



AUDIT PROCEDURES TO MITIGATE THE IDENTIFIED RISKS IN MONITORING AND EVALUATION IN EIS



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LEARNING OUTCOMES

- Gain an understanding of the audit program on monitoring and evaluation in Extractive Industries
- To be able to link EI aspects monitored to the risks identified and control measures.
- To be able to design audit procedures on Monitoring and evaluation in EI operations

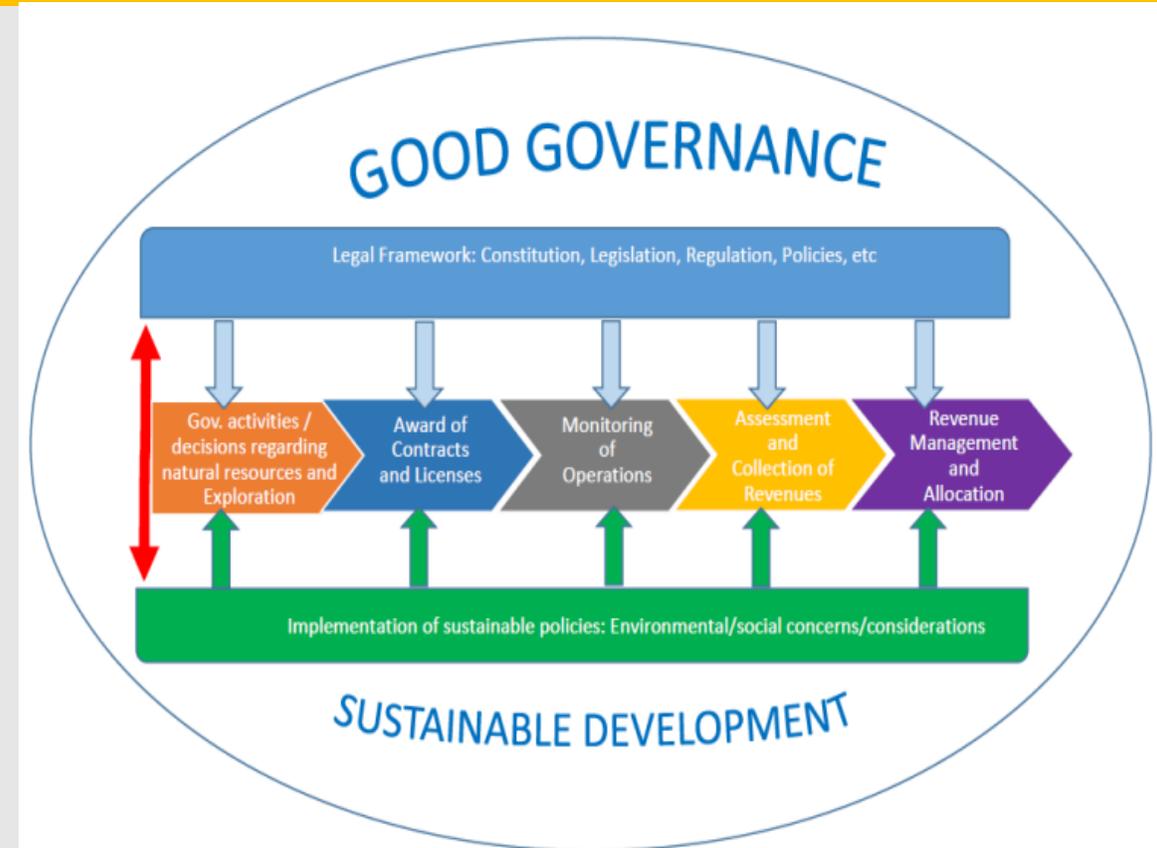


INTRODUCTION

Monitoring and Evaluation in EIs

- Monitoring and Evaluation can be done at all 7 stages of the EI value.
- There are risks related to EIs monitoring and evaluation.
- The SAI auditor can carry out risk assessment, evaluate the controls and design audit procedures.

Extractive Industries Value Chain



Source: AFROSAI-E Guidelines on Extractive Industries



AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIs

The illustration below provides an example of audit program on Monitoring and Evaluation in EIs operations that an auditor can design indicating key components of monitoring and evaluation, possible risks, expected controls and audit procedures that can be done to address those risks.

