



Audit of EFIC's application of its Policy and
Procedure for environmental and social
review of transactions

Export Finance and Insurance Corporation

29 October 2012

Report

Report preparation

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INDEPENDENT ASSURANCE STATEMENT

To the Board of Directors of Australian Export Finance and Insurance Corporation,

The Export Finance and Insurance Corporation (EFIC) commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide reasonable assurance with respect to EFIC's compliance with its *Policy for environmental and social review of transactions* and *Procedure for environmental and social review of transactions* for transactions occurring between 17 February 2011 and 16 August 2012.

Assurance Objectives

The purpose of the engagement is to provide assurance to the EFIC Board and external stakeholders that EFIC has properly completed the environmental and social review of transactions and, where relevant, their associated projects prior to approval, in accordance with the EFIC Policy and Procedure for environmental and social review (these being the *Policy for environmental and social review of transactions* and *Procedure for environmental and social review of transactions*, hereafter referred to as the "EFIC Policy" and the "EFIC Procedure" respectively).

Responsibility

EFIC was responsible for ensuring that the environmental and social review of transactions occurring between 17 February 2011 and 16 August 2012 had been performed fairly and in accordance with the EFIC Policy and Procedure. This responsibility included establishing and maintaining internal controls sufficient to ensure consistent final review of transactions and projects in accordance with the requirements of the EFIC Policy and Procedure.

Our responsibility is to express a conclusion on EFIC's compliance with the *EFIC Policy for environmental and social review of transactions* and the *EFIC Procedure for environmental and social review of transactions* for the period 17 February 2011 to 16 August 2012, in all material respects. The procedures selected depend on our judgment, including an assessment of the risks of material misstatement or material non-compliance of the matter being audited. We conducted our engagement in accordance with *ASAE3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information (July 2007)*.

Assurance Standard and Scope

This reasonable assurance engagement was conducted in accordance with Australian Standards on Assurance Engagements *ASAE3000 Assurance Engagements other than Audits or Review of Historical Financial Information* ("ASAE3000"), as issued by the Australian Auditing and Assurance Standards Board. The engagement scope covered transactions occurring between 17 February 2011 and 16 August 2012.

Inherent Limitations

A reasonable assurance engagement consists of making enquiries, primarily of persons responsible for performance of the environmental and social review, applying analytical and other review procedures, and examination of evidence for a number of transactions and, where relevant,

associated projects. The review procedures selected depend on the auditor's professional judgement, including assessment of the risks of material misstatement of the review prepared by EFIC, whether due to fraud or error. In making this audit assessment, we considered internal controls relevant to the entity's preparation and fair presentation of the transaction review in order to design procedures that are appropriate. While we considered the effectiveness of EFIC's internal controls when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Additionally, non-financial performance data may be subject to more inherent limitations than financial data, given both its nature and the methods used for determining, calculating and sampling or estimating such data. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Restriction to use of the report

This statement represents the assurance provider's independent opinion. Net Balance's responsibility in performing its assurance activities was to the management of EFIC alone and in accordance with the terms of reference agreed with EFIC. We disclaim any assumption of responsibility for reliance on this Assurance Statement or on the subject matter to which it relates, to any person other than the management of EFIC, or for any purpose other than that for which it was prepared. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

The criteria selected for this engagement are the *EFIC Policy for environmental and social review of transactions* and the *EFIC Procedure for environmental and social review of transactions*. Our engagement and this report are based solely on these documents and any related documents directly referred to by the EFIC Policy and Procedure. This report is to be interpreted solely on the basis of the EFIC Policy and Procedure and not in relation to any other matter.

Summary of the work performed

Assurance Methodology

Net Balance's assurance methodology consisted of evaluating EFIC's compliance with internal environmental and social policy and procedures for review of transactions. The procedures selected depend on the assurance provider's judgement, including assessment of the risks of material misstatement resulting from the review process undertaken by EFIC. In making judgements, consideration was given to the internal controls relevant to the transaction reviews.

Evidence gathering for the evaluation of the review of transactions involved the following:

- interviews with the EFIC personnel responsible for undertaking transaction reviews, to understand the internal process undertaken in line with the EFIC Policy and Procedure
- review of all transactions completed in the period 17 February 2011 to 16 August 2012
- development of an assurance review checklist
- desktop research
- head office site visit

- data testing and review of a sample of transactions for evidence of compliance with the EFIC Policy and Procedure
- interviews with EFIC personnel to confirm assumptions and to collect further documentary evidence.

The assurance engagement was undertaken from September to October 2012 and the procedures took place at the head office of EFIC at Sydney NSW.

Our Independence

The Net Balance assurance team has the required competencies and experience to conduct this engagement. Net Balance confirms that we are not aware of any issue that could impair our objectivity in relation to this assurance engagement. Net Balance has not had any part in developing, advising or using EFIC's compliance with its transaction review procedures in advisory work for EFIC or its clients. Further, in conducting this assurance engagement Net Balance has met the independence requirements of our Independence Policy. A copy of our Policy can be found at <http://www.netbalance.com/services/assurance>.

Reasonable Assurance conclusion

Based on our reasonable assurance procedures as described in this statement, the environmental and social review of transactions and, where relevant, their associated projects completed by EFIC, between 17 February 2011 and 16 August 2012, is properly completed and presented fairly, in all material respects, in accordance with the requirements the EFIC *Policy for environmental and social review of transactions* and the EFIC *Procedure for environmental and social review of transactions*.

On behalf of the assurance team
29 October 2012
Melbourne, Australia



Terence Jeyaretnam, FIEAust
Director, Net Balance & Lead CSAP (IRCA UK)

Appendix 1 – Audit process, findings and recommendations

Engagement Context

Context

The Export Finance and Insurance Corporation (EFIC) is a corporation established by the *Export Finance and Insurance Corporation Act 1991* (the EFIC Act), and to which the *Commonwealth Authorities and Companies Act 1997* applies. The functions of EFIC (the EFIC Act, §7) are as follows:

- a) to facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- b) to encourage banks, and other financial institutions, carrying on business in Australia to finance, or assist in financing, export contracts or eligible export transactions;
- c) in relation to overseas aid projects that involve the making of payments under export contracts out of money made available by the Commonwealth or a Commonwealth instrumentality, on behalf of the Commonwealth or that instrumentality, as the case may be:
 - i. to manage the application of money made available by the Commonwealth or the Commonwealth instrumentality; and
 - ii. to ensure that payments under those contracts are properly authorised; and
 - iii. to attend to payments out of that money;
- d) to provide information and advice to any person regarding insurance or financial arrangements available to support Australian export trade;
- e) to do any other act or thing required by or under this or any other Act to be done by EFIC.

