

**MINISTRY OF FINANCE AND ECONOMIC PLANNING  
(GHANA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE-GEITI)**



**REPORT**

ON

**THE AGGREGATION/RECONCILIATION  
OF MINING BENEFITS IN GHANA**

**JANUARY 2005 – DECEMBER 2005  
(2005)**

**(APRIL 2008)**

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## **1.0 INTRODUCTION:**

This report presents the aggregation and reconciliation of mining benefits paid by mining companies and received by the Government of Ghana in the year 2005 (ie January 2005 –December 2005).

The Ministry of Finance and Economic Planning assigned Messrs BOAS and Associates to undertake the aggregation and reconciliation of mining benefits from 2004 as part of the requirements of the Extractive Industries Transparency Initiative (EITI).

The initiative seeks to improve development outcomes from payments (benefits) made by the Extractive Industries to governments by enhancing transparency in the payment, receipt, disbursement and utilization of these benefits.

Earlier aggregated reports included those for January 2004-June 2004 and July2004-December 2004.

## **2.0 OBJECTIVES**

The main objectives of this report are:

- i) To aggregate and reconcile mining companies submissions to those received by the Government in 2005.
- ii) To utilize lessons learnt during the aggregation/reconciliation to improve upon transparency in the payment, receipt, disbursement and utilization of these benefits.

## **3.0 SCOPE OF WORK:**

### **3.1Aggregation/reconciliation:**

**3.1.1Time Period/Accounting basis:** This report contains the aggregated and reconciled benefits for the period January to December 2005.

These figures were compiled using cash payments and receipts as the basis of accounting. Benefits paid by mining companies' and those received by the government in the year 2005 are considered for the completion of mining companies and government templates.

### **3.2 MINING BENEFITS**

Mining benefits considered in this report are:

**i) Mineral Right Licences;**

**ii) Ground Rent;**

**iii) Property rate;**

**iv) Mineral Royalties;**

**v) Corporate Tax;**

**vi) Dividends;**

### **3.3 MINING COMPANIES:**

The companies which had their benefits aggregated included the following:

**Table 1- Mining companies for 2005 Aggregation**

Company	Mineral Mined	Location
Anglo gold Ashanti-Bibiani	Gold	Bibiani -Western Region
Anglo gold Ashanti-Iduaprim	Gold	Tarkwa-Western Region
Anglo gold Ashanti-Obuasi	Gold	Obuasi-Ashanti Region
Abosso Goldfields Ltd	Gold	Damang-Western Region
Goldfields(Ghana) Ltd	Gold	Tarkwa-Western Region
GSR/Bogosu Goldfields Ltd	Gold	Bogosu-Western Region
Satellite(Wexford)Goldfields	Gold	Akyempim-Western Region
Ghana Manganese Co. Ltd	Manganese	Nsuta-Western Region
Ghana Bauxite Co. Ltd	Bauxite	Awaso-Western Region

These companies contributed about 99% of the total mineral royalties received by Government in the year 2005(see Appendix-1 and Appendices 2, 3A-3J).

**3.4 ACTIVITIES/AUDITING:** Activities undertaken by the companies include

Exploration, Mining, Processing/Ore Treatment and Marketing.

All the companies had audited Financial Statements for 2005.

#### **4.0 TERMS OF REFERENCE.**

- Under the terms of reference for the assignment the obligations of the aggregator shall include the following:
- The Aggregator shall perform both process and financial audit. The aggregator shall analyze the historical documentation on production, exports and payment of royalties for minerals produced in the country.
- The template developed would be the basic tool for the data collection from government institutions and extractive companies.
- Specifically, the Aggregator shall undertake the following activities:
- Ascertain the appropriateness of revenues received as mineral royalty, dividends and tax on profit.
- The aggregator shall also analyze the tax deductions claimed by the companies for the purpose of identifying any improper claims.
- Check the disbursements made from the revenues received and ascertain if they are in conformity with legislation.
- Scrutinize the payment made to District Assemblies, Traditional Authorities and Stools within the operational areas of mines.
- Ascertain the appropriateness of payments made with regards to mineral royalties; ground rent; dividends; taxation on profits and for mineral rights.
- Check if the quantities of minerals declared to the Aggregator are in conformity with those made to the Minerals Commission.
- Review financial statements for consistency for both companies and institutions. Specifically, for companies the aggregator shall review company capital investments and operating cost.
- Review the capital investments in order to assess the actual amount of the investment and to determine if the amortization and depreciation declared is correct and does not improperly reduce the amount of taxable profit of the mining companies.
- Perform the audit of operating costs in order to assess if the deductions claimed were actually incurred and correspond to legitimate operational expenses as these affect the taxable profit of the companies.
- Review feasibility reports of Mining Companies in order to compare the projected production with the actual production.
- Reconcile the data so collected to ascertain if there is any disparity between the governments reported template and the aggregated companies reporting template.