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Legal Framework	<ul style="list-style-type: none"> i. Inadequate legal framework, regulations, policies, guidelines and procedures on monitoring of EI operations. ii. Roles and responsibilities for sector ministry and agency may not be defined clearly. 	<ul style="list-style-type: none"> i. The sector ministries and agencies carryout monitoring of the mining/petroleum companies. ii. Roles and responsibilities for sector ministry and agency clearly defined. 	<ul style="list-style-type: none"> i. The auditor assess and establish whether the government ministries and agencies ensures that the laws and agreements regulating exploration, development and production of minerals/petroleum are adhered to.
Monitoring and Evaluation in EIs	Exploration activities	<ul style="list-style-type: none"> i. Exploration right holders may be carrying out mining activities under exploration licence. ii. Exploration right holders may not disclose the minerals that may be discovered. 	<ul style="list-style-type: none"> i. Regular monitoring of mineral exploration right holders. ii. Submission of mineral exploration activity reports i. Regular review of progress reports on mineral exploration activities. 	<ul style="list-style-type: none"> i. Review the weekly, monthly, quarterly, and yearly reports submitted to the sector ministry on mineral exploration activities. ii. Obtain and review monitoring reports of exploration right holders from inspections of the mines sites.



AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Production of minerals	<ul style="list-style-type: none"> i. Under declaration of the quantities of minerals produced and reported. ii. Some mineral contents which attract tax may not be disclosed due to lack of monitoring resulting in loss of revenue to government. 	<ul style="list-style-type: none"> i. Tax assessments. ii. Mineral valuation certificate iii. Tax clearance certificate iv. Issuance of export permits. v. Physical inspection of minerals at the ports of exits. 	<ul style="list-style-type: none"> i. Review tax assessments carried out by the tax administration and establish the accuracy of mineral declarations. ii. Check on a sample basis whether the tax administration examined the mineral contents. iii. Compare records at the Ministry of Mines and tax administration. iv. Confirm occurrence of physical inspection of minerals from production, transportation, refining and to exportation at exit points.
Monitoring and Evaluation in EIs	Royalties	<ul style="list-style-type: none"> i. Underreporting of volume. ii. Underestimated value iii. Price discount 	<ul style="list-style-type: none"> i. Submission of monthly mineral royalty returns to the tax administration. ii. Recalculating Royalties payments. iii. Prevailing price at L.M.E is used as benchmark 	<p>The audit should review the legal framework and check whether the sector ministry and agency responsible:</p> <ul style="list-style-type: none"> i. Ensure that all mining companies submit monthly mineral royalty returns. ii. Royalties are calculated based on the quantities of minerals produced and sold iii. The LME is applied for all related parties transactions



AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Corporate Income Tax	<ul style="list-style-type: none"> i. Low interest rate on loans to related parties ii. High interest rate on loans acquired from related parties. iii. purchasing a good or service from a related company at an inflated price. 	<ul style="list-style-type: none"> i. Firm policies for the valuation of transactions between related parties in place ii. Arm's Length interest rate on loans applied. iii. Prices are linked to objective market price. 	<p>The auditor should:</p> <ul style="list-style-type: none"> i. Review reports of the Tax Authority and evaluate their efficiency. ii. On a sample basis confirm that the arms length interest lending rates were applied. iii. Confirm authenticity of purchases and services transacted between related parties.
Monitoring and Evaluation in EIs	Evaluating operating Costs	<ul style="list-style-type: none"> i. Overstatement of operating costs and understatement of sales by the mining companies reduces the revenue base from which taxes such as corporate tax is computed. ii. Lack of adequate competency of the sector ministry and agency 	<ul style="list-style-type: none"> i. Submission of financial statements to the tax administration. i. Dedicated team of experts to review operating costs. 	<p>The audit should review the legal framework and check whether the sector ministry and agency responsible:</p> <ul style="list-style-type: none"> i. Ensure that all mining companies submit operating costs regularly. ii. Operating costs are examined and ascertain the authenticity of costs. iii. Fines are charged to all non-compliant mining companies.

AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS CNTD

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Related transactions. parties'	<ul style="list-style-type: none"> i. Transactions between related parties not at arm's length. ii. Transfer mispricing. iii. Base Erosion and Profit Shifting. 	<ul style="list-style-type: none"> i. Mining companies are required to disclose all related parties transactions by law. ii. Submission of transfer pricing (TP) documentation. (Comparables and TP methods) iii. Information sharing among Tax Administration regarding TP. 	The auditors should : <ul style="list-style-type: none"> i. Review Related parties transactions, TP documentation and ensure that appropriate adjustments are made on transactions not at arm's length. ii. Review how their methods and prices satisfy the arm's length principle. iii. Review reports done by the Tax Authority on TP issues.
Monitoring and Evaluation in EIs	Environmental Liabilities	<ul style="list-style-type: none"> i. The mining right holders may not be contributing to the Environmental Protection Fund. ii. Operating without bank guarantees posing the risk of not meeting decommissioning costs at the closure of the mines. 	<ul style="list-style-type: none"> i. Mining Right Holders are required to contribute to the Environmental Protection Fund by the Act. i. Mining Right holders are required to secure their decommissioning costs with bank guarantees. 	<ul style="list-style-type: none"> i. Review the register of exploration and Mining Right Holders and identify those that are contributing and those not contributing ii. Report on right holders without bank guarantees. iii. Review action taken report by the ministry sector responsible.



AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS CTUD

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Assessment of the assessors Reports	The government may not engage external assessors who should prepare an independent report and as such the accuracy and completeness of the minerals produced and reported may not be relied upon.	Assessment of the reports done by independent assessors used as part of monitoring tool of EI.	<ol style="list-style-type: none"> i. The auditor can review assessment reports prepared by independent assessors so as to ascertain the accuracy and completeness of the production figures which may be reported ii. The estimated mineral deposits and life span of the mine can be determined through reports of an expert of the industry engaged. iii. Recommendation to advice government in decision making relating to EIs
Monitoring and Evaluation in EIs	Inspections	<ol style="list-style-type: none"> i. Failure to carryout inspections to the mines sites on a sample basis and monitor the EI operations 	<ol style="list-style-type: none"> i. Regular inspections to the mine sites conducted 	The auditor should: <ol style="list-style-type: none"> i. Review inspection reports done by the sector ministry responsible for monitoring EI ii. Confirm occurrence of physical inspection of minerals from production, transportation, refining and to exportation at exit points.



AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS CTUD

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
	<p>Impact of Mining Activities</p> <ul style="list-style-type: none"> -Water Quality -Air Quality, and -Waste management 	<ul style="list-style-type: none"> i. Failure by mining companies to adhere to the regulations regarding safeguarding the environment. ii. Air and water pollution are health hazard to human beings. iii. Dust from the mine is also a health hazard. 	<ul style="list-style-type: none"> i. Control (Licensing and emission standards) ii. Water Pollution Control (Effluent and Waste Water) regulations. iii. Dust separation machine and water treatment plant. iv. Reclamation/restoration of degraded mine site plan 	<ul style="list-style-type: none"> i. Confirm presence of water treatment plant and dust separation machine at the mine ii. Online monitoring system the quality of air in the mine area iii. Physical inspection with an independent expert of the industry to the mine sites and obtain samples of water, soil and so on. iii. Take samples of water and soil to the lab and test for PH. water with a pH of less than 6.5 is more likely to be contaminated with pollutants. iv. Confirm existence of nursery facility for restoration of degraded mine.



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Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Local Content	<ul style="list-style-type: none"> i. Inadequate provisions in the legal framework on Local Content ii. Non adherence to the local content provisions. iii. Lack of effective monitoring by the sector ministry on local content provisions iv. Failure to enforce the law by the sector ministry resulting in under development in mines areas. 	<ul style="list-style-type: none"> i. Adequate provisions on local content in the legal framework. ii. The sector ministry ensure that extractive companies adheres to the local content provisions. iii. Effective monitoring of adherence to the local content. iv. Non compliant companies to local content provisions are fined. 	The auditor should: <ul style="list-style-type: none"> i. Review and understand the provisions on local content. ii. Review monitoring reports of the sector ministry and ascertain effectiveness. iii. Take note of non compliant companies and enquire action taken. iv. Confirm that all non compliant mining companies/OC were fined in accordance with the provisions.

AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS CTUD

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Local Content -Skills transfer -Employment of locals -Corporate Social Responsibility	i. Failure to transfer the skills to the host resource country ii. Inadequate or failure to provide employment to the local community. iii. Failure to provide CSR such as road maintenance, recreation facilities and so on. iv. Failure to adopt community schools.	i. Skills and knowledge Transfer. ii. EI are required to provide employment to the local community. iii. EI are required to provide CSR. iv. Adopt community schools and provide sponsorship to university students.	The auditor should: i. Review and understand the provisions on local content. ii. Review monitoring reports of sector ministry on local content. iii. Take note of non compliant companies and enquire action taken by the sector ministry.



Extractive Industries plays a significant role in sustainable development

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Sustainable Development Goals in relation to EI -No Poverty -Zero Hunger -Good Health and Well-being -Quality Education. -Clean Water and Sanitation.	i. Ineffective implementation of national policies and strategies on EI that guarantees sustainable development. ii. weaknesses in institutions to mobilize adequate domestic resources especially from EI	i. Effective implementation of national policies and strategies on EI sector ii. Adequate capacity of institutions to mobilize adequate revenues from EIs	The auditor should: i. Assess the extent to which SDGs have been integrated into National policies, strategies & developmental plans ii. Evaluate technical capacity of the sector Ministries and Agencies in revenue mobilization from EIs iii. Carryout compliance and performance audits on SDGs in relation to EIs using compliance and performance audits methodologies.

Extractive Industries plays a significant role in sustainable development

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	<p>Sustainable Development Goals in relation to EI</p> <ul style="list-style-type: none"> -No Poverty -Zero Hunger -Good Health and Well-being -Quality Education. -Clean Water and Sanitation. 	<ul style="list-style-type: none"> i. Weaknesses in monitoring, evaluation and enforcement systems in EIs agencies. ii. Lack of national ownership iii. Government institutions in EIs operating in silos 	<ul style="list-style-type: none"> i. Strong monitoring, evaluation and enforcement mechanism in EIs in place ii. committed and endeavoured to achieve SDGs. iii. Proper coordination among Government ministries and agencies playing significant roles in EIs 	<p>The auditor should:</p> <ul style="list-style-type: none"> i. Evaluate the monitoring system in place with regards to EIs ii. Establish Whether there is strong institutional arrangement that must complement whole of government approach regarding EI sector ministries and agencies on SDGs. iii. Carryout compliance and performance audits on SDGs using compliance and performance audits methodologies.

SUSTAINABLE DEVELOPMENT OF THE UNITED NATIONS

Compliance and Performance audits can be undertaken to ascertain compliance levels and evaluate performance on SDGs in relation to EI sector