In performing its functions, EFIC must, *inter alia*, “have regard to: ... (iii) Australia’s obligations under international agreements.” (§8(2)(b)(iii)). §9 of the EFIC Act authorises the Minister (at this time, the Minister for Foreign Affairs and Trade) to make binding written directions to EFIC in the performance of its functions or exercise of its powers in the public interest, but expressly excludes the ability of the Minister to direct EFIC to authorise or not authorise an individual transaction. All such directions are disclosed in the EFIC Annual Report.

Accordingly, EFIC is authorised to act in its own discretion in the performance of its functions and exercise of its powers, subject to the general efficacy, efficiency and economic requirements of the Act, Australia’s relevant international agreements and any specific directions made by the Minister (§8).

In performing its functions, EFIC has elected to:

1. establish a Policy and Procedure for the environmental and social review of transactions;
2. use the International Finance Corporation (IFC) Performance Standards;
3. adopt the Equator Principles;
4. disclose its potential involvement in certain projects prior to making a decision; and
5. report all transactions in the EFIC Annual Report and via the EFIC website.

One element of EFIC's Policy is a commitment to engage a competent independent third party auditor to audit compliance of EFIC with its *Policy for environmental and social review of transactions* and *Procedure for environmental and social review of transactions*.

EFIC has also stated its policy in relation to risk management in the Annual Report 2011 (p69-70) and on its website

(<http://www.efic.gov.au/about/governance/framework/Pages/riskmanagementframework.aspx>).

General requirements

Two documents, the EFIC Policy and Procedure, provide guidance to the environmental and social review of all transactions.

One of EFIC's Values, restated in the section *Purpose* of the EFIC Policy, is "to uphold best-practice environmental and social standards in the transactions it supports". This is a self-imposed and voluntary commitment. EFIC is bound by the OECD *Recommendation on Common Approaches on the Environment and Officially Supported Export Credits* (the "Common Approaches"), and has voluntarily adopted the Equator Principles. The Common Approaches only apply to export credits and the Equator Principles only apply to project finance, which together represent a subset of EFIC's transactions. The EFIC Policy and Procedure were developed to incorporate the requirements of those two global approaches.

EFIC's environmental and social review process considers:

- an exporter or financier's role in a transaction, which can affect their responsibility for and ability to influence environmental and/or social impacts;
- the potential environmental and/or social issues associated with a transaction;
- Australia's obligations under international agreements; and
- the previously mentioned global approaches.

Where a potential for environmental or social impact is identified, EFIC generally uses as its benchmark the relevant Performance Standards established by the IFC, a member of the World Bank Group. If the transaction supports a project implemented in Australia and all relevant government approvals have been obtained, then EFIC considers the benchmark(s) to have been met. EFIC has used a checklist for all transactions reviewed from 1 July 2011 for a consistent review approach and audit record.

A transaction, which meets the following threshold, is disclosed for public comment prior to approval:

- Is associated with a project located outside Australia with a potentially significant environmental or social impact;
- Has a repayment term or policy length in excess of two years; and
- Has a monetary value in excess of SDR10million.

Risk Evaluation

A comprehensive risk evaluation is completed for all new projects other than those classified as Category C. This evaluation is done using the IFC Performance Standards or another relevant benchmark. Similarly, a comprehensive risk evaluation for all non-projects classified with potential environmental or social risk is undertaken, also to the IFC Performance Standards or another relevant performance benchmark. EFIC will decline a transaction if the environmental and/or social impacts do not satisfy the relevant benchmarks.

Audit process

The audit engagement was planned to gather sufficient appropriate evidence to provide reasonable assurance of the compliance of EFIC with its Policy and Procedure.

Audit summary

- Audit Standard: ASAE3000
- Assurance: Reasonable
- Materiality: a knowledgeable stakeholder, knowing the transaction characteristics and EFIC Policy and Procedure and becoming aware of the information, would be likely to reach a review conclusion different to EFIC
- Criteria: EFIC Policy and Procedure
- Subject matter: Review of EFIC transactions completed between 17 February 2011 and 16 August 2012.

As part of this engagement, Net Balance also identified opportunities and made suggestions on how risk assessment, internal data collection and reporting systems can be improved.

We also note that one of EFIC's values is to "uphold best-practice environmental and social standards it supports." Where we found EFIC was implementing actions as part of its environmental and social evaluation that were not explicitly required in the EFIC Procedure, we sought guidance from the EFIC Policy and best-practice environmental and social standards.

Engagement approach

Net Balance applied assurance procedures to allow us to provide reasonable assurance over EFIC's compliance with its *Policy for environmental and social review of transactions* and *Procedure for environmental and social review of transactions*. Net Balance visited the EFIC head office and remotely assessed transaction documentation. A sample of transactions were selected to ensure a reasonable coverage of the types of transactions normally supported by EFIC and subject to environmental and social review. Our approach to this assurance project involved a combination of:

- development of a review checklist;
- review of transactions for compliance with the EFIC Policy and Procedure;
- desktop research;
- a head office site visit;
- data testing and review; and
- reporting.

Engagement Risk Assessment

Based on our experience conducting audits of this type, we identified the following key risk areas for EFIC’s review activities. This risk assessment allowed us to focus our attention on the areas most likely to contain compliance weaknesses. The risk assessment process is iterative, and continued throughout the project as we became more familiar with EFIC’s operations and systems. However, we did not become aware of any reason to update our original risk assessment.

Issue/risk area	Testing to be conducted
Operational control: EFIC is required to apply their internal policy and procedures together with other supporting internal documents and external standards in the review of transactions.	We reviewed the key judgments made by management and operational personnel based on transaction records and interviews with operational personnel.
Application of professional judgement: Application of the EFIC Policy, Procedure and supporting documents require the use of high levels of professional judgment. It is important that the professional judgment of different analysts would provide the same consistent outcome if applied to the same transaction.	We reviewed the application of professional judgment to matters of interpretation and analysis in the review process, in particular to consistency of approach over time.
Interpretation of factual matters: Matters of fact are fundamental to the correct application of the EFIC Policy and Procedure and need to be understood and interpreted correctly.	We reviewed the analysis and disposition of matters of fact from the applications for financial support from the sample.
Records: Records of transaction review sufficient to demonstrate that all matters relevant to the review were properly considered need to be maintained.	We reviewed the records maintained for the sample of transactions and confirmed whether appropriate records are in place.

