X as the tick)

Legislator	
Audited Entity	
Media house	
Special Interest Group (e.g. CSO/NGO)	
Academic	
Citizen	

Other (please state): \_\_\_\_\_

## SECTION B: IMPACT OF AUDITS BY THE AUDITOR GENERAL IN THE EXTRACTIVES INDUSTRY SECTOR

2. Rate the importance of good governance in the public management of the extractive industries sector in the development of your country (tick appropriately with 5 rating being most important)

1	2	3	4	5

3. Are you aware of any audits that have been performed and reported upon by the office of the auditor general which are specific to the extractive industries sector in your country? (Tick appropriately)

YES	NO	NOT SURE

4. From your perspective, how useful have the audit reports from the office of the auditor general been in ensuring transparency and accountability in the extractive industries sector of your country? (tick appropriately with 5 rating being most useful)

1	2	3	4	5

5. From your perspective, how relevant have the audit reports from the office of the auditor general been in ensuring transparency and accountability in the extractive industries sector of your country? (tick appropriately with 5 rating being most relevant)

1	2	3	4	5

6. From your perspective, how effective have the audit reports from the office of the auditor general been in ensuring transparency and accountability in the extractive industries sector of your country? (tick appropriately with 5 rating being most effective)

1	2	3	4	5

7. From your perspective which factors affect the usefulness, relevance, and effectiveness of the audit reports from the office of the auditor general in ensuring transparency and accountability in the extractive industries sector of your country? (Give at most 3 key factors for each element)

ELEMENT	KEY FACTORS
Usefulness	(1) ..... (2) ..... (3) .....
Relevance	(1) ..... (2) ..... (3) .....
Effectiveness	(1) ..... (2) ..... (3) .....

8. Are there any other suggestions that should be considered in this research or anything you would like to add towards improving the usefulness, relevance, and effectiveness of the audit reports from the office of the auditor general in ensuring transparency and accountability in the extractive industries sector of your country? (Give a maximum of 3)

1	
2	
3	

Thank you for taking our survey

...The End .....

### 6.3 LIST OF USEFUL LINKS FOR EI SECTOR AUDITORS AND PRACTITIONERS

Below is a list of some useful links which the research used in performing some of its literature reviews. The list is adapted from the AFROSAI-E Guidelines on Extractive Industries audit considerations 2019.

- AFROSAI-E <https://afrosai-e.org.za/>
- Working Group of Extractive Industries <http://www.wgei.org>
- African Tax Administration Forum (ATAF) <http://www.ataftax.org>
- ATAF Model DTA - Transfer Pricing
- Toolkit for Transfer Pricing Risk Assessment in the African Mining Industry
- Bain & Company <http://www.bain.com/publications>
- Contracts – Open oil <https://openoil.net>
- Contract; oil, gas and mining <http://www.resourcecontracts.org>
- EI Sourcebook <http://www.eisourcebook.org/>
- Extractive Industries Transparency Initiative – EITI <https://www.eiti.org/>
- International Monetary Fund <http://www.imf.org/external/index.htm>
- IMF Primary Commodity Prices <http://www.imf.org/external/np/res/commod/index.aspx>
- E-mail: [publications@imf.org](mailto:publications@imf.org)
- Request a copy of “Administering Fiscal Regimes for Extractive Industries” A Handbook. Author: Jack Calder. ISBN: 978-1-47557-517-0
- Intergovernmental forum for mining of minerals <http://www.igfmining.org>
- Natural Resource Governance Institute <http://www.resourcegovernance.org/>
- OECD <http://www.oecd.org/>
- <http://www.oecd.org/ctp/transfer-pricing/>
- Rapaport Diamonds Price List <http://www.diamonds.net/Prices/RapaportPriceLists.aspx>
- World Bank – Value Chain document

## 6.4 LIST OF AUDITS PERFORMED BY SAIs

The objects of this annex are to present the different types of audits SAIs in Africa have performed in the extractive industries in the past 5 years. These are some of the prominent and easily accessible audits and audit reports available for public consumption. The Annex goes further to map these audits performed by SAIs to the AFROSAI-E extractive industries value chain. Although this information is not exhaustive, the annex reveals the extents to which SAIs have been skewed to performing compliance audits which are concentrated on certain parts of the EI value chain.

