

**WORKING GROUP ON AUDIT OF EXTRACTIVE INDUSTRIES  
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**TOPIC: SAI – TANZANIA’S EXPERIENCE IN  
AUDIT OF EXTRACTIVE INDUSTRIES**

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# outline

1. Introduction
2. Legal and Institutional Framework
3. General status of the Industry
4. Status of audit on the Industry
5. Challenges
6. Way forward



# 1. Introduction

- Tanzania is endowed with a vast and very valuable extractive resource industry.
- It is ranked 4<sup>th</sup> Africa producer of Gold (2,222 tonnes of proven reserves) after South Africa ,Ghana ,Mali, followed by Burkina Faso.
- World number one and only producer of Tanzanite (12.6 tons of proven reserves)
- As other African countries, exploration for Oil is progressing with abundant discovery of GAS



# 1. Introduction.....

- Natural gas - currently 4 site reserves with  
Total proven gas reserves 60 tcf
- Gold- 2,222 tons; Diamonds- 50.9 million carats
- Tanzanite-12.6 tons, Copper- 13.65 million tons, Nickel- 40 Million tons
- Coal-1.5 Billion tons, Uranium: 35.9 million pounds
- Mining contributes to export by **41.9%** compared to Agriculture which contributes only **16.7%**.



# 1. Introduction ...

## Revenue from extractive industry

Govt collect revenue from extractive industry in form of

- *Royalty, Corporate Income Taxes, VAT, Excise Taxes, Import Duties*
- *Local Govt rates, stamp duties, registration fees, license fees and taxes*



# 1. Introduction ...

## Rate of Taxes Charged

- Corporate Income Tax 30%
- Withholding tax on non-residents for service fees is 15%.
- VAT on export is zero rated
- Custom & Imports Duties on capital goods are zero rated

## Royalty

- Gold - 4% and Germstones - 5%
- Crude oil OR Gas production 12.5%



# 1. Introduction ...

- Actual royalties paid to the Government by the major gold mines have been increasing from US\$ 1.6m in 2001 to US\$ 40.5m in 2010.*(Ministry of Energy and Minerals- Economic Survey 2010).*
- Petroleum and gas exploration companies's contribution in form of royalty is yet to be noticed since mostly they are still under exploration stage.



## 2. Legal and Institutional Framework

1. Mining Act 2010

2. The Income Tax Act of 2004

3. The VAT Act, 1997

4. The East African Customs (Management and Tariff) Act, Cap. 403

5. Petroleum (exploration and production) Act, 1980

6. The Tanzania Investment Act of 1997

7. Environmental Management Act of 2004

8. Energy and Water Utilities Regulatory Authority (EWURA) Act, 2001





## 2. Legal Framework for the Industry....

9. PSAs - 26 signed up to December 2012

10. Tanzania Mining Policy of 2009

11. The National Environmental Policy

12. The National Investment Promotion Policy, 1996

13. Energy Policy of 2003



## 2. Legal Framework for the Industry....

Mainly administered by:

### 1. Ministry of Energy & Minerals

- ✓ Issuance of licences

### • Ministry of Finance

- ✓ Fiscal policy issues in relation to tax administration



## 2. Legal Framework for the Industry....

- *Other collaborating institutions include:*
  - State Mining Corporation (STAMICO)
  - Tanzania Petroleum Development Corporation (TPDC)
  - Tanzania Extractive Industries Transparency Initiative (TEITI)
  - Energy and Water Utilities Regulatory Authority (EWURA)
  - National Environmental Management Council (NEMC).
  - Tanzania Minerals Audit Agency (TMAA)



# 3. Status of the Industry

- **Public voices on**
  - Increasing levels of poverty against expectations (resource curse?) - Human Development Reports.
  - Dissatisfaction with foreign investors' role/operations (Extractive Industries).
  - Lack of transparency and accountability in contracts [Revenues from EI]
  - Human rights and environmental concerns of mining companies
- **Government Responses**
  - Formation of various Committees to address conflicts, reforms, tax regime and improvements.
  - Repealing of Mining Policy and Act (New Policy 2009; Mining Act 2010).