Audit procedures for head office

Net Balance attended the EFIC head office to meet with personnel engaged in the environmental and social review of transactions. During these meetings we gained confidence in the manner and process used in the review of individual transactions and, where relevant, associated projects.

Audit procedures for transaction records

Net Balance reviewed a sample of the transactions completed by EFIC during the period covered by the engagement. In reviewing the transactions, we:

- Prepared a compliance checklist designed to identify those matters that require professional judgment, and that included the essential matters of fact relating to transactions (refer to Appendix C).
- Selected an appropriate sample of transactions consistent with the reasonable level of assurance likely to include the key matters requiring professional judgment and careful application of the screening and classification process.
- Reviewed each of the selected sample of transactions against the checklist requirements, and confirmed that matters requiring professional judgment had been fairly assessed and matters of fact had been correctly interpreted.

Sample group

Transaction and project testing

The following sample of transactions was used to test the extent to which EFIC had implemented its Policy and Procedure.

Classification	Number of transactions	
	Completed transactions	Selected for audit
A	2	2
B	6	6
C	17	17
Potential Impacts - Yes	2	2
Potential Impacts - No	19	13
Total	46	39

All of the completed transactions had been reported in either EFIC's Annual Reports or in the transaction register on EFIC's website. Transactions were selected for the audit based on the following criteria:

- All transactions associated with Category "A" or Category "B" projects and non-projects with potential impacts.
- Projects of a similar type and in a similar location, but with a different final classification.
- Transactions and projects in a spread of countries, facility types, facility amounts and project types.
- A sufficient number of classification "C" or "low potential" transactions and projects to provide a representative sample (we selected 30 from 36 possible transactions).

Audit Activities

Site Visits

Net Balance visited the EFIC office located at Export House, 22 Pitt Street, Sydney on four separate occasions. The visits and outcomes are as follows:

Date	Net Balance	EFIC	Activities and Conclusions
5 September 2012	Mark Lyster Simon Dawes	Directors Environmental and Technical Review	Confirmation of scope of work, agreement as to process and reporting, collection of documents, receipt of electronic transaction files.
28 September 2012	Terence Jeyaretnam Simon Dawes	Director Environmental and Technical Review	Update on progress and confirmation of reporting timeline, review of work activities, discussion of EFIC process, arrangement for further site audit.
5 October 2012	Simon Dawes	Director Environmental and Technical Review	Review of files for transactions associated with Category A, B and C projects , discussion of EFIC review process, review of transaction records, review of basis of categorisation decisions and application of Policy and Procedure, review of application of new supporting documents for filing and record-keeping.
16 October 2012	Simon Dawes Mark Lyster Terence Jeyaretnam (by Telephone)	Chief Credit Officer and Directors Environmental and Technical Review	Consideration of draft audit findings and report.

Transaction Reviews

Review of the sample transactions was conducted by the engagement team led by the Project Manager. The Project Director/Lead Auditor maintained oversight of all engagement activities to ensure that independence of the team in accordance with the Net Balance [Independence Policy](#) was

maintained and that sufficient appropriate evidence was obtained to support the conclusions and findings of the engagement team.

Documentation for the transactions in the sample was provided to the engagement team by EFIC. Including all transactions, EFIC provided approximately 2.57 GB of data, comprising approximately 1260 files. For each transaction, the documentation included some or all of:

- Reports prepared by EFIC staff
- Internal emails between EFIC personnel related to the social and environmental review
- External emails between EFIC and the exporter, or project proponent, or syndicate lenders, or other ECA facility providers
- EFIC technical, social and environmental review working papers
- Environmental and Social Impact Statements, independent reviews, and similar material
- Material from independent sources (such as websites and newspaper articles) considered by EFIC in its review.

We structured our review process by considering the final report prepared for the Board, Executive or delegate of EFIC in order to confirm that the matters of fact and of professional judgement expressed in the report are supported by material in the file, and also by considering the file documents to confirm that there are no matters revealed in the supporting documents that are improperly discussed in the final report.

Net Balance prepared a process checklist based on the EFIC Procedure and EFIC Checklist to guide review of the documentation and to maintain a consistent format for providing comment on documents.

EFIC Procedural Documents

Document Name	Issue Date
Policy for environmental and social review of transactions	17 February 2011
Procedure for environmental and social review of transactions	29 August 2011
EFIC Checklist for environmental and social review of transactions	20 July 2011

Audit Findings

Environmental and social evaluation review process

EFIC conduct their environmental and social review in accordance with the EFIC Procedure and, since 1 July 2011, also complete the EFIC Checklist. The framework process documented in the EFIC Procedure is:

