



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

Export Finance and Insurance Corporation

25 September 2014

**Report**

## Report preparation

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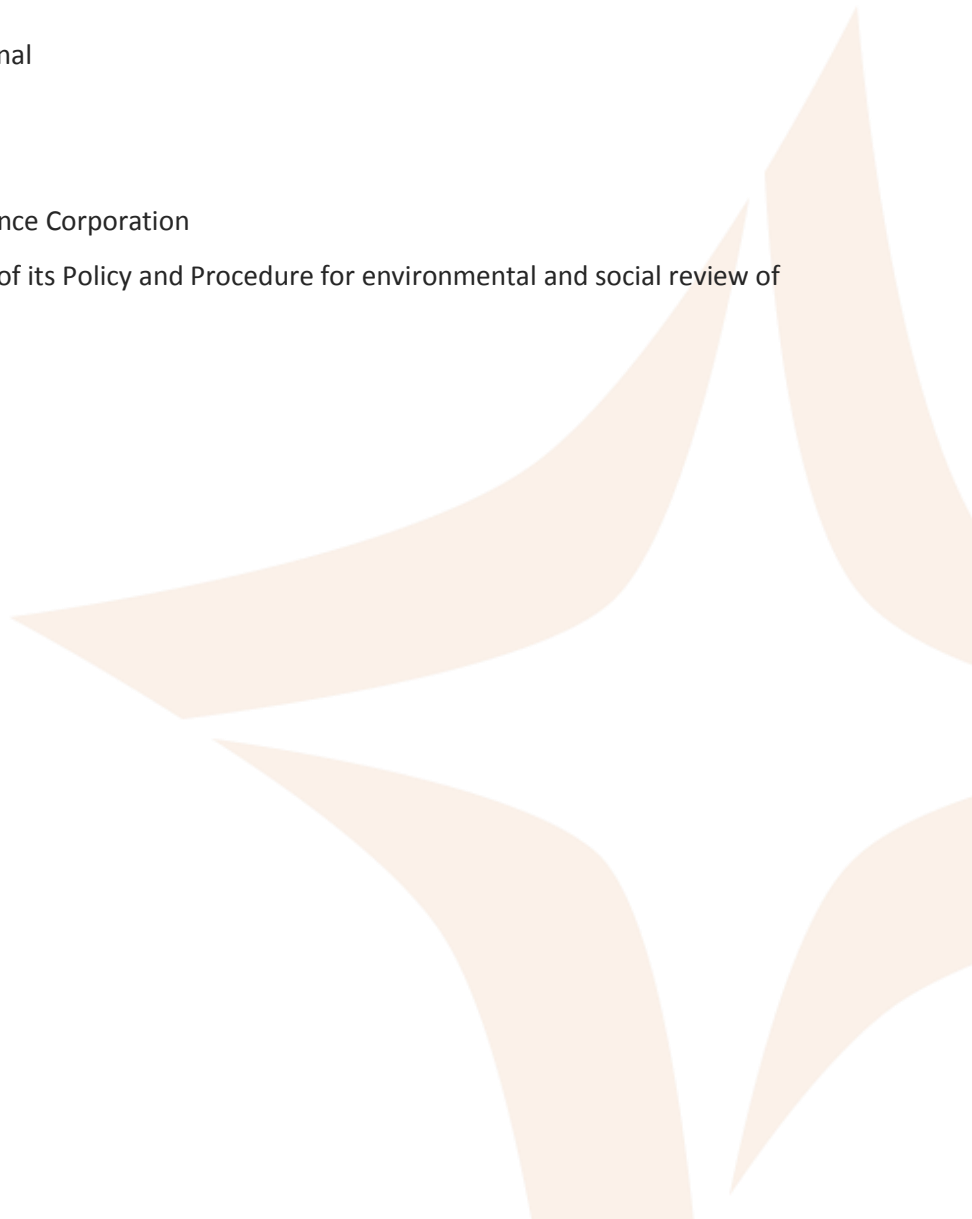
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## INDEPENDENT ASSURANCE STATEMENT

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 August 2012 and 30 June 2014.

