Funding Proposal to the INTOSAI Knowledge Sharing Committee by the Working Group on Audit of Extractive Industries

# Concept note proposal and SAI background

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| **1.1 Applicant** | INTOSAI Working Group on Audit of Extractive Industries (WGEI)Mr. John F. S. Muwanga (Auditor General Uganda and Chair WGEI) |
| **1.2 Legal Applicant** | Stefanie Grace Fernandez (Senior adviser) and Trygve Høgseth Christiansen (Senior adviser) Office of the Auditor General of Norway (OAGN) |
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| **1.4 Title and Duration** | Title: Support to WGEI ActivitiesDuration: 3 years  |
| **1.5 Project Purpose**  | To enhance the capacity of SAIs to undertake audit in extractive industries (EI), thereby contributing to good governance, accountability and transparency in the EI. |
| **1.6 Project Outcome (Anticipated benefits)** | By conducting the WGEI activities (such as EI trainings and workshops, collaborative/joint audits in EI, benchmarking meetings between SAIs regarding EI audits and webinars on EI), SAIs are expected to achieve the outcomes indicated below.**Project target outcomes:*** Enhanced skills and knowledge in the audit of extractive industries
* Timely production of high quality extractive industry audit reports

**High-level indicators:*** At least one e-learning module developed and piloted
* Number of audit reports issued through the collaborative audit: 4 audits
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| **1.7 Project background** | **Background:**The Extractive Industries (EI) represents a significant source of income for a large number of countries. On the other hand, it is also a sector susceptible to corruption and ‘loss’. By intuition, one can argue that the abundance in natural resources and the corresponding large natural resource revenues should induce economic growth and wealth; hence, benefiting the country’s citizens. However, many resource-rich countries tend to have less economic growth, less democracy and worse development outcomes - a phenomenon also called as the resource curse.As the extractive industry grows and the resource revenues arise, the more important is the role and responsibility of the government to ensure that the country benefits from its natural resources. Strong and effective Supreme Audit Institutions (SAIs) can contribute to better and more transparent oversight of Extractive Industries (EI) and help to ensure that governments manage natural resources in the best interest of the public.As oversight institutions, Supreme Audit Institutions play an important role in the extractive industries to scrutinize whether:* the government institutions involved in the EI comply with the rules and regulations,
* the accurate amount of government revenues (e.g. tax revenues) from the sector are being collected
* resource revenues are managed prudently
* the government manages the EI in a sustainable manner taking into account social, environmental and economic aspects as well as efficiency and effectiveness

In October 2012, the Steering Committee (SC) of the International Organization of Supreme Audit Institutions (INTOSAI) Donor Cooperation mandated the INTOSAI-Donor Secretariat to conduct a survey on Supreme Audit Institutions (SAI) involvement in Extractive Industries (EI) governance. The [survey](https://www.idi.no/en/elibrary/idc/global-public-goods-1/381-audit-of-extractive-industries) indicated many challenges in auditing extractive industries which include technical complexity of the EI, lack of knowledge of business processes, the governance set up and associated risks, the need for capacity building and retention of specialised staff and mandate limitations. SAIs came forward to express a need for more knowledge of the EI and a need to exchange experiences in EI audit. The survey report was endorsed by the Congress in October 2013. In line with INTOSAI Strategies to support Goal 3 to establish new and maintain existing Work Groups, the INTOSAI Congress established a new Working Group to study the EI and develop guidance and best practice. To strengthen SAIs in its role in EI, the Working Group on Audit of Extractive Industries (WGEI) was established under INTOSAI in 2013.**Main problem:** SAIs in resource-rich developing countries have limited capacity to conduct audits in the extractive industries. This weakens their role in contributing to accountability, transparency, and good governance in the extractive industries.**The cause:** Some SAIs lack the knowledge about EI and how to audit the sector.**The need:** There is a need for SAIs in resource-rich countries to enhance their knowledge in EI and exchange experiences in EI audit, thereby strengthening their role as an oversight institution contributing to accountability, transparency and good governance in the EI.**Proposed projects:*** Design and pilot an e-learning course on selected EI-topics
* Initiate and conduct collaborative/joint audits on extractive industries
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| **1.8 Project description and estimated costs**  | **Estimated costs: 13,000 USD*** Design and pilot an e-learning course on selected EI-topics (Activity 3 in the WGEI Activity Plan)
	+ Develop e-learning modules on selected areas in the WGEI EI training framework **3 000 USD**