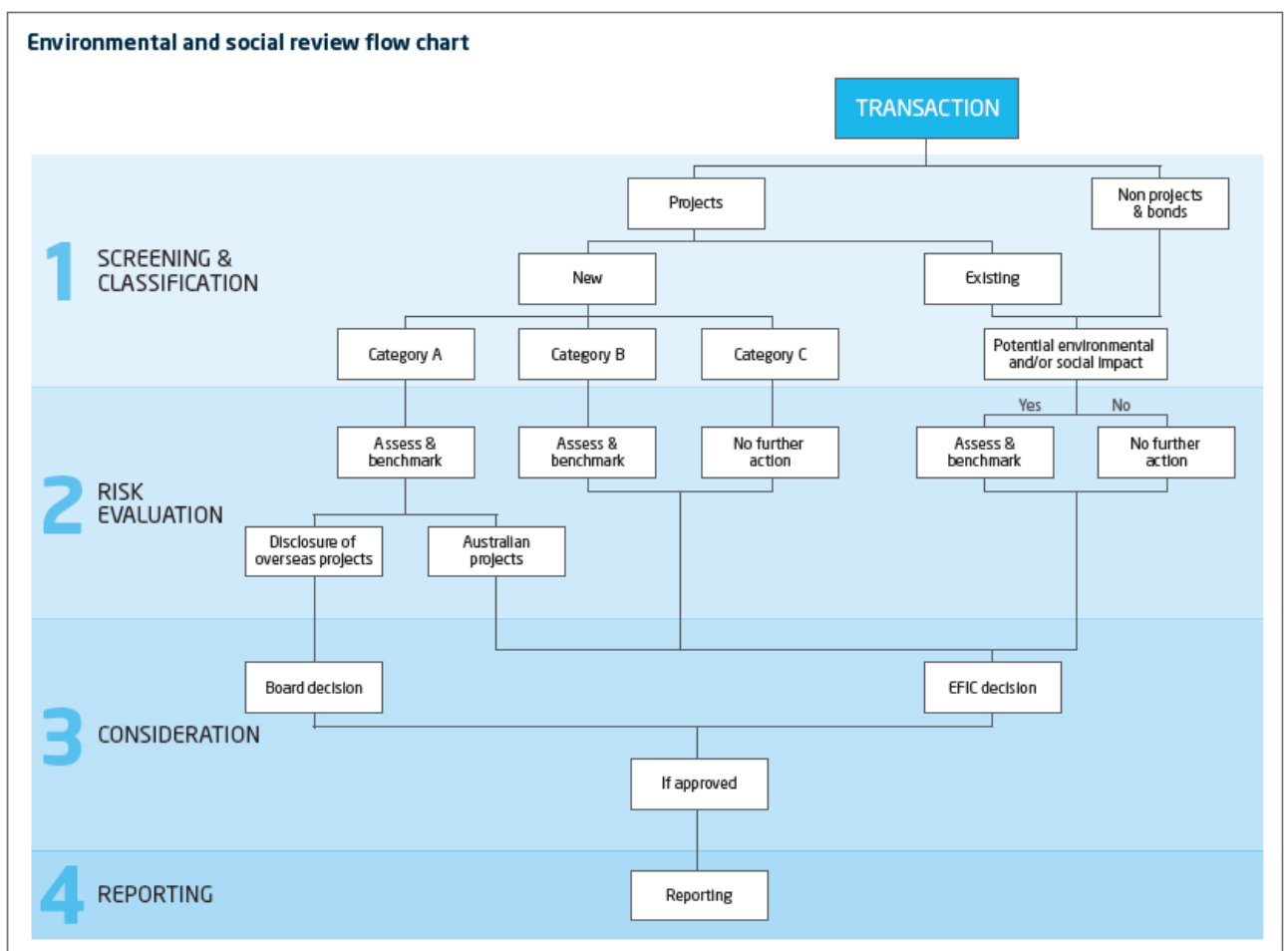
1. Screening and classification
2. Risk evaluation

3. Consideration
4. Reporting.

We considered the review process in two ways – by interview of EFIC personnel and by review of the extant documents. As we noted in the previous section, while the overall process follows the EFIC Procedure, the activities within each step are selected to suit the transaction. Where we found additional guidance was necessary, we referred to the EFIC Policy.

The following diagram is extracted from the Procedure, and shows the process milestones, decision points and core activities completed as part of the social and environmental evaluation.

EFIC Procedure for social and environmental review of transactions (EFIC Procedure, p2)



We reviewed each transaction in the sample by assessing the documents and records and, where necessary, interviews with EFIC personnel to provide evidence of the work undertaken during each phase in the process. We kept sufficient appropriate records of the evidence we gathered using the compliance checklist developed for the audit to support our conclusions.

Phase 1 – Screening and classification

Description of Phase

In the first Phase, a project associated with a potential transaction is classified as Category A, B or C, and as potential environmental and/or social impact (approximating a Category A or B) or no potential environmental and/or social impact for non-projects (approximating a Category C). The difference between a project and a non-project is that a project is associated with activities supported by an EFIC facility at a defined geographic location whereas a non-project is not.

The initial screening and classification is a critical first step, and the information gathered during the environmental and social screening and initial classification is used to:

1. Confirm the status of the potential transaction as a transaction associated with a project or non-project;
2. Identify the performance standards to be applied;
3. Complete an initial determinative classification of the transaction as Category C/no potential impact or as Category A/B or with some level of potential impact, including consideration of environmental and social risk sufficient to inform the classification decision; and
4. Where they become apparent, identify environmental or social impacts that may become a community concern in Australia and provide advice to the EFIC Executive team.

Conclusion

Overall, in consideration of the various suggestions described below, we found that in each transaction reviewed the outcome of the initial screening and classification process was fairly stated, supported by the documentary evidence or verbal evidence provided to Net Balance, and free of material misstatement. Our suggestions below are therefore only intended as improvement opportunities alone.

Comments and Suggestions

We observed considerable interest within EFIC around issues external to the transaction (i.e. not directly related to the environmental and social benchmarking). While providing advice on such issues is not a specific function of the environmental and social review, the EFIC personnel responsible for the review provide these comments, for example, where changing community perceptions intersect with EFIC transactions.

We suggest that EFIC considers carefully how to best consider issues external to a transaction.

As we reviewed the transactions in the sample, we found that the initial screening and evaluation process and the classification decision (which then informs the environmental and social evaluation) does not record the primary reason for classification of a transaction as Category A or B for a project, or some potential environmental and/or social impact for a non-project, or the primary reason for classifying a project as Category C or a non-project as no potential environmental and/or social impact. We also noted that guidance as to the degree of potential environmental and/or social impact that would constitute the basis for the classification decision was not documented in the

Procedure. This is an important decision, as only Category A and B projects, and some potential environmental and/or social impact non-projects, are subject to further risk evaluation.

We suggest that the EFIC process is updated to document the primary reason for classifying a transaction as Category A or B for a project, or some potential environmental and/or social impact for a non-project, or the primary reason for classifying a project as Category C or a non-project as no potential environmental and/or social impact.

We suggest that EFIC document in the Procedure guidance as to the degree of environmental and/or social impact that would constitute the basis for classification of a transaction as a Category A and B project, or a non-project with some potential environmental and/or social impact.

In regards to the above recommendation we note that an amendment to EFIC's Checklist (dated 30 August and outside the period of this audit) has commenced EFIC's response to this recommendation.

One difficulty we encountered in the review is that some transactions are considered over a number of years, and the sample group included transactions that had been reviewed prior to implementation of EFIC's Policy of February 2011. We found that, in accordance with normal practice, the checklist had been used for transactions commenced after 1 July 2011, but not used for significant extensions to an existing facility completed after that date.

We suggest that the process for approval of a significant extension to an existing facility is documented, and note that the EFIC Checklist may be appropriate for this purpose.

As well, while there are numerous documents in the transaction files which support the conclusion of the initial screening and classification and (in the transactions commenced after 1 July 2011) a completed checklist, it is difficult to identify the documents or the specific sections of a document that EFIC considered determinative in reaching the initial classification decision. In this context, we noted in the EFIC Procedure that the EFIC Checklist is intended to "... provide an audit record." (p2). While the EFIC Checklist does provide an indication that certain activities were completed, it does not provide a sufficient audit record, particularly for a reasonable level of assurance.