### Relationship of Net Balance and EY

Net Balance was acquired by EY with effect from 19 September 2014. Efic elected to continue the engagement with Net Balance, and accordingly this assurance opinion is made by Net Balance.

### 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 August 2012 and 30 June 2014 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 August 2012 and 30 June 2014, 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.

### 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 August 2012 and 30 June 2014.

### 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 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.

### **Assurance Methodology and subject matter**

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 judgment, including assessment of the risks of material misstatement resulting from the review process undertaken by Efic. In making judgments, 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 August 2012 and 30 June 2014
- Development of an assurance review checklist
- 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 August to September 2014.

### **Criteria**

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.

## Our Independence

Net Balance was not responsible for preparing any part of the Subject Matter. Net Balance confirms that we are not aware of any issues that could impair our objectivity in relation to this assurance engagement, in accordance with our Independence Policy.

## 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 August 2012 and 30 June 2014, 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  
25 September 2014  
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 *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;
- 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 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. We note that the checklist was amended on 27 June 2013 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.



### ***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 August 2012 and 30 June 2014.

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 in the transactions" 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 was 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
<p><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.</p>	<p>We reviewed the key judgments made by management and operational personnel based on transaction records and interviews with operational personnel.</p>
<p><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.</p>	<p>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.</p>
<p><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.</p>	<p>We reviewed the analysis and disposition of matters of fact from the applications for financial support from the sample.</p>
<p><b>Records:</b> Records of transaction review sufficient to demonstrate that all matters relevant to the review were properly considered need to be maintained.</p>	<p>We reviewed the records maintained for the sample of transactions and confirmed whether appropriate records are in place.</p>

#### ***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 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.

## 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.

2012-13 Transactions		
Classification	Number of transactions	
	Completed transactions	Selected for audit
A	1	1
B	1	1
C	4	4
Potential Impacts – Yes	2	2
Potential Impacts – No	26	14
<b>Total</b>	<b>34</b>	<b>22</b>
2013-14 Transactions		
Classification	Number of transactions	
	Completed transactions	Selected for audit
A	0	0
B	0	0
C	4	4
Potential Impacts – Yes	6	6
Potential Impacts – No	40	22
<b>Total</b>	<b>50</b>	<b>32</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 44 from 74 possible transactions).

## Audit Activities

### Site Visits

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

Date and Location	Net Balance	Efic	Activities and Conclusions
<b>31 July 2014</b> (Efic office)	Simon Dawes  Nadia Woodhouse (by phone)	Directors Environmental and Technical Review	Confirmation of scope of work, agreement as to process and reporting, collection of documents, receipt of electronic transaction files.
<b>26 August 2014</b> (Net Balance office)	Simon Dawes	Director Environmental and Technical Review	Update on progress and confirmation of reporting timeline, review of work activities, discussion of Efic process, discussion of issues identified during audit activities.
<b>11 September 2014</b> (Efic office)	Simon Dawes	Directors Environmental and Technical Review	Consideration of draft audit findings, recommendations 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 4.37 GB of data, comprising approximately 2500 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.

Net Balance 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.

#### *Efic Procedural Documents*

<b>Document Name</b>	<b>Issue Date</b>
<b>Policy for environmental and social review of transactions</b>	27 June 2013
<b>Procedure for environmental and social review of transactions</b>	27 June 2013
<b>Efic Checklist for environmental and social review of transactions</b>	27 June 2013

## Review of previous recommendations

### *What we mean by “reputation risk”*

The environmental and social review process undertaken by Efic identifies risks associated with the project or non-project specific to the circumstances of the individual transaction. In conducting the review Efic may become aware of similar projects or non-projects that have had adverse environmental or social outcomes. While adverse environmental or social outcomes may not have occurred for the particular transaction supported by Efic, there is still a potential for community concern over these types of projects. This is known as “reputation risk”.

