

# Reasonable Assurance of Efic's application of its Policy and Procedure for environmental and social review of transactions

Export Finance and Insurance Corporation

30 September 2016



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# 1. Audit Details

## 1.1 Audited body [the proponent]

Name of proponent	Export Finance and Insurance Corporation (Efic)
Name of contact person for proponent	Jan Parsons
ABN/ACN	96 874 024 697
Contact person phone number	61 2 8273 5421
Contact person email address	jparsons@Efic.gov.au

## 1.2 Audit description

Type of audit	Subsequent
Kind of audit	Reasonable assurance
Objective of the assurance engagement	Assurance of Efic's application of its Policy and Procedure for environmental and social review of transactions.
Date terms of engagement signed	29/6/16
Date audit report signed	28 September 2016 (draft)

## 1.3 Auditor details

Name of audit team leader	Simon Dawes
Organisation	EY
Phone number	+61 2 8295 6283
Address	200 George St, Sydney, NSW 2000, Australia
Names and contact details of other audit team members	<ul style="list-style-type: none"><li>- Mark Lyster Ph: +61 412 295 661</li><li>- Zoe Leffler Ph: +61 2 9276 9070</li><li>- Lynette Au-Yeung Ph: + 61 2 8295 6912</li><li>- Ann Lim Ph: +61 2 9248 4600</li><li>- Olivia Pitt Ph: +61 2 9248 9549</li></ul>

## 1.4 Peer Reviewer details

Name of peer reviewer	David J Simmonds
Organisation	EY
Phone number	+61 2 9248 4411
Address	200 George St, Sydney, NSW 2000, Australia

## 2. Part A–Auditor’s subsequent audit report

To Export Finance and Insurance Corporation (Efic),

We have conducted a reasonable assurance engagement for all transactions completed by Efic for the reporting period 1<sup>st</sup> July 2014 to 30<sup>th</sup> June 2016, to report on whether the transactions were examined in line with:

- Efic’s Policy for environmental and social review of transactions (the “Policy”, version of 27 June 2013, available from the Efic website); and
- Efic’s Procedure for environmental and social review of transactions (the “Procedure”, version of 10 August 2015, available from the Efic website).

A sample of potential transactions that were declined for mainly environmental and/or social reasons was also examined.

The total number of transactions in the period was as follows:

Category	Number
Category A	2
Category B	2
Category C	12
Potential environmental and social (E&S) risk	6
No Potential E&S risk, including screened transactions	180

### 2.1 Details of proponent

Name	Export Finance and Insurance Corporation (Efic)
Address	Level 10 Export House 22 Pitt Street Sydney
ABN/ ACN	96 874 024 697

### 2.2 Responsibility of Efic.

The management of Efic is responsible for:

- ▶ Ensuring that the environmental and social review of transactions occurring between 1<sup>st</sup> July 2014 and 30<sup>th</sup> July 2016 had been performed fairly and in accordance with the Efic Policy and Procedure.
- ▶ 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.

## 2.3 Our independence and quality control

We have complied with the relevant ethical requirements for assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behaviour.

- ▶ In accordance with *Australian Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, EY maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.
- ▶ EY has met the independence requirements of the *APES 110 Code of Ethics for Professional Accountants*.

## 2.4 Our responsibility

Our responsibility is to express an opinion as to whether Efic has complied with the Efic Policy and the Efic Procedure for the period 1<sup>st</sup> July 2014 to 30<sup>th</sup> June 2016, in all material respects.

We conducted our reasonable assurance engagement 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 nature, timing and extent of procedures selected depend on the audit team leader's judgement, including the assessment of the risks of material misstatement or material non-compliance of the matter being audited, whether due to fraud or error.