## **5.0 METHODOLOGY**

### **5.1 PRODUCTION AND MINERAL ROYALTY**

Individual shipments from mining companies indicating gross mine weights and bullion assays on their gold delivery notes were ascertained.

Shipments identified by bullion bars numbers on gold delivery notes were serially checked with those on refining certificates.

The details of gold shipments were compared to their corresponding remittances/revenues.

Gold content ounces declared at the mine were recalculated and its variance with refinery ounces determined for reasonableness.

To avoid possible underpayment, quarterly royalty payments were thoroughly scrutinized.

Silver revenues accounted for by the refineries totaled as part of export proceeds for which royalties are to be paid.

All manganese shipments and local ballast sales reports were reviewed for accuracy.

Documentation on bauxite shipments for the year 2005, were examined and compared with company declarations.

Royalty payments thoroughly checked for exclusion of freight, insurance, refinery charges since royalties must be paid on gross revenues.

Interim payments usually for 99% of gold exports values were also closely checked and tied with their corresponding balance repatriation to avoid mix up with provisional and final payments of subsequent shipments.

Since various dollar to cedi exchange regimes are used for royalty payments, the appropriate rates employed for such quarterly payments were individually checked and its cumulative values determined.

Computations of operational ratios which eventually determines royalty rates payable by companies was performed. Thus verification for possible payment of over 3% of their gross revenues as royalties properly instituted.

Sales Ledger account for foreign remittances for bauxite obtained as a crosscheck to revenue declaration.

#### **5.1.1 DECLARATIONS TO STATE AGENCIES**

Company returns to Mineral Commission on production indicating shipping tonnages and revenues for all bauxite exports were also compared with royalty payment computations.

Monthly bauxite production statistics were also reviewed against similar submissions to Minerals Commissions

Monthly and quarterly submissions to Minerals Commission on mine technical information eg tonnages of ore mined and milled, Mill Head Grade and residue grades were duly examined for the entire 2005.

These figures were compared to those reported in the companies' financial statements.

Company feasibilities and budgets for medium to long term production were examined.

An audit of the metallurgical processes was carried out ie crushing, milling, dewatering, leaching and smelting etc to confirm tonnages and gold content ounces at each stage of the processing route up to the gold room.

Bullion quantities and revenues declared at the Internal Revenue Service (IRS) for the purposes of royalty payment were reconciled with those available at the Minerals Commission. They were also compared figures in the companies' financial statements.

Export proceeds on the carbon fines were checked to ensure royalties were paid.

## **5.2 CORPORATE TAXES**

As all the companies were on self assessment, the payment of corporate tax in the year 2005 was mainly related to the 2004 and 2005 assessment years. Final returns for the year 2004 and self assessments for 2005 were scrutinized particularly for non-allowable deductions.

Capital investments by the companies for the year 2005 were also scrutinized by analyzing the Asset Registers and the Fixed Asset Schedules of the companies.

Capital allowances applied for computers, plant and machinery and other mining assets were scrutinized to ensure they conform to the schedules provided in the Internal Revenue Act 2000. ACT592.

Company's capital allowances carried forward , Utilized /granted in 2005 were all examined.

The prices of items on the Custom Records were compared to those on the company's Asset Register and where possible prices at the manufacturer's websites.

### **5.2.1 OPERATING COST**

All participating companies had both their consolidated operating costs and its constituents checked. Due cognizance was taken of other declaration by companies with similar ore body characteristics, mining strategy and processing routes.

\*\*Focused attention made the accuracy of operating cost as a key determinant of the quantum of corporate tax to be paid in a given year.

Unit cost for drill and blast, load and haul and general pit maintenance were scrutinised and due comparisons made across participating companies.

Similar unit costs for plant consumables such as lime, cyanide, steel balls, process acids, activated carbon and fluxes were examined for fair pricing.

Customs records of mine imports were checked against the approved mining exemption list to ensure statutory compliance.

### **5. 3 DIVIDEND PAYMENTS.**

The shareholding structure of the companies were obtained from the mining companies and confirmed with the Non Tax Revenue Unit of the Ministry of Finance, with special attention paid to the Government of Ghana's shareholding.

Financial statements and annual reports for the years 2004 and 2005 were checked for declaration of dividends. Where dividends were declared the amount declared was noted. Government share of the dividend declared were then compared with the amount received by the Non Tax Unit of the Ministry of Finance.