We suggest that EFIC records in the checklist or using a similar process sufficient appropriate information to allow another technically competent person to reach the same classification conclusion.

We also suggest that EFIC consider revising the arrangement of the checklist so that it follows the evaluation process flow more closely, and in particular to separate the more comprehensive Category A/B or with potential Risk Evaluation section into a clearly discrete part.

Phase 2 – Risk Evaluation

Description of Phase

The risk evaluation phase is the lengthiest in the social and environmental evaluation process. It is a process of progressive evaluation to reach a consensus decision. The review is led by and has primary input from the two EFIC personnel responsible for social and environmental evaluation (one of the two having primary responsibility for a specific transaction), and includes consideration at different stages of the process by the EFIC Credit Committee and other professional colleagues, and discussion with stakeholders from other organisations involved in the transaction. Category A Projects covered by the disclosure requirement also benefit from the views of external stakeholders. Documentation of the evaluation is primarily by internal email, external email, comments on reports by other operational units of EFIC, and comments on term sheets and related transaction documentation. Activities undertaken within the phase include, over time:

1. internal discussion within EFIC, including the Credit Committee;
2. review of transaction documentation;
3. review of other independent documentation;
4. correspondence with the exporter and where relevant the project proponent and the lending syndicate;
5. discussions with other Export Credit Agencies (where relevant); and
6. application of professional judgement.

The outcome of the risk evaluation undertaken by EFIC is twofold:

1. confirmation of the initial classification of the transaction; and
2. inclusion of the findings of the social and environmental risk evaluation in a formal recommendation to the Board or a delegate of EFIC that the transaction be either supported or declined based on satisfaction of the relevant benchmarks (we note that a transaction may also be rejected on the basis of economics, underwriting or technical risk).

Where relevant, recommendations related to issues external to a transaction are included in the environmental and social report and the Board or a delegate of EFIC recommendation.

Conclusion

Overall, in consideration of the various suggestions described below, we found that in each transaction reviewed the outcome of the risk evaluation process was fairly stated, supported by the documentary evidence or verbal evidence provided to Net Balance, and free of material misstatement. Our suggestions below are therefore only intended as improvement opportunities alone.

Comments and Suggestions

We reviewed the risk evaluation process undertaken for each of the Category A and Category B projects and the potential impact non-projects in the review sample. We found extensive documents available in the electronic files to support Category A, B, and potential impact transactions.

We found that filing of the documentation related to the risk evaluation phase was relatively unstructured. A useful control mechanism in complex reviews of this type is to document the identification and resolution of issues as they arise and are resolved. We found evidence that all identified issues had been resolved, but this was difficult to locate.

We suggest that EFIC tracks issues and their resolution as they arise and are resolved. This could include methods such as maintaining oversight of a risk issues log prepared by a consultant, recording the finalisation of issues recorded as comments in a document such as a term sheet, or recording issues in the EFIC Checklist or similar, and recording (on the checklist) the various tracking documents in use.

We considered transaction reviews using the IFC Performance Standards or other suitable standards. We reviewed some transactions such as, for example, those involving animal exports, where, in our opinion the IFC Performance Standards did not address some risk issues. We received verbal and written advice from EFIC that, in such cases, additional review measures are implemented.

We suggest, in keeping with the EFIC Policy, that where EFIC considers the IFC Performance Standards do not provide adequate guidance and additional review measures are warranted, an appropriate standard for assessment of the project is selected as best practice and to provide an objective and transparent basis for the review.

Phase 3 – Consideration

Description of Phase

Transactions are considered for approval in accordance with the EFIC Act, and as delegated by the EFIC Board.

Conclusion

Overall, we found that in each transaction reviewed, the Board or delegate of EFIC report was fairly stated, supported by the documentary evidence or verbal evidence provided to Net Balance, and free of material misstatement.

Comments and Suggestions

We considered the draft Board and delegate of EFIC reports as part of our audit process. We found that the Board and delegate of EFIC reports fairly presented the conclusions reached in the environmental and social evaluation process.

Phase 4 – Reporting

Description of Process

EFIC publish all transactions on their website and in their Annual Report.

Conclusion

We found that the list of transactions reported by EFIC to be fairly stated, and free of material misstatement.

Comments and Suggestions

The transactions we reviewed were reported in the EFIC Annual Report 2011, the draft EFIC Annual Report 2012 and in a listing supplied by EFIC of transactions approved after 30 June 2012 and are available on the EFIC website. We selected our sample of transactions from the list in the Annual Report, draft Annual Report and EFIC list, and were provided with documents related to all of the selected transactions. We note that the Annual Report is subject to audit by the Australian National Audit Office. We considered the internal process controls with EFIC associated with preparation of the Annual Report and associated documents, and consider that the investigations we have completed related to the sample of transactions constitute sufficient appropriate evidence.

Appendix 2 – qualifications and experience of assurance practitioners

Lead Auditor – Terence Jeyaretnam

Terence is a Founding Director of Net Balance in Melbourne and holds a degree in Environmental Engineering (UWA), is a Chartered Professional Engineer and a Fellow of the Institute of Engineers Australia. He is only one of eight professionals globally to be awarded the grade of Lead Sustainability Assurance Practitioner by AccountAbility for signing off sustainability reports to the AA1000 Assurance Standard. He has signed off as an independent assurance provider on over 150 corporate sustainability and environmental reports over the past decade.

Terence is a specialist in sustainability strategy and disclosure. Some of his early work includes authoring the National Framework for Corporate Public Environmental Reporting for the Federal Government in 1998 and advising The Body Shop in the mid-1990s.

Terence has a significant audit background, having previously been an EPA (vic) accredited environmental auditor and an RAB/QSA auditor. He has also undertaken over 100 environmental site assessments.

Terence formerly chaired the College of Environmental Engineers, and Engineers Australia's Sustainability Committee. He has been a monthly columnist on sustainability for the Engineers Australia magazine for over five years, and is a member of the editorial board of the US Journal Sustainability: Science, Practice and Policy. In 2005, Terence was named as one of the top 10 most influential young engineers in Australia by Engineers Australia.