#### **1. Considering issues external to a transaction**

In our previous audit we suggested that community perceptions around contentious issues have the potential to increase Efic's exposure to reputational risk, and that the social review processes then in place may not fully capture those risks in a form that could be readily understood by Efic decision makers.

We note that "reputation risk" has been included in the reporting template.

Net Balance considers that Efic has effectively addressed this recommendation.

#### **2a. Update the Checklist to document the primary reason for classifying a transaction**

In our previous audit we found that the primary reason for the transaction classification was not consistently documented. In August 2012 Efic updated the checklist to include a requirement to provide a summary of the classification rationale for transactions associated with Category A and B projects. This requirement has since been extended to cover transactions associated with Category C projects and non-projects with low or no potential environmental and social impact.

Net Balance considers that Efic has effectively addressed this recommendation.

#### **2b. Update Procedure guidance document**

In our previous audit, it was suggested that Efic define environmental and social impact thresholds for each transaction to be classified as A, B, C or low/no potential. No updates or changes have been made to the policy or procedure document. The response to suggestion 2a reflects the changes made to the checklist, and Efic considered that no further changes to other documentation were required. We agree with this response.

#### **3. Document the process for approval of a significant extension to an existing facility**

Our previous audit suggested that significant extensions to facilities should trigger a review of the original environmental and social impacts of a project, particularly if it was approved a number of years prior. Efic has amended P5.6 of its Credit Manual and its Credit Decision Procedure requiring that an updated Environmental and Social review is undertaken where the underwriter or PMD considers there is a significant increase in the facility's amount or tenor. Where an update to the assessment is not undertaken, the rationale for the decision is documented in the Export Credit Memorandum (ECM).

Net Balance considers that Efic has effectively addressed this recommendation.

#### **4a. Consistent process for recording information in checklist**

The previous audit recommendations noted that consistent documentation was not kept on file in relation to each transaction category. Efic has identified and recorded on file the “Key environmental and social information” for all transactions where a potential environmental or social risk has been identified.

Net Balance considers that Efic has effectively addressed this recommendation.

#### ***4b. Revising the arrangement of the checklist***

Net Balance suggested that the Efic Checklist for Environmental and Social Review of Transactions should be revised in order to mirror the process flow for considering the impacts of a project. Efic has revised the arrangement of the checklist to follow the evaluation process flow more closely, and it now includes a separate section for more information on Category A and B projects.

Net Balance considers that Efic has effectively addressed this recommendation.

#### ***5. Track issues and their resolution as they arise and are resolved***

Our previous audit suggested that a transaction-based issues log would help Efic personnel (analysts and decision makers) and external auditors clearly understand which of the key risks were reviewed by Efic, and how questions and issues were resolved prior to signing off the Efic Checklist for Environmental and Social Review of Transactions and completing the report. Whilst conducting our project review for this audit, we noted that key project issues are often documented via email and can be difficult to follow through to a conclusion. To ensure that a clear audit trail surrounding discussion of issues and resolutions is maintained, an excel-based issues log could be created for each Category A project.

We recommend that Efic review their approach to this recommendation, with a view to developing a method that works effectively with its current review practices.

#### ***6. Appropriate standard for assessment of project (where IFC performance standards do not provide adequate guidance)***

One recommendation from the previous audit was in relation to potentially contentious projects. It was suggested 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.

The information on additional, appropriate standards is already captured in Efic's policy. The checklist also requires information on alternative standards where IFC performance standards are not used.

Net Balance considers that Efic has effectively addressed this recommendation.