## 4. Audit status on the industry

- The existing Constitutional and Legal framework mandates the CAG to audit the Industry *though not explicit in some cases e.g PSAs*
- Some audits undertaken
  - (i) Performance Audit
  - (ii) Tax Exemption Audit
  - (iii) Audit by TMAA



## 4. Audit status on the industry...

### Performance Audit on:-

- (i) Implementation of PSAs on gas Industry-  
focusing on **Local Content** and  
**Verification of Recoverable Expenses.**
- (ii) minerals (now at Pre study)



## 4. Audit status on the industry...

local content - Initial Results shows challenges on

- Legal and institutional set up
- Implementation monitoring
- Monitoring and evaluation

Cost Verification Initial Results shows challenges on institutional capacity to do the exercise



## 4. Audit status on the industry...

### (C) Mining Audit

**Overall objective:** To determine whether the responsible Ministries are implementing the controls in place with the view of mitigating environmental impacts from mining activities

- **Results**

**Rehabilitation bond not posted to Government-** 6 mines did not post to Govt the financial guarantee for rehabilitation of destroyed environment; as a result, the Govt spent own for rehabilitation of abandoned mines.





## 4. Audit status on the industry...

### (ii) Tax exemption audit

- Tanzania Mining Act, 1997 - the licensed Mining Companies with Mining Development Agreements entered with the Government are entitled to exemption on **excise duty**, **road toll on fuels**, **import duty exemption**.



## 4. Audit status on the industry...

Tax exemption audit ...

### Audit Objectives

- ✓ To evaluate and test relevant controls during processing tax exemptions
- ✓ Determining whether the desired results are being achieved;
- ✓ To address the stakeholders concerns that fuel exempted for mining finds its way to the local market



## 4. Audit status on the industry...

Tax exemptions for the year 2012/13 is:

Customs & Excise	Shs. '000,000'	Percentage
Govt Institutions	6,680	1%
Parastatal Organizations	<b>25,290</b>	3
Religious Institutions	513	0.1
NGOs	1.409	0.2
Embassies	15,144	2
Duty free shops	2,200	0.2
Projects	122,461	13



## 4. Audit status on the industry...

Tax exemptions for the year 2012/13 is:

Customs & Excise	Shs. '000,000'	Percentage
Private Companies & Individuals	72,237	8
Mining Sector	351,926	<b>38</b>
Oil/Gas Exploration	35,809	<b>4</b>
Investment Centre (TIC)	300,398	<b>32</b>
<b>Total</b>	<b>934,073</b>	

➤ **74 % of Tax Exemptions is for the Extractive Industry**



## 4. Audit status on the industry...

(iii) Audit by TMAA whose main roles includes :

- To monitor & audit quality and quantity of minerals by miners for revenue collection (tax and royalty)
  - To audit capital investment and operating expenditure for tax purpose.
  - To monitor and audit environmental management, budget and expenditure
- CAG is responsible for auditing the operations of TMAA and can follow up an issues from TMAA reports



## 4. Audit status on the industry...

### Common Observations from TMAA

- Understatement of Minerals sales by the mining companies
- Mining companies expensing capital works as production costs
- Unjustifiable marketing and management fees
- Under remittance of withholding taxes
- Under statement of interest income



## 5. challenges

- Although CAG can audit Extractive Industry within Constitutional mandate, laws are still soft (allows debate) on ownership of responsibilities and access to records of Investors (private Companies).
- Attitude on the role of investors is that of “charity” rather than business
- Linking revenue from the industry to the living standards of people.



## 6. Way Forward

- Improving legal and institutional framework to address weaknesses rooted up.
- Tune of attitude to be in business and not charity therefore consider how to contract and follow up.
- Strengthening oversight institutions like CAG and others through capacity building programs.

A master plan of industry operations and benefits may be a useful tool





# End of Presentation

**Thank you all.**