In making those risk assessments, we considered internal controls relevant to the Efic's application of the Policy and Procedure in order to design assurance procedures that are appropriate in the circumstances; but not for the purpose of expressing an opinion on the effectiveness of Efic's internal control over the environmental and social review of transactions.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 2.5 Summary of procedures undertaken

The procedures conducted in our reasonable assurance engagement included:

- ▶ Interviews with Efic management responsible for the performance and reporting of the assessment of transactions against the requirements of the Policy and the Procedure to confirm operation of the internal control environment
- ▶ Interviews with Efic personnel responsible for compliance to understand the internal control environment as it relates to information security and fraud
- ▶ Development of a review checklist and associated work papers following the Efic Procedure
- ▶ Assessment of a sample of transactions for compliance with the Efic Policy and Procedure and to test the control environment
- ▶ Desktop research where necessary to gather publicly available information related to certain transactions
- ▶ Reporting of our conclusion

More detailed information on critical procedures can be found in Part B of the audit report.

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

## 2.6 Use of our reasonable assurance engagement report

This report represents the assurance provider's independent opinion. EY's responsibility in performing its assurance activities was to the management of Efic alone and in accordance with the scope of work agreed with Efic (Appendix 2).

Accordingly, we expressly disclaim and do not accept any responsibility or liability to any other party either on the 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.

## 2.7 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 judgment, 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 performance of the transaction review process 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.

## 2.8 Our conclusion

In our opinion, the environmental and social review of transactions and, where relevant, their associated projects, completed by Efic between 1st July 2014 to 30th June 2016, was properly completed, in all material respects, in accordance with the requirements of the Efic *Policy for environmental and social review of transactions* and the Efic *Procedure for environmental and social review of transactions*.



Terence Jeyaretnam  
Partner, Ernst & Young  
Melbourne

### 3. Part B—Context of Reasonable Assurance

#### 3.1 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 Public Governance, Performance and Accountability Act 2013 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;
- da) to assist the Northern Australia Infrastructure Facility in the performance of the functions of the Facility;
- db) as agreed between EFIC and the States and Territories, to provide incidental assistance to the States and Territories in relation to financial arrangements and agreements related to the terms and conditions of grants of financial assistance for the construction of Northern Australia economic infrastructure;
- 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 the time of reporting, the Minister for Trade, Tourism and Investment) to make 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.

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 expert to audit compliance of Efic with its Policy and Procedure.

Efic has also stated its policy in relation to risk management on its website at this location: <http://www.efic.gov.au/about-efic/our-governance/governance-framework/risk-management-framework/>

## 3.2 General requirements

Two documents, the Efic Policy and Procedure, provide guidance about the environmental and social review of transactions of all types.

One of Efic's Values, restated in the Purpose section 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 of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the "Common Approaches"), and has voluntarily adopted the Equator Principles. The Common Approaches and the Equator Principles only apply to a subset of Efic's transactions. Efic chooses to extend the principles they embody to all transactions it considers.

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 examined from 1 July 2011 for a consistent review approach and audit record. We note that the checklist was amended on number of occasions since the first revision the latest being on the 19<sup>th</sup> January 2016 and the revised checklist has been used from that time.

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

- ▶ Is associated with a project with potentially significant environmental and/or social impacts;
- ▶ Has a repayment term or policy length in excess of two years; and
- ▶ Has a monetary value of SDR10million or more.

In late 2015 Efic adopted an internal, template environmental and social screen, designed to simplify the application of the Procedure for a limited range of transactions related to small and medium enterprises (SME). The screen identifies SME transactions that need to have a detailed review while those that pass the screen are considered to have no potential for significant environmental and/or social impact.

Efic's Policy includes a commitment that "Efic declines transactions if it determines that the environmental and/or social impacts do not satisfy relevant benchmarks". Efic completes a range of due diligence activity prior to making a decision on a potential transaction. That due diligence includes financial matters, governance issues, contract and technical capability, country risk as well as environmental and social issues. Efic may decline applications as a result of its due diligence but it is uncommon that a potential transaction is declined for a single reason.

### 3.3 Risk Evaluation

A comprehensive risk evaluation is completed for all new projects other than those classified as Category C. This evaluation is completed 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.