## Audit findings and recommendations – current audit

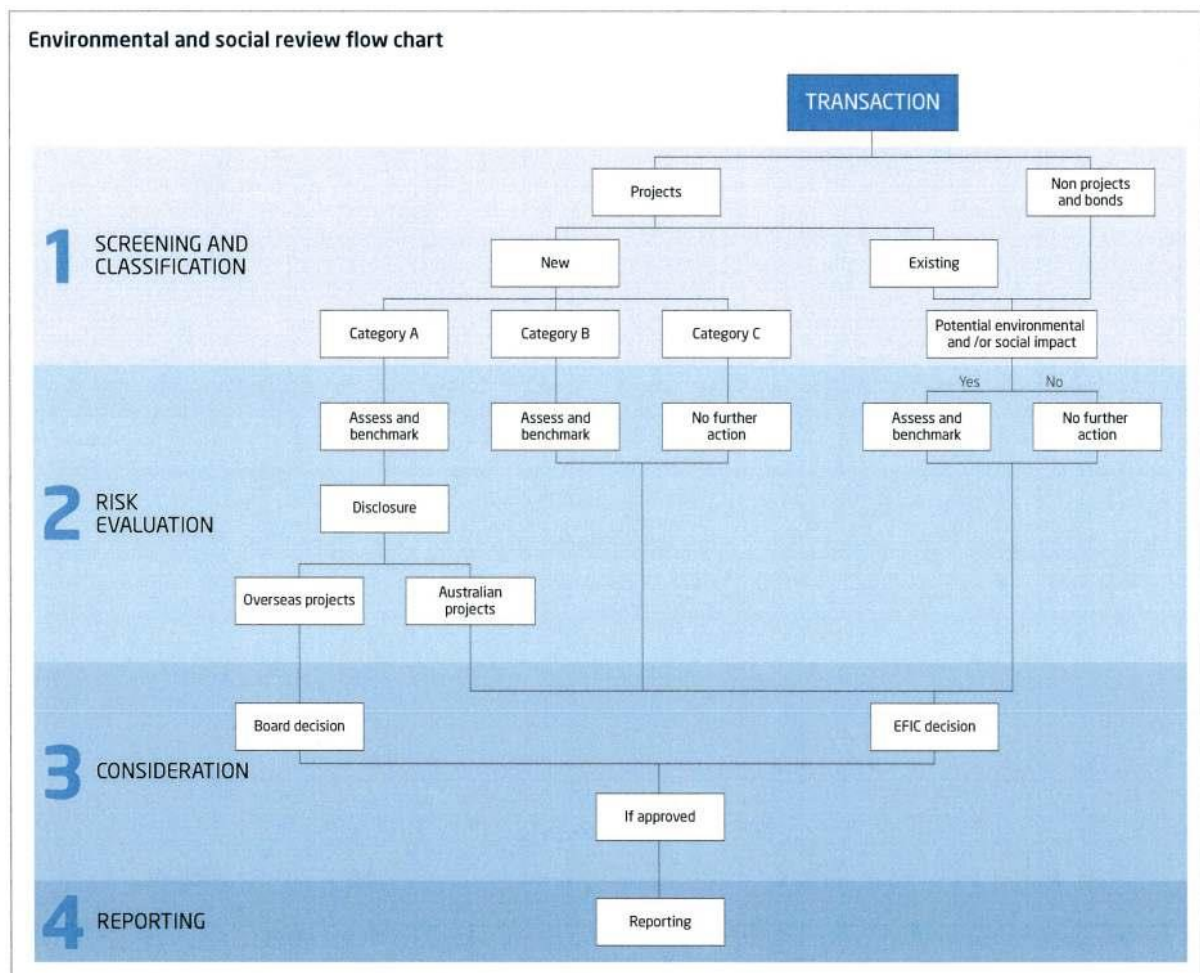
### Environmental and social evaluation review process

Efic conduct 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 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, 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.

### **Phase 1 – Screening and classification**

#### **Description of Phase**

In the first Phase, a transaction associated with a new project is classified as Category A, B or C, while transactions associated with existing projects and non-projects (which include bonds) are classified as either with potential environmental and/or social impacts (approximating a Category A or B) or with no potential environmental and/or social impacts (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.