SAI	Financial audits	Compliance audits	Performance audits
<b>Botswana</b>	<b>2020:</b> Collection of royalties and dividends		
<b>Kenya</b>	<b>2020:</b> Early Oil Pilot Scheme	<b>2020:</b> Management of local employment and training provisions in the PSC's (Ongoing)  <b>2016:</b> Monitoring of mining operations by the State Department of Mines	<b>2020:</b> Preparedness of the State Department of Petroleum to monitor costs in the petroleum sector (Ongoing)
<b>Madagascar</b>		<b>2020:</b> Compliance audit of the process applicable to the granting of mining licenses and environmental certification for the Base Toliara Project	
<b>Mozambique</b>	<b>2019:</b> Calculation of 2.75% of the revenue generated by the E.I. for the development of communities (royalty)	<b>2019:</b> Transfer process of 2.75% of the revenue generated by the E.I. for the development of communities  <b>2018:</b> Measurement, calculation and payment of coal royalties  <b>2017:</b> Recoverable costs control mechanism	<b>2019:</b> Audit of Government System to monitor recoverable costs claimed by IOC
<b>Namibia</b>	<b>2018:</b> Pilot audit on collection of various taxes, dividend payment by state-owned companies, adherence to environmental laws.	<b>2018:</b> Pilot audit on collection of various taxes, dividend payment by state-owned companies, adherence to environmental laws.  <b>2017:</b> Audit report covering effective tax collection, monitoring, legal framework, awarding of mining licenses and ensuring the implementation thereof- Only Management Letter issued (2013/14 to 2015/16)	<b>2018:</b> Pilot audit on collection of various taxes, dividend payment by state-owned companies, adherence to environmental laws.  <b>2020:</b> Performance Audit on Air Quality Monitoring (2014/15 to 2016/17)  <b>2020:</b> Performance Audit on Coastal Management (2013/14 to 2015/16)  <b>2016:</b> Performance Audit on Monitoring Environmental Rehabilitation and Pollution Control on mines in Namibia (2011/12 to 2014/15)
<b>Nigeria</b>	<b>2018:</b> Special Periodic Checks on the Activities and Programmes of Niger Delta Development Commission (NDDC)	<b>2018:</b> Special Periodic Checks on the Activities and Programmes of Niger Delta Development Commission (NDDC)	