### 3.4 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
<b>Operational control:</b> 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 examined the key judgments made by management and operational personnel based on transaction records and interviews with operational personnel.
<b>Application of professional judgment:</b> 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 examined the application of professional judgment to matters of interpretation and analysis in the review process, in particular to consistency of approach over time.
<b>Interpretation of factual matters:</b> Matters of fact are fundamental to the correct application of the Efic Policy and Procedure and need to be understood and interpreted correctly.	We examined the analysis and disposition of matters of fact from the applications for financial support from the sample.
<b>Records:</b> Records of transaction review sufficient to demonstrate that all matters relevant to the review were properly considered need to be maintained.	We examined the records maintained for the sample of transactions and confirmed whether appropriate records are in place.

### 3.5 Audit Process

#### 3.4.1 Head Office

EY 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.

### 3.4.2 Transaction records

EY examined all Category A and B transactions or equivalent and a sample of 52 Category C transactions or equivalent completed by Efic during the period covered by the engagement. EY also examined a sample of potential transactions that were declined for reasons of possible inconsistency with Efic’s Policy. This included potential transactions within and outside the audit period.

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 4).
- ▶ 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.

### 3.4.3 Transaction and Project Sampling

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

2014-2015		
Classification	Number of transactions	
	Completed transactions	Selected for audit
A	0	0
B	2	2
C	5	5
Potential Impacts - Yes	5	5
Potential Impacts - No	80	21
<b>Total</b>	<b>92</b>	<b>33</b>
2015-2016		
Classification	Number of transactions	
	Completed transactions	Selected for audit
A	2	2
B	0	0
C	7	2
Potential Impacts - Yes	1	1
Potential Impacts - No (including all screened transactions)	100	24 (including 12 screened transactions)
<b>Total</b>	<b>110</b>	<b>29</b>

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 "no potential" transactions and projects to provide a representative sample (we selected 52 from 192 possible transactions). All screened transactions were included in the sample.

Efic also provided information on four potential transactions within and prior to the reporting period that had been declined for mainly environmental and/or social factors. All four potential transactions were examined.

## 3.6 Audit Activities

### 3.5.1 Transaction and Project Sampling

EY conducted the following head office visits and interviews. The details and outcomes were as follows:

Date and Location	EY Representatives	Efic	Activities and Conclusions
4 <sup>th</sup> August 2016 (Efic office)	Terence Jeyaretnam Simon Dawes Zoe Leffler	Directors Environmental and Technical Review	Confirmation of scope of work, agreement as to process and reporting, collection of documents, receipt of electronic transaction files.
19 <sup>th</sup> August 2016 (Efic office)	Simon Dawes Zoe Leffler Ann Lim	Director Environmental and Technical Review; and Head of Compliance	Update on progress and confirmation of reporting timeline, review of work activities, discussion of Efic process, discussion of issues identified during audit activities.
1 <sup>st</sup> September 2016 (Efic office)	Simon Dawes	Directors Environmental and Technical Review	Update on progress. Discussion of discrepancies and issues identified during audit activities.
22 <sup>nd</sup> September 2016 (Efic office)	Terence Jeyaretnam Simon Dawes Zoe Leffler	Chief Credit Officer Directors Environmental and Technical Review	Consideration of draft audit findings, recommendations and report.

### 3.5.2 Transaction reviews

Review of the sample transactions was conducted by the engagement team led by the Engagement Manager. The Engagement Director/Lead Auditor maintained oversight of all engagement activities to ensure that independence of the team in accordance with the EY's independence requirements were 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 9 GB of data, comprising approximately 6000 files. For each transaction, the documentation included all or some of:

- ▶ Reports prepared by Efic staff, including a completed checklist and summary report
- ▶ 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 judgment 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.

EY prepared a process checklist based on the Efic Procedure and Efic Checklist for environmental and social review of transactions (Efic Checklist) to guide review of the documentation and to maintain a consistent format for providing comment on documents.