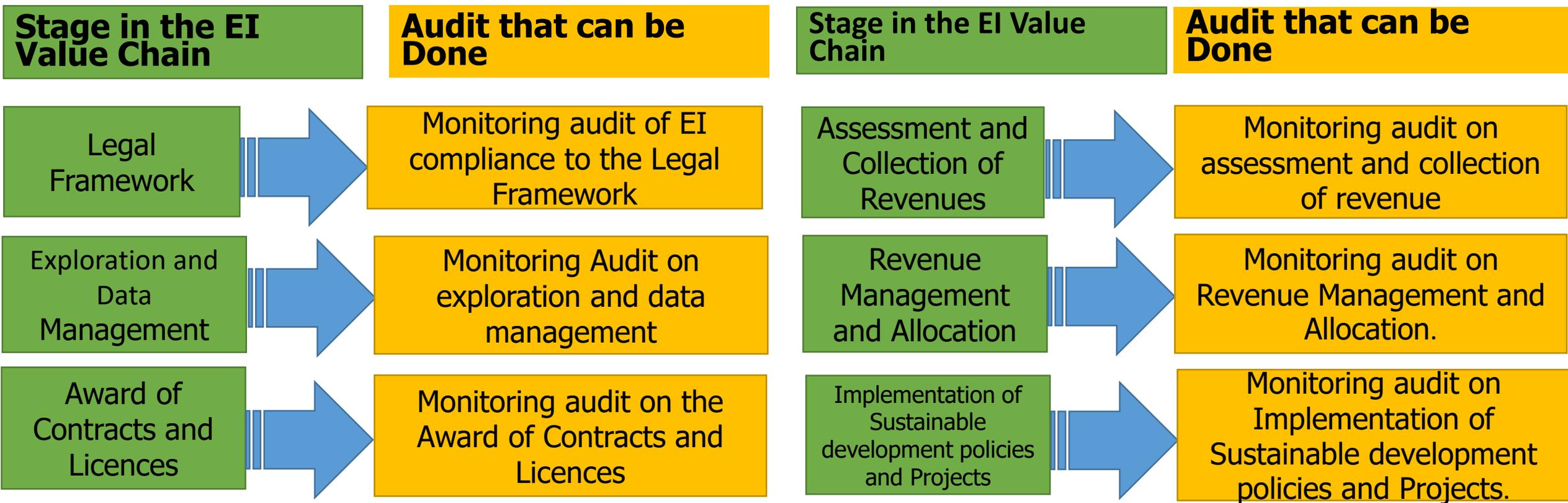
AUDIT PROGRAM ON MONITORING AND EVALUATION IN EIS CTUD

Audit Component	Key Component of Monitoring and Evaluation in EIs	Risks	Controls	Audit Procedures
Monitoring and Evaluation in EIs	Internal Controls	<ul style="list-style-type: none"> i. Lack of effective internal controls. ii. Inadequate controls such as lack of presence of officials from the sector ministries and agencies at the mines sites.. 	<ul style="list-style-type: none"> i. The sector ministries and agencies carryout monitoring and assessment of the EI operations and ensure that controls are working. ii. Presence of officials from the sector ministries and agencies at the mine sites regularly rotated. 	The auditor should: <ul style="list-style-type: none"> i. Evaluate the internal controls of the sector ministries and agencies and establish their effectiveness. ii. Review monitoring reports of the sector ministries and agencies. iii. Confirm existence of officials from the sector ministries and agencies at the mines sites of large mining companies and review their reports.



AUDITS THAT CAN BE UNDERTAKEN IN MONITORING AND EVALUATION IN EIS

Monitoring Audit of the EI sector Ministries and agencies can be done along the seven (7) stages of the Extractive Industries value chain. Examples of audits which can be done may include:

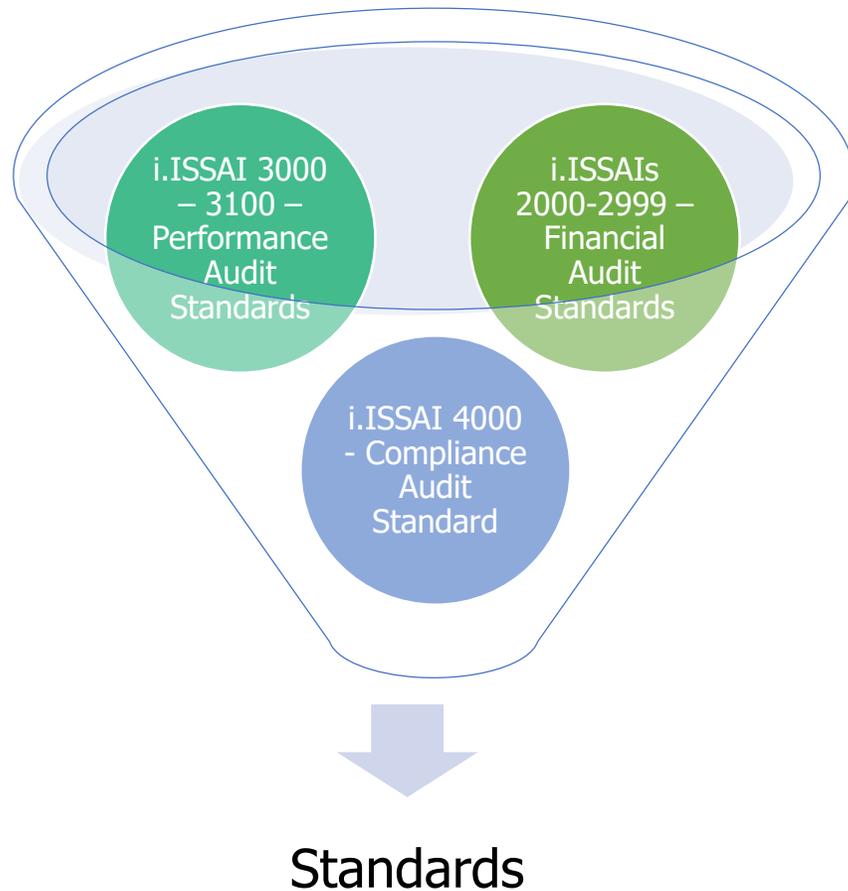


It should be noted that SAIs can undertake monitoring audits of the EI from the Financial, Compliance, Performance and Environmental Audits perspectives depending on the topic selected.