### **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. We note that Category A projects within Australia are now disclosed on the Efic website together with international projects. 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 judgment.

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 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 (we note that a transaction may also be rejected for other reasons such as economics, underwriting or technical risk).

Where relevant, the report may also identify environmental and/or social factors external to the transaction but relevant for the decision making of the Board or a delegate of Efic.

### **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.

### **Comments and Suggestions**

We reviewed the risk evaluation process undertaken for each of the Category A and Category B projects and the 'with 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.

In reviewing this phase of the process we identified an inconsistency in terminology within the Efic documentation. We found that the Risk Assessment Report routinely uses the descriptor 'LOW potential for environmental impact'. In contrast the Efic checklist uses the descriptor 'NO potential for environmental impact.' This appears to be the result of a simple inconsistency in the terminology used in the Efic procedures.

*Recommendation 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.*

Some organisations have multiple transactions related to the same underlying project or non-project over a period of years. We noted that on some occasions risk assessments completed for transactions in 2011 were still in use as the basis for decision making on transaction approvals made in 2013 or 2014. Whilst Efic may consider whether changed circumstances require review of the risk assessment, the process and decision is not always documented. For the avoidance of any doubt in repeat transactions with the same organisation, project or non-project, documentation of the decision and of the supporting rationale as to whether a review of the risk assessment is required is suggested. This is related to the prior year audit Recommendation 3, documented above.

*Recommendation 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.*

Further, Efic has been presented with some transactions that relate to issues where there is heightened domestic community concern about issues with a potential negative social outcome. Efic has recognised that transactions related to these types of projects have the potential to increase Efic's reputational risk exposure. While we consider that the transactions were properly reviewed and that appropriate procedures have been followed to mitigate the risk, it may be of value to Efic if the positive social and environmental impacts considered in the social and environmental review were documented within the reports considered by decision makers.

We note that it is the specific role of other Efic facility assessment personnel to consider potential positive aspects of a project or non-project, and that the primary task of the environmental and social review is to identify potential adverse outcomes. While potential positive effects may not be determinative for the acceptance of a project, they may assist Efic decision makers with understanding the holistic implications of the financing decision.

The environmental and social review of a transaction is undertaken prior to approval of the transaction, or at a significant extension to facility or change in project. However, many projects financed by Efic are subject to changes in country risk, political risk as well as social risks. Further, some projects have had environmental and social conditions imposed by Efic. We note from the information provided and from discussions with Efic personnel that significant ongoing project review is undertaken. The review process includes an annual report to the Efic Board of all transactions associated with Category A projects, and quarterly reviews of all active transactions.

### **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 report to the Board (or delegate of Efic) 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 reports to the Board (or delegate of Efic) as part of our audit process. We found that the 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***

None noted.

## 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 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 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 a decade, 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 9 years' experience in the professional services industry, most recently working in sustainability consulting and focusing on sustainability strategy for a number of ASX 200 companies. Nadia leads Net Balance's Assurance service line. She has provided assurance to the ASX100, NGOs and government bodies in the mining and resources, utilities, retail, manufacturing, education and property industries.

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 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. She is a Certified Sustainability Assurance Practitioner (CSAP), a Chartered Accountant and trained in the application of the AA1000 and ASAE3000 assurance standards, and the GRI.

### **Auditor – Kaushik Sridhar**

Kaushik is a tertiary qualified Sustainability professional with 7 years' experience in the areas of sustainability assurance, strategy and sustainability, stakeholder engagement, and management accounting across multiple industries.