Project Manager and Senior Auditor – Simon Dawes

Simon commenced his professional career as an electrical engineer, specialising in the design, construction and maintenance of electrical distribution systems. More recently he worked as a Lead Auditor for quality, environmental, safety, forestry and greenhouse audits for Det Norske Veritas, a multinational audit and assurance firm. During his time at DNV he also managed the DNV Australian certification business and then the climate change business for a number of years. During this time he conducted many audits for the NSW GGAS, Greenhouse Challenge Plus, New Zealand government climate change programs and international voluntary programs. He was also project leader for development of the Greenhouse Friendly Program and for the first round of independent verification of Greenhouse Challenge for the Australian Greenhouse Office.

Immediately prior to joining Net Balance, Simon was the Senior Vice President for Environmental Engineering at Carbonflow, a San Francisco (and now Zurich) based start-up developing a SaaS project management software platform for greenhouse gas reduction projects, specifically for the Clean Development Mechanism, Verified Carbon Standard and Climate Action Reserve. Simon worked closely with the San Francisco based engineering team on key design and architecture decisions, on marketing and sales with the leading carbon market participants in Europe and the US, and in pre-sales engineering and development with key clients.

He is a Chartered Member of the Institution of Engineers, Australia, a member of the VCS AFOLU Steering Committee, the JAS-ANZ Accreditation Review Board and also conducts auditor witness audits for JAS-ANZ. He is a registered NGER Category 1 (Technical) Auditor.

Simon holds an honours degree in Electrical Engineering, a Masters degree in Business Administration and a Graduate Certificate in Petroleum Engineering.

IFC Performance Standards, Equator Principles, Human Rights and Animal Welfare subject matter expert – Mark Lyster

Over the last 15 years Mark has advised leading corporations on how to embed sustainability into their operations in ways that add shareholder and stakeholder value. He specialises in the finance, resources and infrastructure sectors and leads Net Balance's sustainability strategy, sustainable procurement and human rights services.

Mark has advised some of Australia's principal companies, including the Commonwealth Bank of Australia, ANZ, Sydney Water, Fortescue Metals Group, Spotless Group, Port of Brisbane Corporation, Transport for NSW, Diageo Australia, Optus, Wattyl Paints, AGL, DEXUS, TRUenergy, HiFERT, Placer Dome Asia Pacific, Lend Lease, Elders, Meat & Livestock Australia and Cotton Australia.

Mark is well known for his work in the finance sector and has been a pioneer in assisting financial institutions integrate sustainability into their core business operations (lending, investing, underwriting and asset management). Over the last decade Mark has had long-term assignments with some of Australia's largest financial institutions, including the ANZ Banking Group, Insurance Australia Group, Zurich Australia, Colonial First State Asset Management, Souls Funds Management, Maple-Brown Abbott, Commonwealth Bank of Australia, Newcastle Permanent and Macquarie Bank. More recently he has assisted two of Australia's largest banks on developing environmental, social and governance policies and procedures for their wholesales lending activities, including human rights, forestry, mining, water and the application of the Equator Principles, IFC Performance Standards and the OECD Guidelines for Multi-national Enterprises.

Mark's interest in sustainability started in South Africa through his work with the Institute of Natural Resources and culminating as a senior executive with the Development Bank of Southern Africa. Mark has an MSc (Agricultural Economics) and attended the Executive Development Program at IMD in Switzerland.

Auditor – Guy Edgar

Guy holds a degree in Science from the University of Melbourne, majoring in Meteorology, and has around fifteen years professional experience managing and implementing environmental and risk assessment projects across the majority of industrial and corporate sectors. He has undertaken environmental assessments in all states of Australia and has a broad and diverse background, specialising in air quality, where he has presented papers at international conferences and acted in court cases as an expert witness.

Over the last four years, Guy worked for EPA Victoria in a number of roles including managing multiple science based units. He assisted in EPA Victoria's understanding of what air quality would look like under climate change. He has actively participated in strategic environmental committees both at state and federal levels and is also an accredited member of the Clean Air Society of Australia and New Zealand. Guy specialises in air quality assessment, but more broadly how to best position organisations in our changing climate through mitigation measures and adaptation planning.

Auditor – Nadia Woodhouse

Nadia has over 6 years' experience in the professional services industry, most recently working in sustainability consulting and focussing on sustainability strategy for a number of ASX 200 companies. Working with clients across industries such as manufacturing, retail, food and grocery, financial services and IT, Nadia has had experience in managing and delivering energy efficiency projects; employee engagement programs and environmental compliance.

Prior to leaping into the sustainability industry, Nadia worked as a senior financial statement auditor at Ernst & Young in both the Perth and Melbourne offices. Specialising in the minerals, energy and resources industries, Nadia worked alongside many Australian and international oil and gas leaders, such as Woodside Petroleum; Exxon Mobil and ConocoPhillips. She also has an in-depth knowledge of hard rock exploration and mining.

As well as a recently attained Masters of Environment (Climate Change) from the University of Melbourne, Nadia completed her undergraduate studies at the University of Western Australia in Commerce/Science majoring in land and water management, accounting and finance. Nadia is also a Chartered Accountant.

Quality Assurance – Michael de Soyza

Michael has over a decade of professional industry experience in corporate sustainability strategy integration and advisory, sustainability data management, assurance, reporting and environmental management.

Michael holds a Master of Philosophy in Environmental Management from the University of Cape Town, in South Africa, a Bachelors of Arts in English (Hons) from the University of Colombo, and a MBA from the University of Wales. Michael has undergone training and certification as a GRI certified sustainability professional and has also received executive leadership training from INSEAD.

Prior to joining Net Balance Michael served as the Head of Group Sustainability and Corporate Affairs at Dialog Axiata PLC in Sri Lanka, a subsidiary of Axiata Group, Malaysia. At Dialog Michael successfully led a transformational business agenda to integrate sustainability across the group and provided leadership to nascent business models aimed at reaching communities at the base of the pyramid in emerging markets, through public-private partnerships and through multilateral donor interventions. During his stint at Dialog, Michael served on numerous public-private partnership working groups chaired by government as well as multilateral working groups chaired by the GSMA.

Prior to his appointment at Dialog, Michael worked in the oil and gas industry at Shell in Sri Lanka and in the financial services sector with the ORIX group in Saudi Arabia and Sri Lanka, where he managed programmes broadly related to access to micro finance, social innovation and social entrepreneurship. Michael also served as a Director on the Board of the United Nations Global Compact Network Ceylon the local network of the UNGC in Sri Lanka.

