



Role of the Auditor General in Extractive Industry

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INTRODUCTION

- Zambia has wide spectrum of Mineral Resources a range of metals, particularly Copper, Cobalt, Gold, Manganese, Nickel , Gemstones, coal.
- Zambia is ranked as Africa's largest producer and exporter of copper and cobalt.

Introduction Cont...

- Minerals in the ground are vested in the President on behalf of the State.
- The right to explore or produce minerals is authorized by a license granted under the Mines and Minerals Act enforced by the Ministry of Mines, Energy and Water Development.

Importance of the Industry

- The country is dependent on its mining sector. On the overall, the mining sector in Zambia contributes about 12% to the Gross Domestic Product and 70% to the exports.

The Government collects mining revenues through;

- Company tax at rate of 30%
- Mineral royalty tax at 6% of quantities of minerals sold.
- PAYE
- Ground rates
- Area charges and licences fees

Role of AG – General Mandate

- The Office of the Auditor General in Zambia (OAG-) is established under Article 121 of the Constitution of the Republic. Apart from the Constitution, Public Audit Act No. 8 Cap 378 and the Public Finance Act No. 15 of 2004 of the Laws of Zambia provide the functions of the OAG.
- In general, the Auditor General has the duty of auditing all revenues raised by the Government and appropriations made to each Ministry and other Government Institutions. Under the Public Finance Act, the Auditor General also has the mandate of carrying out Value for Money and other specialised audits.

Role of Auditor General in the audit of Extractive Industry

- The Office of Auditor General has a limited role to play in the audit of mines as the mines are privately owned and the Government has a minority shareholding.
- It is for this reason that the Auditor General does not directly audit Extractive Industries but audits only Government Agencies that receive revenues from the Mines.

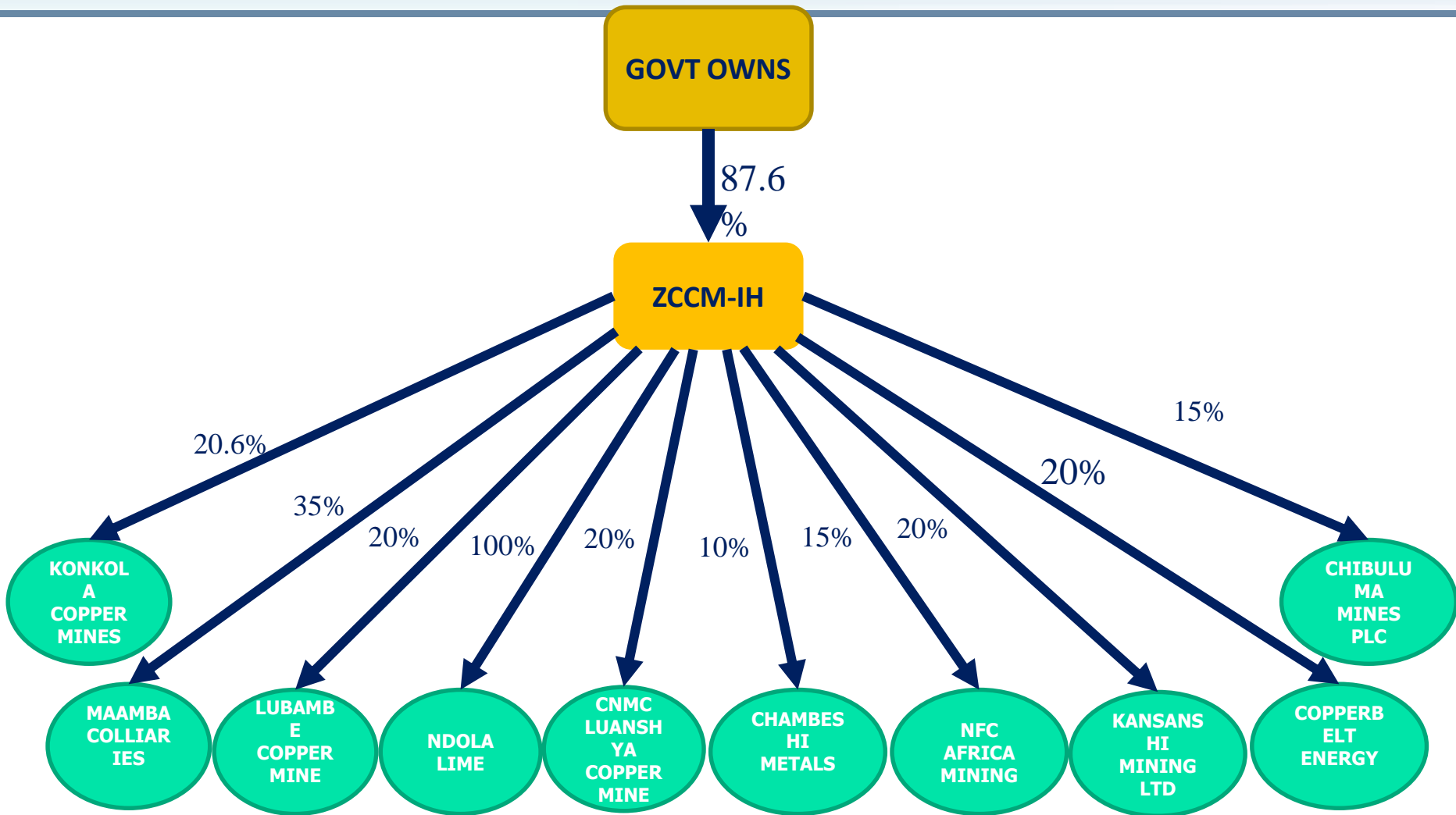
Role of Auditor General in the audit of Extractive Industry...Ctnd