Since joining Net Balance, Kaushik has worked with a range of clients providing assistance in Assurance, Strategy Development, Energy and Greenhouse, and Social Sustainability projects. Clients he has assisted include Brambles, Commonwealth Bank of Australia, EPA NSW, EPA VIC, Foodbank, Fuji Xerox, Goodman Fielder, Henry Davis York, Insurance Australia Group, Melbourne Water, Monash University, Origin Energy, Optus, Responsible Investment Association Australia, Siemens, Stockland, Teachers Mutual Bank, Toyota, Tenix, Uniting Care, UrbanGrowth NSW and Woolworths.

Kaushik is an Assurance Practitioner, of Certified Sustainability Assurance Practitioners (CSAP) issued by AccountAbility. He has also recently been certified as a Project Management Professional (PMP) by the Project Management Institute.

Kaushik is a PhD and MBA graduate from the Macquarie Graduate School of Management.

### **Quality Assurance – Kim Farrant**

Kim has ten years professional experience in sustainability strategy and reporting, climate change, environmental management and engineering design. She has worked with clients spanning the insurance, superannuation, transport, oil and gas, mining, construction and retail industries. Kim leads Net Balance's Greenhouse and Energy business line. She has extensive experience in greenhouse gas inventory development and audit, provision of sustainability assurance and advisory services, life cycle analysis, climate change adaptation and mitigation, and sustainability strategy development.

Kim is a Lead Certified Sustainability Assurance Practitioner and has been involved in more than 40 report assurance engagements. She is also a registered greenhouse and energy auditor with the Department of Climate Change and Energy Efficiency (DCCEE) – Level 1 (technical and nontechnical) and Level 2 (audit leader). She has significant experience managing NGER assurance engagements. This has included a number of engagements for ASX 20 organisations with activities across a broad range of sectors.



## Appendix 3 – Efic Scope of Work

### SERVICES

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 (2012/13 and 2013/14). 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.

## Appendix 4 – Audit checklist

### Efic Environmental and Social Policy and Procedure transactions compliance review: Efic Process Assurance Checklist 2014

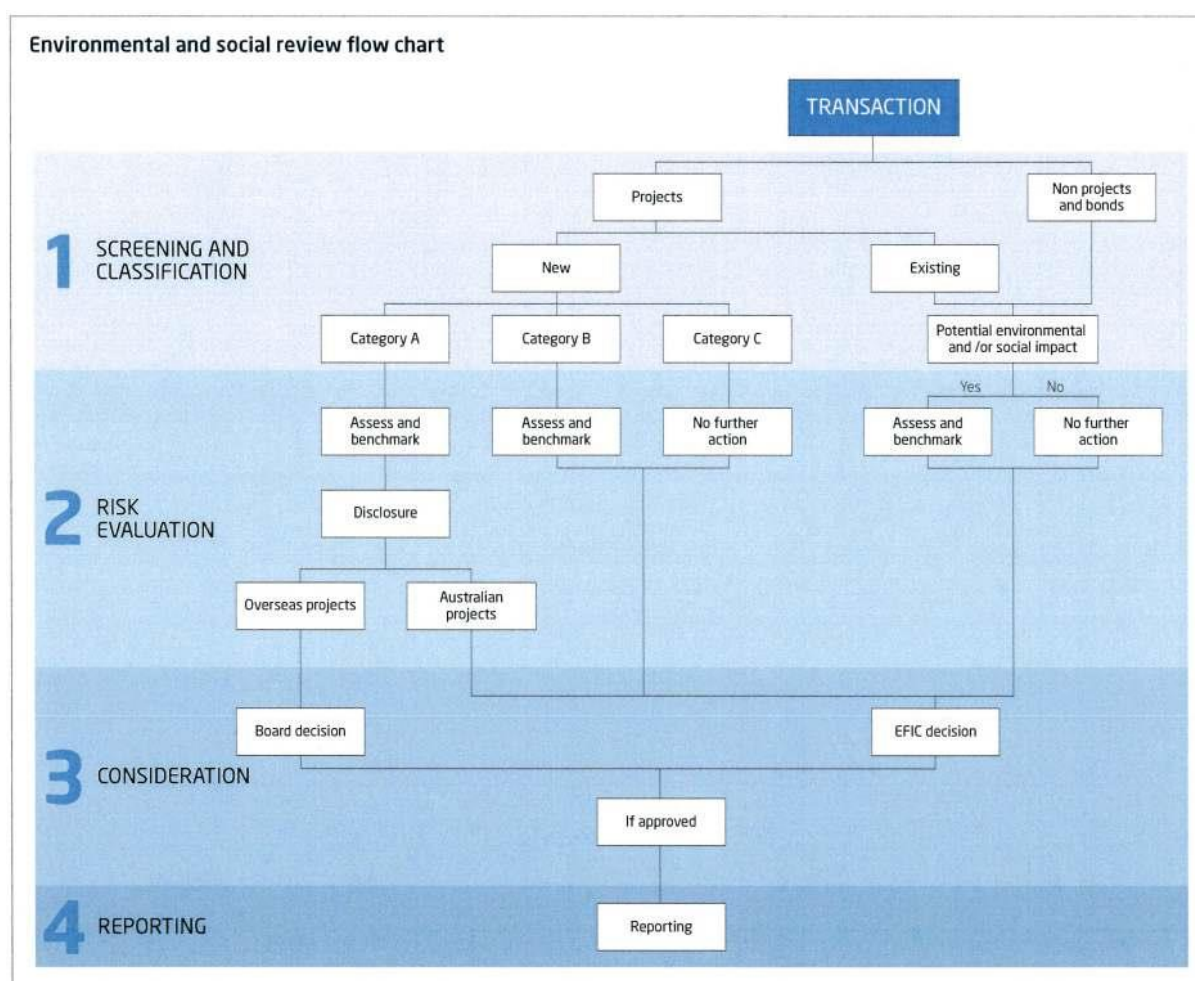
#### 0.1. Project:

