



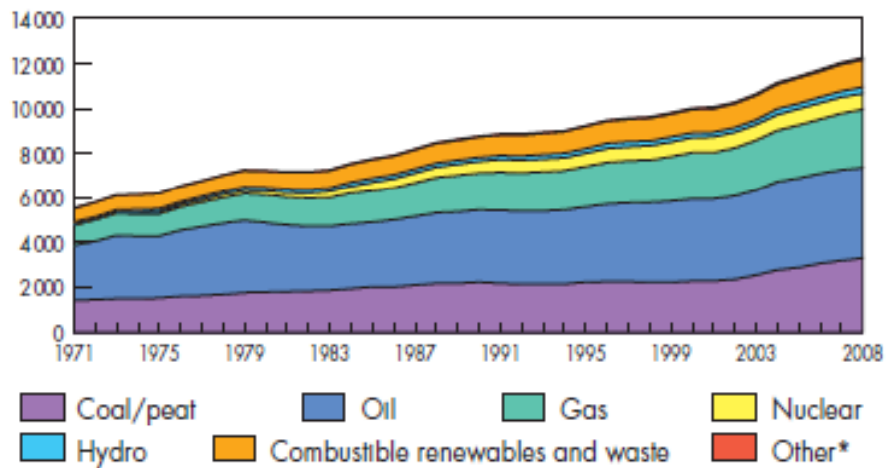
## Developing countries: A challenge for auditing and investigating

Building an anti-corruption system in an Oil & Gas company

*Samuel Blanchot, September 2010*

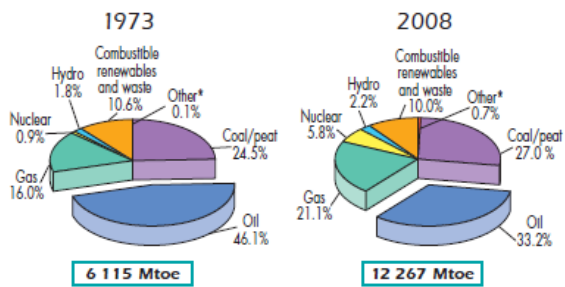
## Hydrocarbons as a key source in the energy mix

Evolution from 1971 to 2008 of world total primary energy supply by fuel (Mtoe)



Although the share of oil in the Energy mix decreased from 48.1% in 1973 to 42.6% in 2007, it remains the main source of energy in the world (source: IEA).

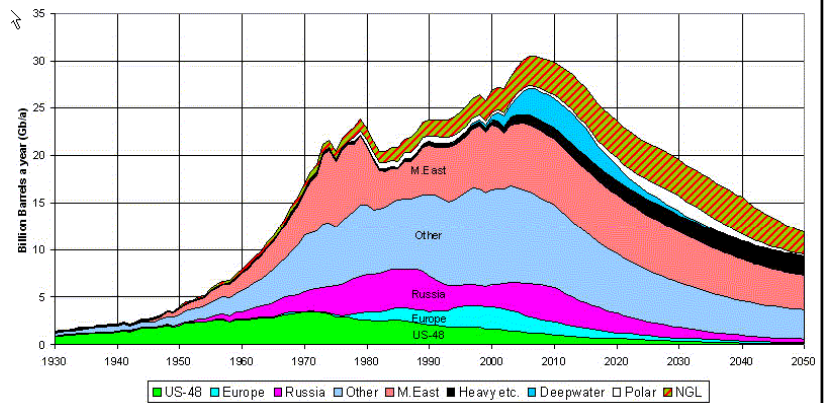
## 1973 and 2008 fuel shares of TPES



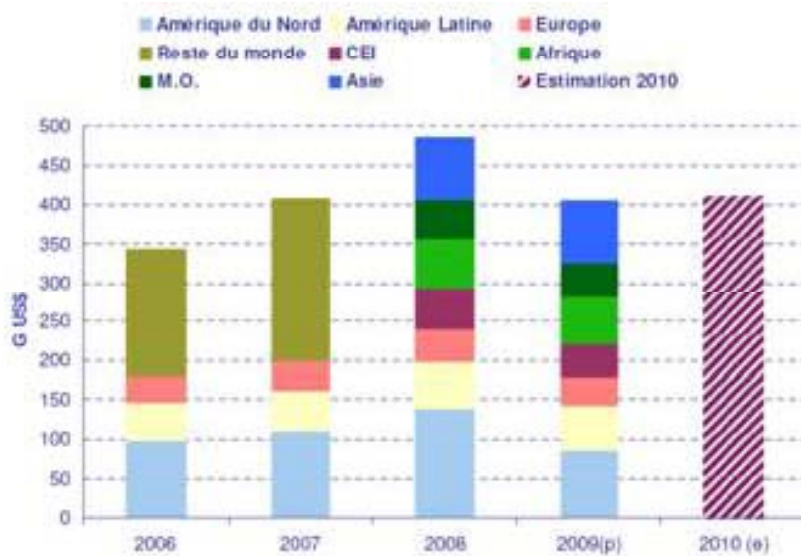
\*Other includes geothermal, solar, wind, heat, etc.