The estimated cost of 3000 USD will cover the cost of hiring a local supplier to develop the technical solution. The subject matter and content will be provided in-kind by selected WGEI members and INTOSAI regional groups. The members of WGEI will be able to access the e-learning modules at their own convenience. * Initiate and conduct collaborative/joint audits on extractive industries (Activity 4 in the WGEI Activity Plan)
	+ Conduct collaborative/joint audits on EI among SAIs *(Project lead: SAI South Africa and Zambia:* **10,000 Euros.** This is an estimated amount which will cover one physical workshop and the fees of three facilitators/trainers. The assumption is that most of the interaction will be done online for the foreseeable future. However, given the long time it takes to perform an audit of this kind, it is assumed that the last workshop may be through in-person interactions. The collaborative audit will include14 participants from 3-4 SAIs including facilitators/subject matter experts, for three 5 days meetings. The three meetings include a planning meeting, execution phase meeting and concluding meeting, with the last meeting being in-person.
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| **1.9 Project time frame** | The proposed activities will fall within the period of the [2020-2022 WGEI activity plan](http://www.wgei.org/wp-content/uploads/2020/01/FINAL-WGEI-WORKPLAN-2020-2022.pdf). The activities will be initiated in 2021. While trainings have a more limited time span, collaborative and joint audits will cover the period up until 2022.  |
| **1.10 Implementing Partner(s)**  | WGEI activities are conducted based on in-kind contribution by the WGEI Steering Committee members and WGEI SAI members. The WGEI Steering Committee members consist of SAI Uganda, Norway, USA, South Africa, Ghana, Zambia, India, Fiji, Iraq and Ecuador. SAI Indonesia is an observer member of the Steering Committee. WGEI does not currently have any external implementing partners.  |
| **1.11 Link to the approved Work Plan of the Working Group** | WGEI aims to contribute in enhancing the capacity of SAIs to undertake audit in extractive industries (EI), thereby contributing to good governance, accountability and transparency in the EI. To achieve this goal, WGEI has developed its 3 year Activity Plan which defines specific activities to be implemented The WGEI Steering Committee (SC) has the main responsibility for implementing the WGEI [three-year Activity Plan](http://www.wgei.org/wp-content/uploads/2020/01/FINAL-WGEI-WORKPLAN-2020-2022.pdf). The Activity Plan consists of five main activities, whereby each activity is led by 1-3 Steering Committee members. The Activity Leads are responsible for ensuring that the activities are implemented during the given period. This concept note seeks funding for the following activities in the WGEI Activity Plan:**Activity 3: Learning Activity** ***(Activity lead: SAI Uganda, Ghana and India)**** Designing and piloting e-learning course on a selected EI topics

**Activity 4: Knowledge and experience sharing *(Activity lead: SAI South Africa and Zambia)**** Promoting collaborative and joint audits
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| **1.12 Link to INTOSAI Strategic Goal and Knowledge Sharing Committee Goal and Objectives** | **Link to Knowledge Sharing Committee strategic objective:** * **“3.2 Enable wide exchange of knowledge and experience among INTOSAI members”**

This will be done through involvement of INTOSAI regions (strategic objective 3.2.5). Together with activity leads, they will be responsible for coordinating the activities within their respective regions, for carrying out training and to coordinate cooperative audits* **“3.4 SAIs are satisfied with the work of KSC and make effective use of the products/services offered by KSC”**

The proposed trainings will be a way of disseminating and implementing KSC products, prepared by WGEI, such as the EI Training Framework and the WGEI Stakeholder Strategy. **Link to cross-cutting priorities of INTOSAI**INTOSAI’s motto is “mutual experience benefits all”. The proposed activities fall well within the spirit of this motto. Carrying out audits together, through collaborative audits, is a powerful way of experience sharing and peer-to-peer support. Training on EI topics will also be based on country experiences, and will be matched with the specific needs and contexts of the participating SAIs. It will enable wide exchange of knowledge and experience among INTOSAI members.  |
| **1.13 Feasibility and risks** | Risks related to the participating SAIs:* SAIs do not prioritize the extractive industries
* Trained staff leave the SAI
* Trained staff move to another department outside EI
* SAIs are not able to retain trained staff
* EI audits are not initiated due to limited resources

Risks related to WGEI as the activity lead:* The Secretariat and the Steering Committee members have limited resources to administer the activities
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| **1.14 Monitoring of the project** | The WGEI Steering Committee (SC) has the main responsibility for implementing the WGEI [three-year Activity Plan](http://www.wgei.org/wp-content/uploads/2020/01/FINAL-WGEI-WORKPLAN-2020-2022.pdf). The Steering Committee holds regular videoconferences (at least 4 times a year) to report to the Chair on the status of the implementation. Furthermore, the SC holds physical working meetings every year to report and discuss about WGEI activities, status of the implementation and future plans based on the WGEI Activity Plan. The project at hand is related to the following activities in the WGEI Activity Plan:* Activity 3: Learning Activity *(Activity lead: SAI Uganda, India and Ghana)*
* Activity 4: Experience sharing among SAIs *(Activity lead: SAI South Africa and Zambia)*

The Activity Leads for Activities 3 and 4 are therefore responsible for the implementation and monitoring of the activities indicated in this concept note. The Activities Leads report to the SC and the Chair through the regular SC videoconference meetings and the annual SC working meeting. The WGEI Chair reports as well to the INTOSAI Knowledge Sharing Committee (KSC) on WGEI activities on a yearly basis. |