### 3.5.3 Procedural documents

Document Name	Issue Date
Policy for environmental and social review of transactions	27 June 2013
Procedure for environmental and social review of transactions	10 August 2015
Efic Checklist for environmental and social review of transactions	19 January 2016

## 4. Part C–Detailed Findings

### 4.1 Prior audit recommendations

The following recommendations were raised in the prior audit of Efic conducted by Net Balance in 2014. EY considered the actions taken by Efic in response to the recommendations, and makes the following comments:

Issue	Recommendation	EY Comment
1	We suggest that Efic reviews its policies, procedures and checklists to identify and rectify inconsistent terminology and descriptions, in particular the use of 'low potential' and 'no potential' to describe the same project or non-project.	Efic now uses a two-step classification - first assessing the potential significant environmental and social impact from transaction itself, and then the second classification of the resultant environmental social risk to Efic using the Efic four level matrix.
2	Where a transaction is a new transaction or the extension of an existing transaction related to the same organisation, project or non-project, we suggest that Efic documents the decision and the rationale for the decision for use of either a new or the existing risk assessment and supporting documentation for the new approval, and that their approval process is amended to include this decision.	Efic has considerably reduced the opportunity for renewal or rollover of transactions. For example, clients are limited to no more than three without additional approval.

### 4.2 Issues requiring particular attention

Refer to section 5 below

### 4.3 Aspects impacting on assurance engagement

Not applicable

### 4.4 Other matters

As part of this audit, EY has identified potential areas of improvement in Efic's environmental and social review of transactions.

No.	Recommendation
1	During our testing we noted that for some transactions the Efic E&S report template and the checklist were used but were incomplete; and, in a few cases were not used, to document the findings and conclusion of the E&S review. We suggest that Efic reports all E&S reviews using its E&S report template and checklist. It may be useful to develop a separate report template for low or no potential transactions, or to include the evidence to support these conclusions in a section of the screening checklist.
2	We found for many transactions a large number of documents used as part of the assessment process, and for some transactions it was not clear which documents provided

	determinative evidence. It would be useful if Efic included a list of the documents that it considered critical to the conclusion for a transaction in the E&S report, or alternatively in a specific folder on the E&S file system. This is particularly the case for documents related to social impact.
3	We suggest that Efic documents the process for use of a template screen for a limited range of SME transactions in its Procedure, and that each completed screening report or checklist is retained in the Efic filing system.