## Fossil Energies remain significant in the 2030 outlook:

	High	Low
-Coal	28.8%	16%
-Gas	21.6%	20.5%
-Oil	30.1%	30%
<b>Total:</b>	<b>70.5%</b>	<b>66.5%</b>



## World investment in the upstream O&G industry



Sources: Barclay's, DTI, NPD, DEA, divers IFP, déclarations compagnies et États

-In 2009, world investments in the upstream O&G decreased significantly due to global crisis and demand decrease.

-Although the decrease amounted to 16%, world investments remain at a level of **406 G\$**.

**Hydrocarbons products and the industry suffer a negative reputation:**

**-Environment: CO2 emissions, pollution,**

**-Capital intensive industry with low impact to local communities:  
employment, diversification to other economic sectors**

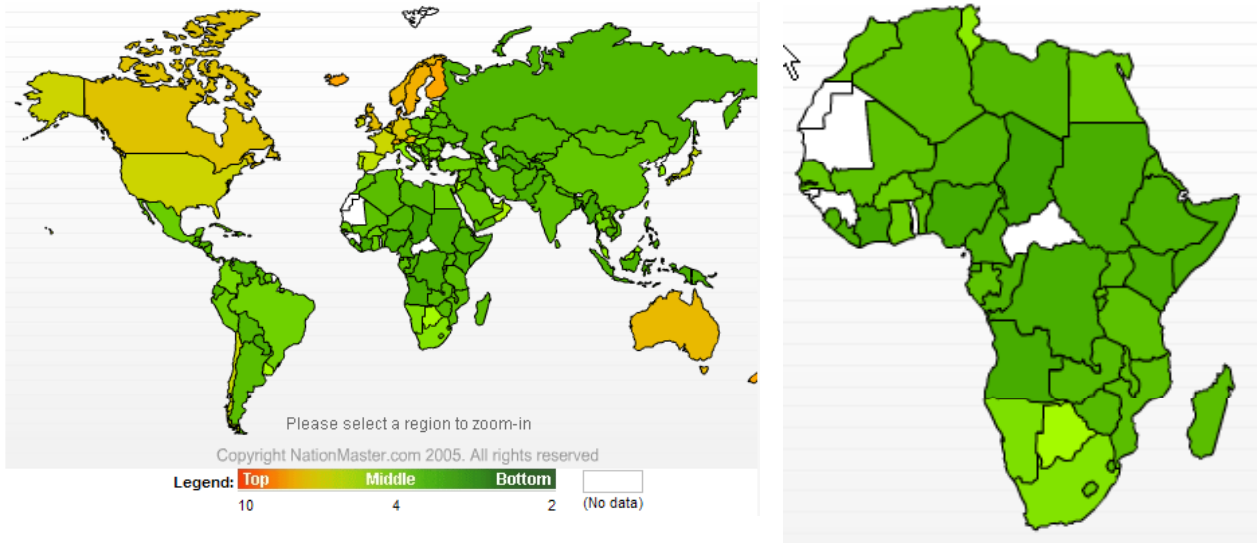
**-Resource curse:**

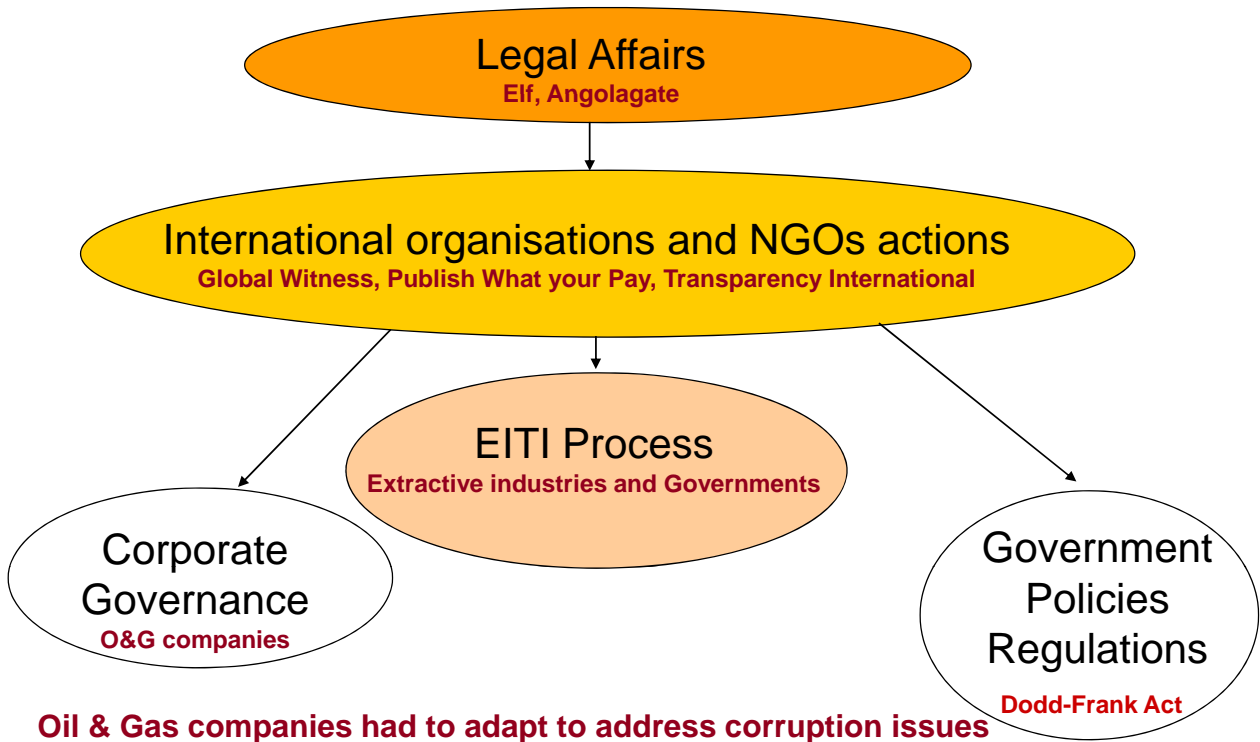
- Significant conflicts during 20<sup>th</sup> and 21<sup>st</sup> century for access to resources (Iran, Iraq, Angola, Nigeria, etc.)

- “Dutch disease”: increase of importation, inflation, bureaucracy increase, **corruption**, etc.

**-Significant legal and political affairs during the last decade**

## Map of corrupted countries





**Oil & Gas companies had to adapt to address corruption issues**

**No real customers, but continuous and complex relationships with:**

### Government Administrations

- License acquisition (signature bonus, etc.)
- Fiscal terms
- Field Development Authorization
- Cost recovery
- Local Content (contracts and staff)

### Contractors

- Capital expenditures share: 70-80%
- Tenders (participant list, technical and commercial evaluations, etc.)
- Local Content (national vs. international)

### Local Communities

- Acceptation
- Sustainable development
- Local employment and training programs