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
<b>Category A</b> (Potential significant impacts)		Go to Part 4 and Part 5
<b>Category B</b> (potential impact)		Go to Part 4
<b>Category C</b> (minimal or no potential impact)		Review complete
<b>What information was used for the evaluation?</b>		

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

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

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		

Environmental and/or social information	Fact PJ	Fairly stated?	Comment
Management plans applicable:			
• Efic client	Fact/ PJ		
• Project sponsor	Fact/ PJ		
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"> <li>• large migrant workforce</li> <li>• documented repression of minorities</li> </ul>			



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
• IFC?		
• Other international benchmark?		
• Host country?		
• 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		
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
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<b>Disclosure Register:</b>		
• <b>Project name and description</b>		
• <b>Location</b>		
• <b>Industry sector</b>		
• <b>Facility type</b>		
• <b>Reasons for classification</b>		
• <b>Project sponsor's environmental and social assessment</b>		
• <b>Disclosure period</b>		
• <b>Submissions</b>		

Refer to the Procedure §2.2.3 for definitions and guidance.

### 3. Consideration of proposal

Environmental and/or social risk evaluation report prepared:

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

Was approvals assessed and granted properly?

<b>Criterion</b>	<b>Approval required</b>	<b>Comment</b>
<b>Transaction associated with a Category A New Project not located in Australia</b>	Approval by Board	
<b>Transaction associated with a Category A New Project located in Australia</b>	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.	

<b>All other transactions</b>	Made in accordance with Board delegated credit approvals.	
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#### 4. Reporting

Was this project reported according to §4.1?

Reporting Requirement	Fairly Stated?	Comment
<b>Category A:</b>		
• In the category A Archive?		
• In OECD report?		
<b>Online Register:</b>		
• Export/investor/client		
• Industry of export		
• Goods or services		
• Country		
• Facility type and amount		
• Result of screen and classification		

#### 5. Issues and responses

No.	Issue.	Efic Response	NB conclusion

#### 6. Conclusion and Opportunities for Improvement