## 5. Audit Findings and Conclusion

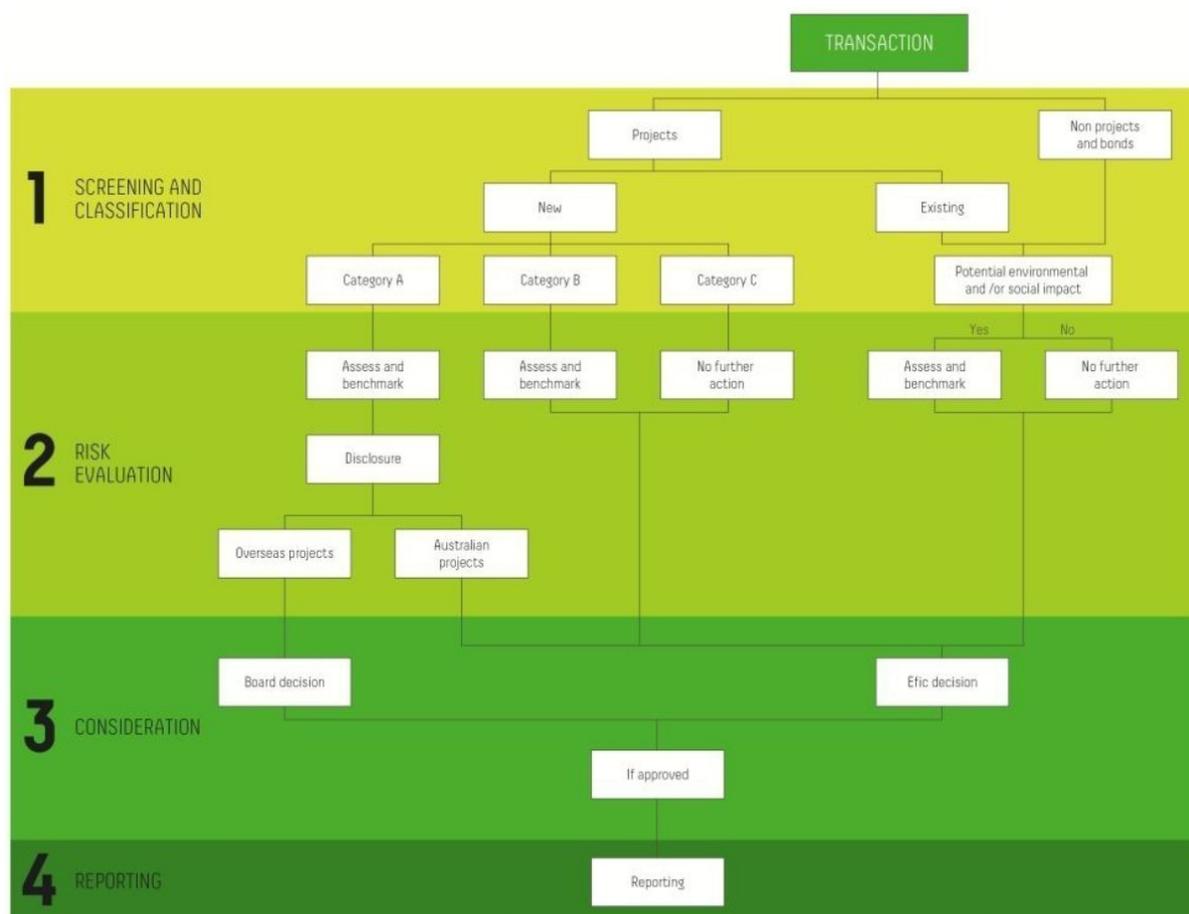
### 5.1 Environmental and social evaluation review process

Efic conducts its environmental and social review in accordance with the Efic Procedure and completes 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 both by interview of Efic personnel and by review of the relevant 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 flow chart for social and environmental review of transactions (August 2016)*

We examined each transaction in the sample by assessing the documents and records and, where necessary, conducting 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.

Refer to the table below for the findings of our audit.

## 5.2 Audit findings and conclusions table

The results that are provided in the table below should not be construed as providing an opinion on the matter being audited as a whole, instead they should be read in the context of providing evidence to support the conclusion.

Issue/risk area investigated	Testing conducted	Findings	Conclusion
Category A transactions	<p>All category A transactions in the period were assessed by EY.</p> <p>The following testing was conducted:</p> <ol style="list-style-type: none"> <li>1. General transaction information;</li> <li>2. Screening &amp; Classification of the project;               <ol style="list-style-type: none"> <li>a) Project or transaction;</li> <li>b) New or existing project;</li> <li>c) Category of project;</li> </ol> </li> <li>3. Risk Assessment;               <ol style="list-style-type: none"> <li>a) Application of IFC Performance Standards or other relevant benchmark;</li> <li>b) Environmental &amp; Social Technical Risk Report;</li> </ol> </li> <li>4. Final Classification</li> <li>5. Reporting and Disclosure</li> <li>6. Approval of project</li> </ol> <p>In conducting the testing, EY:</p>	<p>The following findings for the Category A transactions were determined:</p> <ul style="list-style-type: none"> <li>▶ Efic appropriately reviewed all Category A transactions in accordance with the IFC Performance Standards or Australian standards;</li> <li>▶ Efic disclosed its prior involvement in the Category A transaction that met the disclosure threshold.</li> <li>▶ Efic published all Category A transactions on their website and in their Annual Report.</li> <li>▶ All Category A transactions tested were found to be conducted in accordance with Efic’s Policy and Procedure.</li> </ul>	No issues