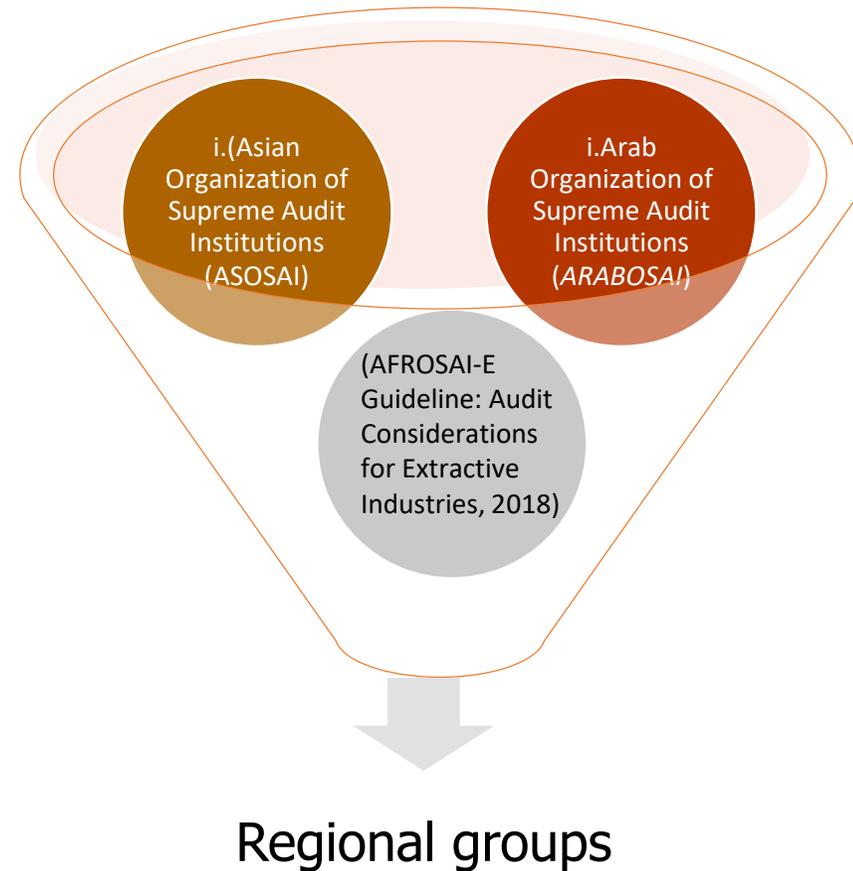


METHODOLOGY IN MONITORING AND EVALUATION AUDITS IN EIs

The following are the Standards that SAIs can use as a guide in the audit of EI.



The SAIs can also use customised guidelines on the audit of Extractive Industries from the respective regional Groups of the International Organization of Supreme Audit Institutions such as:



OTHER REFERENCE MATERIALS

1. Eleodoro M. A. (2009). Extractive Industries Value Chain. A Comprehensive Integrated Approach to Developing Extractive Industries. World Bank
3. (Owen Nichols. et al.2016). Evaluating Performance: Monitoring and Auditing Leading Practice Sustainable Development Program for the Mining Industry
4. Christian. A. (2017). Practice Guide to auditing Mining Revenues and Financial Assurances for Site Remediation. Canadian Audit and Accountability Foundation. <https://www.caaf-ca>
5. Lucia. M. (2018). Social impact assessment in the mining sector: Review and comparison of indicators frameworks. <https://www.sciencedirect.com>
6. Report of the Auditor General of Zambia. (2014), on the Management of Environmental Degradation Caused by Mining Activities in Zambia.
7. Republic Of Zambia Office of the Auditor General - Compliance Audit Report on the Awarding and Monitoring of Mining Rights for 2017 Accounts

CONCLUSION

Monitoring and Evaluation cuts across all stages of the Extractive Industries Value Chain. Therefore, SAIs can undertake the audits on monitoring and evaluation in all stages of the EI value chain.

These audits can be done from the financial, compliance, performance and environmental audits perspectives depending on the topic selected and audit objective.

The ISSAI standards developed by INTOSAI and guidelines on audit of EIs by regional groups of the International Organization of Supreme Audit Institutions can be used as methodology in the audits.





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