Appendix 3 – audit checklist

EFIC Environmental and Social Policy and Procedure transactions compliance review: EFIC Process Assurance Checklist 2012

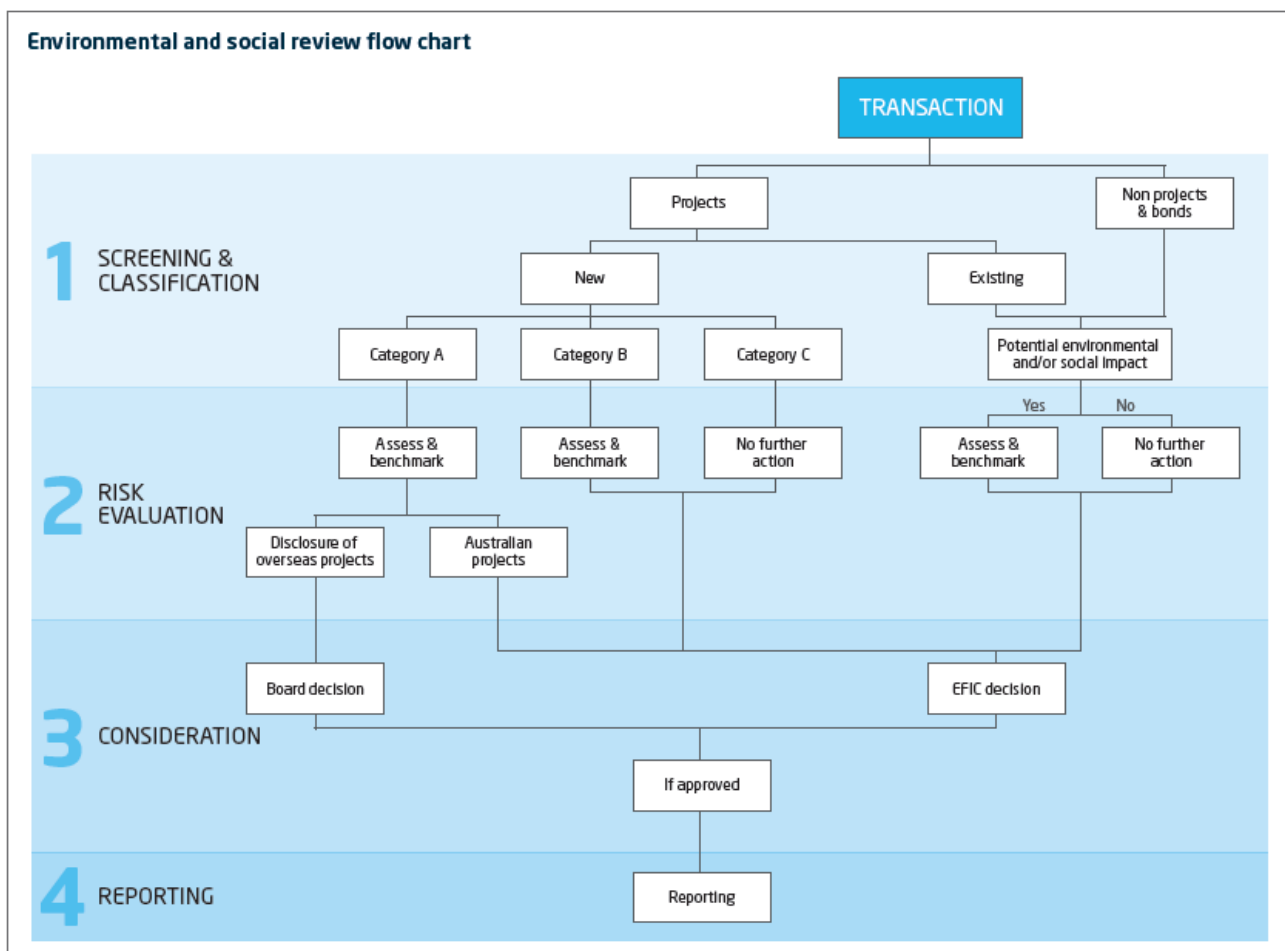
0.1. Project:

Project title:

0.2. Aim

This checklist is intended to facilitate a consistent approach to the review of transactions completed by EFIC against the EFIC policy and procedures for environmental and social review as part of this engagement. It is based on the EFIC Procedure and Checklist for environmental and social review of transactions.

0.3. EFIC Process flow



0.4. Transaction information

0.4.1 Description

Has all client information been provided?

Item	Fairly Stated?	Comment
Client:		
Transaction name:		
Signing date:		
Facility type:		
Transaction value:		
Industry sector:		
Transaction and, where relevant, project location:		
Relevant website		

1. Screening and classification

1.1 Initial screening

EFIC conduct an initial screen of projects to guide the more detailed review and evaluation process. This is not the final classification outcome.

Has the initial screening of projects and transactions been completed properly to effectively guide the detailed evaluation process?

Project type	Fairly stated?	Comment
Associated with a new project or		Go to section 3.2.1
Existing project undergoing material change? (material change properly assessed)	PJ	Go to section 3.2.1
Associated with an existing project		Go to section 3.2.2
Non project (Non projects are properly assessed)		Go to section 3.2.2
Bond		Go to section 3.2.2

Refer to the Procedure §1.1 for definitions and guidance.

1.2 Evaluation of new projects or existing projects with material change

Different types of projects and transactions with different potential impacts are exposed to different levels of evaluation.

For new projects or existing projects with material change, has the initial screening to a specific category been completed properly?

Classification	Fairly stated?	Comment
Category A (Potential significant impacts)		Go to Part 4 and Part 5
Category B (potential impact)		Go to Part 4
Category C (minimal or no potential impact)		Review complete
What information was used for the evaluation?		

Indicate where guidance for determining the category was obtained from, and whether it was fairly applied:

Category guidance used	Fact PJ?	Fairly stated?	Comment
Category definitions (Procedure)			
Located in or adjacent to a sensitive area (see Procedure Glossary of terms)?	PJ		
OECD Common Approaches Annex 1			
Other			

Refer to the Procedure §1.2 for definitions and guidance.

Comments on the overall screening process:

1.3 Evaluation of existing project, non-project or bond

Based on the information available, has the level of potential environmental and/or social impacts of the project associated with the transaction been fairly assessed? Have the potential environmental and/or social impacts associated with a Non-Project been fairly assessed.

Potential Impact	Fact PJ?	Fairly stated?	Comment
Transaction with potential for environmental and/or social impact			Go to Part 4
Transaction with no potential for environmental and/or social impact			Review complete
What information was used for the evaluation?			

Refer to the Procedure §1.1 for definitions and guidance.