	<ul style="list-style-type: none"> <li>▶ Had discussions with Efic personnel;</li> <li>▶ reviewed transaction documentation;</li> <li>▶ reviewed other documentation, including; <ul style="list-style-type: none"> <li>▶ correspondence with the exporter and where relevant the project proponent and the lending syndicate;</li> <li>▶ records of discussions with other Export Credit Agencies (where relevant);</li> <li>▶ records of the application of professional judgment;</li> <li>▶ confirmation of the initial classification of the transaction; and</li> <li>▶ records of the inclusion of the findings of the social and environmental risk evaluation in a report to the Board or a delegate of Efic that indicates whether or not a transaction complies with the Policy and Procedure, key environmental and/or social issues and their associated level of risk where relevant.</li> </ul> </li> </ul>		
<p><b>Category B transactions and Potential Environmental and Social (E&amp;S) risk transactions</b></p>	<p>All Category B transactions and all potential E&amp;S risk in the period were assessed by EY.</p> <p>The following testing was conducted:</p> <ol style="list-style-type: none"> <li>1. General transaction information;</li> <li>2. Screening &amp; Classification of the project; <ol style="list-style-type: none"> <li>a) Project or transaction;</li> <li>b) New or existing project;</li> <li>c) Category of project;</li> </ol> </li> <li>3. Risk Assessment;</li> </ol>	<p>The following findings for the Category B and potential risk transactions were determined:</p> <ul style="list-style-type: none"> <li>▶ Efic appropriately reviewed all Category B and potential risk transactions in accordance with the IFC Performance Standards or other relevant benchmark;</li> <li>▶ Efic published all Category B and potential risk transactions in their Annual Report.</li> <li>▶ All Category B and potential risk transactions tested were found to be conducted in accordance with Efic’s Policy and Procedure.</li> </ul>	<p>No issues</p>

a) Application of IFC Performance Standards or other relevant benchmark;

b) Environmental & Social Technical Risk Report;

4. Final Classification

5. Reporting and Disclosure

6. Approval of project

In conducting the testing, EY:

- ▶ Had discussions with Efic personnel;
- ▶ reviewed transaction documentation;
- ▶ reviewed other documentation, including:
  - ▶ correspondence with the exporter and where relevant the project proponent and the lending syndicate;
  - ▶ records of discussions with other Export Credit Agencies (where relevant);
  - ▶ records of the application of professional judgment;
  - ▶ confirmation of the initial classification of the transaction; and
  - ▶ records of the inclusion of the findings of the social and environmental risk evaluation in a report to the Board or a delegate of Efic that indicates whether or not a transaction complies with the Policy and Procedure, key environmental and/or social issues and their associated level of risk where relevant.