- The audit of Extractive Industries is conducted by the Zambia Revenue Authority, our major Government Agency with the mandate to collect revenues on behalf of Government.
- The Zambia Revenue Authority has established, a well staffed mining tax unit and more comprehensive mining tax audits are being undertaken.

Role of Auditor General in the audit of Zambia Consolidated Copper Mines Investment Holdings.

- ZCCM-IH is a successor company to Zambia Consolidated Copper Mines Limited (ZCCM) in which the Government of the Republic of Zambia (GRZ) holds 87.6% of the shares with the remaining 12.4% held by private investors.

Role of Auditor General in the audit of Zambia Consolidated Copper Mines Investment Holdings



Role of Auditor General in the audit of Zambia Consolidated Copper Mines Investment Holdings

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- As a government company, the Auditor General is empowered by the Public Audit Act of 1980 to audit the company.
- ZCCM-IH being an investment holding company holding governments interest in the mines, therefore receives dividends as a source of income from its subsidiaries.
- Although the receipt of dividends can be confirmed with the company from the mining companies, the Auditor General is unable to audit the origins of the dividends.

The Auditor General as Reconciler of Discrepancies

- Zambia is a member of the global Extractive Industries Transparency Initiative (EITI) whose aim is to promote transparency in the use and distribution of revenues generated by the development of the country's extractive industry thereby reducing the risk of diversion or misappropriation of funds.
- The day to day operations are carried out by Zambia Extractive Industries Transparency Initiative (ZEITI) Secretariat.
- ZEITI appoints external auditors who reconcile payments by mining companies and revenue received by the Government.
- Since 2009, Zambia has produced two (2) reconciliation reports based on 2009 and 2010 financial years with unresolved discrepancies of K31billion and K8 billion respectively.

The Auditor General as Reconciler of Discrepancies

- The reconciliation reports prepared by the external auditor disclosed that Mining companies paid more as compared to what Government Agencies acknowledge as having received from the mines.
- It is a requirement by the EITI International Secretariat that the discrepancy if any is reconciled by an Independent reconciler. In this case Office of the Auditor General (OAG) was engaged in October 2012 and 2013 to reconcile the discrepancies disclosed by the External auditors.

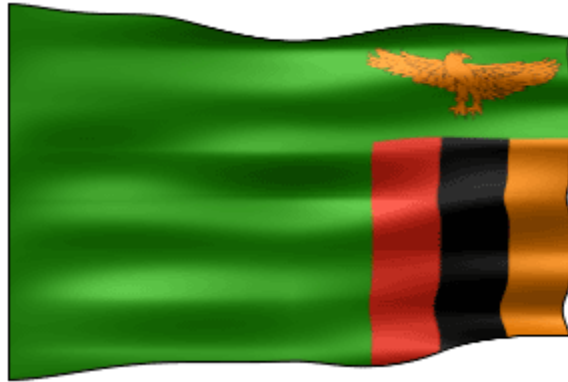
The Auditor General as Reconciler of Discrepancies

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- The report of the Auditor General disclosed that the discrepancy for 2010 was all traced to Bank of Zambia and out of K31 billion claimed not to have been received by Government Agencies in 2009, K30 billion was traced and confirmed to Bank of Zambia government account leaving a balance of K1 billion outstanding and this was reported in the auditor General's report.

Future Plans

- Train auditors on how to track revenues accruing to the country from all sectors of the extractive industry.
- The Mines and Minerals Act of 1995 needs to be amended to include wider participation by Government in mining sector.
- The Zambia Revenue Authority has established, a well staffed mining tax unit and more comprehensive mining tax audits are being undertaken. The Office will continue to work in close collaboration with this unit.



Thank you!!