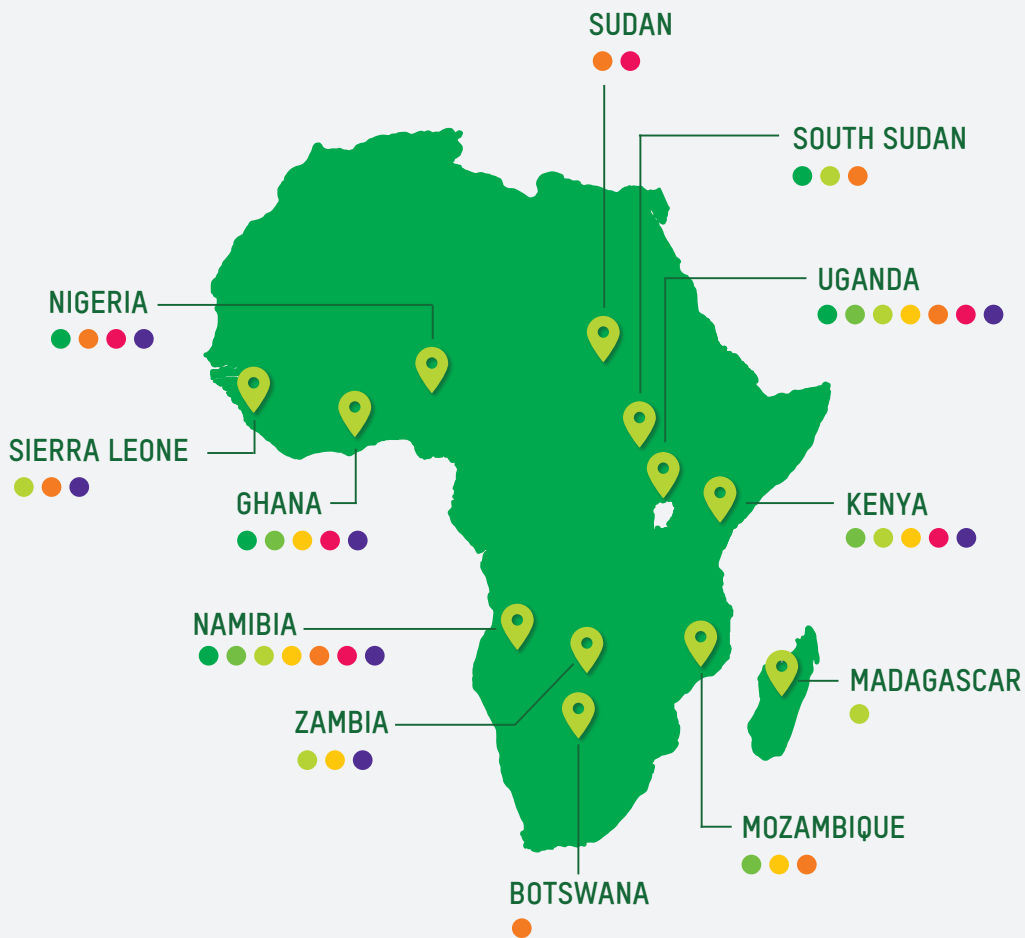
SAI	Financial audits	Compliance audits	Performance audits
<b>Nigeria (continued)</b>	<p><b>2018:</b> Under-distribution of Mineral Revenues - 199,568,117,673.99 – (reference to 2017 Auditor General’s Report - Audit of Federation Account)</p> <p><b>2018:</b> Unauthorized Deductions from the Federation Account by Revenue-Collecting Agencies (N1,555,385,857,565.09) – (reference to 2017 Auditor General’s Report- Audit of Federation Account)</p>	<p><b>2018:</b> Under-distribution of Mineral Revenues - 199,568,117,673.99 – (reference to 2017 Auditor General’s Report - Audit of Federation Account)</p> <p><b>2018:</b> Unauthorized Deductions from the Federation Account by Revenue-Collecting Agencies (N1,555,385,857,565.09) – (reference to 2017 Auditor General’s Report- Audit of Federation Account)</p>	
<b>Sierra Leone</b>	<p><b>2017:</b> Mining Surface Rent Revenue</p> <p><b>2018:</b> Audit of collected royalties</p>	<p><b>2019:</b> The Issuance of Mining Licences</p> <p><b>2018:</b> Assessment and Collection of Mining Royalties</p>	<b>2019:</b> The Audit of Mine Closure and Rehabilitation.
<b>South Sudan</b>	<b>2019:</b> Audit of government take (oil revenues)		
<b>Sudan</b>	<p><b>2019:</b> All accounts as per their materiality for related Financial Year</p> <p><b>2019:</b> All accounts as per their materiality for related Financial Year</p> <p><b>2019:</b> All accounts as per their materiality for related Financial Year</p>		
<b>Uganda</b>	<b>2019:</b> Cost recovery Audit under the PSA arrangement	<b>2019:</b> Cost recovery Audit under the PSA arrangement	<p><b>2020:</b> Value for Money Audit on licensing and enforcement of standards in downstream petroleum operations by Ministry of Energy and Mineral Development</p> <p><b>2019:</b> Follow-up report on the Value for Money Audit on implementation of National Content in the oil and gas sector</p>
<b>Zambia</b>		<p><b>2019:</b> Monitoring System of Mining Sector and its Impact on Revenue Collection</p> <p><b>2018:</b> Report on the Awarding and Monitoring of Mining Rights Dividend payments by selected state-owned companies</p> <p><b>2017:</b> Compliance audit of the Awarding and Monitoring of Mining Rights for 2017 accounts</p> <p><b>2014:</b> Performance audit report of management of environmental degradation caused by mining activities in Zambia</p>	

## 6.5 AFROSAI VALUE CHAIN

### Steps of the AFROSAI Value Chain



### Mapping of where countries SAIs have performed most audits along the value chain



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