<p><b>Category C transactions</b></p> <p><b>And</b></p> <p><b>Low E&amp;S risk transactions</b></p>	<p>All sample of approximately 30% of category C and low E&amp;S risk transactions from the period were assessed by EY.</p> <p>The following testing was conducted:</p> <ol style="list-style-type: none"> <li>1. General transaction information;</li> <li>2. Screening &amp; classification of the project; <ol style="list-style-type: none"> <li>a) Project or transaction;</li> <li>b) New or existing project;</li> <li>c) Category of project;</li> </ol> </li> <li>3. Risk assessment; <ol style="list-style-type: none"> <li>a) Application of IFC Standards or other relevant benchmark;</li> <li>b) Environmental &amp; Social Technical Risk Report;</li> </ol> </li> <li>4. Final classification</li> <li>5. Reporting and disclosure</li> <li>6. Approval of project</li> </ol> <p>In conducting the above testing EY conducted the following activities in conjunction with the testing:</p> <ul style="list-style-type: none"> <li>▶ Internal discussion within Efic;</li> <li>▶ Review of transaction documentation;</li> <li>▶ Review of other independent documentation;</li> </ul>	<p>The following findings for the Category C and low risk transactions were determined:</p> <ul style="list-style-type: none"> <li>▶ All Category C and low E&amp;S risk transactions tested were found to be conducted in accordance with Efic’s Policy and Procedure.</li> <li>▶ During our testing we noted that for some transactions the Efic E&amp;S report template and the checklist was used but were incomplete, and in a few cases were not used, to document the findings and conclusion of the E&amp;S review. We suggest that Efic reports all E&amp;S reviews using its E&amp;S report template and checklist.</li> </ul>	<p>No issues</p>
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	<ul style="list-style-type: none"> <li>▶ Review of correspondence with the exporter and where relevant the project proponent and the lending syndicate; and</li> <li>▶ Application of professional judgment.</li> </ul>		
Declined Potential Transactions	<p>All four declined potential transactions were tested by EY, although only one was in the period being assured. Two of the other three were in the month immediately preceding the assurance period.</p> <p>The following testing was conducted:</p> <ol style="list-style-type: none"> <li>1. General transaction information.</li> <li>2. Environmental and Social review conducted.</li> <li>3. Testing the rationale behind the transaction being declined.</li> </ol>	<ul style="list-style-type: none"> <li>▶ The potential transactions were declined due to concerns related to inconsistency with Efic's Policy</li> </ul>	No issues.
Screened Transactions	<p>All 12 screened transactions were tested by EY; none of these transactions were considered to require a detailed E&amp;S assessment.</p> <p>The following testing was conducted:</p> <ol style="list-style-type: none"> <li>1. General transactions information.</li> <li>2. Basic parameters.</li> </ol>	<ul style="list-style-type: none"> <li>▶ All screened transactions were found to have been appropriately identified as not requiring a detailed E&amp;S assessment.</li> </ul>	No issues.

### 5.3 Peer reviewer conclusion

Name of the peer reviewer	David J Simmonds
Peer reviewer's contact details	+61 2 9248 4411
Outcome of the evaluation undertaken by the peer reviewer	The peer review did not identify any deficiencies in the reasonable assurance procedures conducted or the results of such procedures, and concurred with the issuance of an unqualified reasonable assurance conclusion.



Terence Jeyaretnam  
Partner, Ernst & Young  
Melbourne

## Appendix 1– Qualifications and experience of assurance practitioners

### a. Lead Auditor – Terence Jeyaretnam

Terence is a Founding Director of EY 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 a few 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 250 corporate sustainability and environmental reports over the past decade. Terence is also a Category 1 & 2 NGER Auditor as certified by the Federal Government's Department of Environment.

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.

### b. 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 EY, 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.

### c. Senior Auditor – Mark Lyster

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 EY'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, Watty 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.

#### **d. Auditor - Lynette Au -Yeung**

Lynette holds Doctor of Philosophy (Inorganic Chemistry) from the University of Sydney, Australia and Masters in Biotechnology from the University of New South Wales. She has 15 years' experience in environmental and sustainability consulting with specific expertise in environmental impact assessment, greenhouse gas measurement, reporting and auditing, life cycle assessment and climate change adaptation. Lynette has expertise in providing environmental services having provided planning advice under the NSW Environmental Planning and Assessment Act, undertaken environmental due diligence projects, environmental impact assessments for mining and infrastructure as well as providing assurance over Sydney Water's Sustainability Report.

#### **e. Auditor - Zoe Leffler**

Zoë holds a Bachelor of Laws in Law and Politics from the University of Edinburgh, a certificate in Legislative Drafting from the University of London, a Diploma in Applied Human Rights from Aix-en-Provence and a Master in Humanitarian Action. Zoë has 10 years' experience in managing humanitarian and development projects and policy and has worked in Timor Leste, Nepal, Sri Lanka, Afghanistan, Pakistan and New York. At EY, she has worked across assurance and advisory to support human rights and business policy and strategy design, as well as social and human rights due diligence, risk assessment and benchmarking.