**In this environment, the inherent corruption risk is very high**



**-Implementation / change in procedures more difficult**

Ex: new IT systems; communication (oral vs. written)

**-Quicker erosion of systems and procedures**

Ex: Pollution

**-Existence of evidences**

Ex: Stock management

**-Access to qualified local people**

Ex: Fake diploma



-Western Africa: Dismissal of the Deputy Managing Director and consequences (legal, social, reputation, financial)

-African Content: Local development vs. corrupt practices (“ownership” & stakeholders of contracted companies: hidden conflict of interests)

-Production evaporation: black market (local & international)?

-Loss of equipment: cost recovery vs. stock controls



**Example of High Level Controls:**

- Tone from the top (attitude, etc.)
- Code of Ethics
- Anti-bribery and OECD training programs
- Internal Audit & Ethic Committee

**Examples of operating controls:**

- Internal control framework (SOX)
- Whistle-blower hotline
- Organization charts and Delegation of Authority (with accountabilities and responsibilities)



**A corporate governance system is a must for a company to address corruption risk, but is not on his own sufficient**

- Information gathering: build a strong network: external and internal
- All credible issues to be investigated: small and big (a small fish can hide a bigger one)
- Inter-connections has to be determined and reported: the organization should be ready to hear that anyone in the organization can be potentially involved
- Bring the support of independent experts when necessary





- Corruption can be insidious: can be where it is not expected
- Anti-corruption is a continuous struggle at all levels and at all times
- Not only substantial corruption issues are significant for the company and partners' reputation
- Implement anti-corruption measures allows harmonious and sustainable development within the company