2 Risk evaluation – detailed social and environmental analysis

2.1 Category A and B evaluation

2.1.1 Overall requirements

Has EFIC considered the primary sources of information for a Category A or B project or transaction?

Consideration	Fairly stated?	Comment
Client provided data, including their role and their social and environmental arrangements		
Information on a projects social and environmental assessment and management, including stakeholder engagement		
Potential social and environmental issues associated with the project location		
Information from other sources		
Category classification has been revised?		

Refer to the Procedure §2.2 for definitions and guidance.

2.1.2 Category A and B – new projects or existing projects with material change

Environmental and/or social information	Fact PJ	Fairly stated?	Comment
Project description	Fact		
Which standards is the project designed to comply with?			
• host country	Fact		
• IFC Performance Standards	Fact		
• Australian	Fact		
• Other – higher than IFC	Fact		
• Other – other MFI	Fact		
• Other – Australian approval held	Fact		
If the standard used is not the IFC Performance Standards is it equivalent or more stringent?	PJ		
Environmental &/or Social Policies:			
• EFIC client	PJ		
• Project sponsor	PJ		
Environmental and social impact assessment documentation available?	Fact /PJ		
• Category A - comprehensive scope to host country and IFC?			
• Category B - narrow scope to host country and IFC?			
Management systems applicable:			
• EFIC client	Fact /PJ		
• Project sponsor	Fact /PJ		
Management plans applicable:			
• EFIC client	Fact /PJ		
• Project sponsor	Fact /PJ		

Environmental and/or social information	Fact PJ	Fairly stated?	Comment
Independent adviser reports available (only project finance)?	Fact /PJ		
Independent monitoring is undertaken (only project finance)?			
Other information sources?			
Internet searches			

Refer to the Procedure §2.2.1 and §2.2.2 for definitions and guidance.

List other information sources used below. These may include information from others (e.g. affected communities, civil society organisations, the Australian public, etc.) and internet searches.

2.1.3 Category A & B – detailed evaluation using IFC Performance Standards

For Category A or B project or transaction, have the relevant IFC Performance Standards been fairly applied? Have all relevant Performance Standards been fairly applied and fully documented in a risk evaluation report?

Performance standard	Fact PJ	Fairly stated?	Comment
PS1 Assessment and Management of Social & Environmental Risks and Impacts			
PS2 Labour and Working Conditions			
PS3 Resource Efficiency and Pollution Prevention			
PS4 Community Health, Safety and Security			
PS5 Land Acquisition and Involuntary Resettlement			
PS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources			
PS7 Indigenous Peoples			
PS8 Cultural Heritage			

Other:			
• Other guidelines?			
• Other benchmarks?			

Refer to the Procedure §2.2.2 for definitions and guidance.

Notes:

- List the relevant IFC EHS Guidelines used in the risk evaluation
- List any other guidelines used in the risk evaluation
- If a benchmark different to the IFC Performance Standards was used describe and identify

Benchmarking may identify a need for further studies, many of which can be required as conditions of support. Some factors, in particular those involving human rights, may require further work prior to making a decision and the Performance Standard benchmarking should generally identify the need for such work. Some additional factors to consider are presented in the following table:

Characteristic	Fact PJ	Fairly stated?	Comment
EFIC's Country Risk Assessment identifies human rights issues relevant to the transaction			
Located in a conflict or post conflict area			
Large-scale influx of workers			
Use of armed security or a security force not managed by the project sponsor			
Host country with any of the following characteristics: <ul style="list-style-type: none"> • large migrant workforce • documented repression of minorities 			

If a "Yes" response is provided to any characteristic or if the review of the IFC Performance Standards raises any broader human rights concerns as a first step apply the UNEP FI Human Rights Toolkit to the transaction to determine the appropriate course of action.

This can be found at: <http://www.unepfi.org/tools/index.html>

2.2 Transactions other than new projects

Has EFIC considered the primary sources of information for transactions other than new projects in order to identify a potential social or environmental impact?

Consideration	Fairly stated?	Comment
Client provided data, including their role and their social and environmental arrangements		
Information on a projects social and environmental assessment and management, including stakeholder engagement		
Potential social and environmental issues associated with the transaction location		
Information from other sources		
If potential impact was identified was a benchmark applied?		Go to 4.3
<ul style="list-style-type: none"> • IFC? 		
<ul style="list-style-type: none"> • Other international benchmark? 		
<ul style="list-style-type: none"> • Host country? 		
<ul style="list-style-type: none"> • Good industry practice? 		

Refer to the Procedure §2.3 for definitions and guidance.

2.3 Final classification

Classification	Fairly stated?	Comment
Category A		
Category B		

Category C		
Potential social and environmental impacts		
No potential social and environmental impacts		
Was there any change?		
Reason for change?		
Was the change justified?		

2.4 Disclosure

For a project or transaction with the following criteria, was the project disclosed 30 days before approval?

Criterion	Fairly stated?	Comment
Category A Project located outside Australia		
Repayment term or policy length two years or more		
Transaction value of SDR10 million or more		
Hosted on accessible website?		
Comments received?		
Actions in response?		

Disclosure Requirement	Fairly Stated?	Comment
Disclosure Register:		
<ul style="list-style-type: none"> Project name and description 		
<ul style="list-style-type: none"> Country and location of project 		
<ul style="list-style-type: none"> Industry sector 		

• The facility requested		
• Outline of the reasons for the categorisation		
• Links to an environmental assessment of the project provided to EFIC		
• Disclosure period		

Refer to the Procedure §2.2.3 for definitions and guidance.

3. Consideration of proposal

Environmental and/or social risk evaluation report prepared:

Criterion	Fairly Stated?	Comment
By:		
Date:		
Environmental and social report prepared		
Are the findings fairly stated?		

Was approvals assessed and granted properly?

Criterion	Approval required	Comment
Transaction associated with a Category A New Project not located in Australia	Approval by Board	
Transaction associated with a Category A New Project located in Australia	Board delegated approval to the Managing Director for transactions with a value less than A\$50 million. Above A\$50 million are subject to Board approval.	
All other transactions	Made in accordance with Board delegated credit approvals.	

4. Reporting

Was this project reported according to §4.1?

Reporting Requirement	Fairly Stated?	Comment
Category A:		
• In the category A Archive?		
• In OECD report?		
Online Register:		
• Name of client		
• Industry sector		
• Nature of goods or services		
• Export destination or project location		
• Facility type and value		
• Category		

5. Issues and responses

No.	Issue.	EFIC Response	NB conclusion

6. Conclusion and Opportunities for Improvement