#### **f. Auditor - Ann Lim**

Ann has a Masters of Environmental Science from the UNSW and a Bachelor of Business and Bachelor of Science from the University of New South Wales. She has seven years of experience as an environmental professional working in construction and associated industries. As an environmental specialist within the Climate Change and Sustainability team, Ann has worked on NGER and Carbon farming initiatives assurance engagements as well as contaminated land and mining closure planning engagements.

## **g. Auditor – Olivia Pitt**

Olivia has Masters in Sustainability from the University of Sydney. Olivia has experience in sustainability programs in local governments and State-owned entities across the commercial, non-office business and the residential sector. Olivia championed a local Council's move into more detailed sustainability reporting which includes materiality and evaluation of the NGER Act requirements with reference to the Council's operations.

## **h. Quality Assurance Review Partner – David J Simmonds**

David is a Chartered Accountant has been an audit partner with EY Australia since 1989. His audit experience includes acting as the lead auditor on a number of Australian listed companies most recently Ramsay Health Care Limited. David has also had significant experience in the audit of the Australian and multi-national companies in the technology, financial services, manufacturing and the not-for-profit sectors. In addition to his client responsibilities was, from 1995 to 1999, the Director of Audit for EY's Indonesian practice. David is currently the Professional Practice Director for EY's Sydney office with responsibility for quality oversight of technical audit matters.

David is also a member of EY Australia's Accounting and Auditing Policy Committee which is the body charged with advising the firm's management on all matters pertaining to the Australian regulatory environment and the consequent formulation of policy and implementation guidance. Until recently, David also led EY's "Capital Markets" desk in Australia with responsibility for overseeing or reviewing all cross border fundraisings involving an EY assurance report.

David was a member of the Australian Auditing and Assurance Standards Board from 2006 to 2013. The AUASB is the statutory agency of the Australian Government that is responsible for developing, issuing and maintaining auditing and assurance standards.

## Appendix 2– Scope of work

The Consultant is to audit to Efic’s application of its “Policy for environmental and social review of transactions” (Policy) and “Procedure for environmental and social review of transactions” (Procedure). The audit is to be undertaken to a “reasonable level of assurance” consistent with ASAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”. As Auditor, the Consultant is expected to undertake the following:

1. Gain an understanding of Efic’s business, the Policy and the Procedure, and Efic’s approach to “Transactions” as described on the Efic website. A key element of Efic’s Policy is the adoption of the IFC Performance Standards as Efic’s usual benchmark.
2. Gain an understanding of Efic’s obligations under both the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the Common Approaches), and the Equator Principles.
3. Select a sample of transactions representative of the range of business undertaken for the two financial years (2014/2015- 2015/2016). It is the Auditor’s responsibility to select an appropriate sample.
4. Examine the selected transactions to determine whether the environmental and social reviews for the selected transactions were undertaken in compliance with the Policy and the Procedure. Subject to the terms of the Confidentiality Deed executed by the Consultant and Efic, Efic will make available electronically the relevant transaction files. Relevant staff will also be made available to discuss the transactions.
5. Present the findings of the audit in a written report and verbally to Efic. A draft and final report are to be provided. If identified, the report should include:
  - details of any non compliance with the Policy or Procedure, and
  - a commentary on the non-compliance events or activities and proposed corrective actions.

The report will be a public report suitable for publishing on Efic’s website after it has been provided to and approved by the Efic Board. It is to be written in plain English and signed by the Auditor.

6. Efic is subject to strict secrecy provisions. It must not be possible to identify a specific client or transaction from the Audit report. Efic will provide comment on the draft report to:
  - correct any errors of fact as determined by Efic. The Auditor will be required to correct such errors.
  - correct content where, in the opinion of Efic, it is possible to identify a specific client or transaction. The Auditor will be required to correct such content.

After incorporating the above edits the Auditor will provide a final audit report and present its findings to Efic’s Executive.

A copy of the agreed scope of services is to be included in the Auditor’s report, possibly as an Appendix to the report.

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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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