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*To promote the audit of extractive industries*

Government of the  
Republic of Zambia  
Auditor General



# Case Study on Mining Environmental Liabilities and/or Recovery

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# Presentation

# Outline

1

**Mining Environmental Liabilities**

2

**Mining Environmental Liabilities  
Recovery**

3

**Case Study – Zambia EI Audit  
Background**

4

**Audit type and Objective**

5

**Key findings**

6

**Lessons Learnt and Conclusion**

# Mining Environmental Liabilities/ recovery

## Mining Environmental Liabilities

- Environmental impacts from mining operations are significant and quite often severe, especially in developing nations which lack adequate management of the sector. *Joanna Lindahl(2014)*
- Mining environmental liabilities recovery

## Mining Environmental Liabilities - Zambia

### Background

- In Zambia, impacts from mining results from both historical and ongoing mining operations, and the majority of them is located in the Copperbelt district.
- Recent investments in exploration and mine developments have, however, led to new operations also in other provinces.
- The main environmental problems associated with mines in Zambia are pollution of air, soil and water, geotechnical issues and land degradation.
- The contribution from old mining legacy sites have shown to be minor compared to current mining operations.

**Source:** *Environmental Impacts of Mining in Zambia, Joanna Lindahl(2014)*

# Zambia Environmental Liabilities Audit

## Audit type and objective

- Audit type: Financial and Compliance audit

### OBJECTIVES

Establish whether the Financial statements prepared by management presented a true and fair view of the affairs of the fund

To establish whether the funds activities were made in accordance with the provisions of the Act

## Audit procedure performed

- Compared data base of mining companies with the record of mining companies contributing to the fund.
- Reviewed and established whether EL for those mining companies not contributing to the fund were validated in line with the international standards
- Reviewed the standard formula recommended to use in the calculations of EL and compared with formula used by the respective mining companies inspected
- Reviewed the compliance levels whether in accordance with the provisions of the act.
- Reviewed whether all the mining companies had secured the bonds or bank guarantee

# Zambia Environmental Liabilities audit cont...

## Key Findings

Mining companies with mining rights but not contributing to the fund

Failure to use risk multiplier formula in the calculation of the estimated closure costs

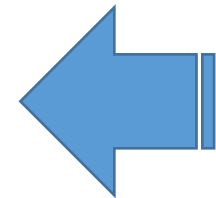
Risk of government using public funds to rehabilitate the mines in case of closure

Demand notices issued for cash contributions but not honoured

Mining companies operating without bank guarantees

## Key Findings

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# Zambia Environmental Liabilities audit cont...

## Key Lessons Learnt

The mining right holders were not compliant in that:

- Some were not contributing to the fund.
- Some omitted deliberately risk multiplier factors in the standard formula for calculating EL closure costs.
- Underestimation of EL due to the omission of risk multiplier factors in the calculation of mines closure costs.
- Most of them were operating without bank guarantees or bonds.

## Conclusion

As a result of the lessons learnt, it was recommended that:

- All mining companies be compliant and contribute to the fund.
- All mining right holders be inspected and establish whether they had applied the EL formula correctly.
- Corrections be made by mining right holders which had omitted the risk multiplier factors.
- EL recoveries be made so as to reduce the risk of the Government from covering mines closure costs.



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