Further clarifications were sought from companies and Non-Tax Revenue Unit where dividend payments and receipts seemed not to agree with declared dividends in financial statements.

Registrars of shareholders of the various companies (where appropriate) were contacted to ascertain the correctness of the declarations in the financial statements.

### **5.4 OTHER MINING BENEFITS**

#### **5.4.1 GROUND RENT:**

Concessions details of mining companies available at the Minerals Commission were obtained.

Computations of ground rents payable in 2005 were made. (see Table 4 )

Enquiries were made at relevant OASL regional offices on ground rents payments in 2005.

Ground rents as a mining benefit duly completed on companies template in compliance with EITI requirements.

#### **5. 4.2 MINERAL RIGHTS LICENCES:**

Government receipts of Mineral Right licences ie Reconnaissance exploration and leases for 2005 requested at the Minerals Commission.

Mining companies were briefed on need to indicate mineral right licences paid during the year on their templates.

#### **5.4.3 PROPERTY RATE:**

a) Demand notices for Property rates for 2005 levied by respective District Assemblies were checked against receipts and bank statements.

- b) District Assemblies were requested to enter property rates received on the government templates that were provided.
- c) Mining companies were requested to indicate property rates paid on the company template supplied.
- d) Evidence of payments by the mining companies including cheque numbers and receipts were checked.

### **5.5 STATE AGENCIES RECEIPTS**

Mineral Royalty receipts by the Internal Revenue Service were compared to:

- i) The payments made by the mining companies.
- ii) The declarations of mineral royalty receipts made by the Internal Revenue Service to the Ministry of Finance and the Office of the Administrator of Stool Lands (OASL)
- iii) Corporate tax and dividend payments received by the IRS and NTRU respectively were compared to the payments made by the companies.
- iv) Property rates received by the District Assemblies were compared to those paid by the mining entities.

### **5.5 AGGREGATION/RECONCILIATION**

Composite Mining Companies Template prepared from individual templates submitted by mining companies (see Table 2 )

Aggregated Government Templates also prepared from data provided by the various revenue collection agencies (see Table 3)

The two aggregated templates, the Composite Company Template and the Government Template were reconciled.

### **5.6 DISBURSEMENTS TO BENEFICIARIES**

The disbursements from the Internal Revenue Service were checked to that received by the OASL (Head Office).

Disbursements from Internal Revenue Service to OASL head office crosschecked as well as the corresponding payment of the total royalties paid by OASL to beneficiaries

Disbursements to the districts were analyzed by applying the relevant formula or the appropriate percentages to the mineral royalties paid by the mining companies.

Appropriate amounts due to the districts from each of the transfers from the Head Office were computed for the year 2005.

District Assemblies receipts for royalties were also checked against payments made by the regional OASL.

## **5.7 UTILISATION OF BENEFITS**

District Assemblies with dedicated Bank accounts for mineral royalty funds, had their accounts reconciled with OASL payments.

Budgets (where they existed) for the utilization of mineral royalties were assessed. List of projects undertaken during the year 2005 were obtained.

District Assembly list of projects contractors paid from royalty funds were then matched against executed projects.

Details on District Assemblies Templates were compared with those on Bank statements.

Field inspections of selected projects were undertaken.

## 6.0 AGGREGATION OF MINING BENEFITS:

Mining Companies payments and Government receipts for the period January 2005-December2005 are shown in Tables2 and 3 respectively.(See Appendices 4A-4I)

See also Fig 1.

**Table 2. MINING COMPANIES PAYMENTS.**

PERIOD: JANUARY 2005-DECEMBER 2005.  
ALL AMOUNTS IN GHANA CEDIS

COMPANIES	LICENCE	PROPERTY RATE	GROUND		CORPORATE TAX	DIVIDEND	TOTAL
			RENT	MINERAL ROYALTIES			
Anglogold-Obuasi	-	61,606.00		4,426,665.42			<b>4,488,271.42</b>
Anglogold –Iduaprim	-	28,729.00		2,368,753.10			<b>2,397,482.10</b>
Anglogold –Bibiani	-	30,000.00		1,449,583.94			<b>1,479,583.94</b>
						4,574,377.19	<b>4,574,377.19</b>
Bogosu Gold Ltd	-	13,726.00		1,554,634.78			<b>1,568,360.78</b>
Ghana Bauxite Co.	-	7,493.00	4,070.80	380,956.39			<b>392,520.19</b>
Ghana Manganese Co.	-	10,717.00		1,055,561.98	194,762.09	13,078.56	<b>1,274,119.63</b>
Goldfields –Tarkwa	-	55,687.00		8,518,280.39	5,419,582.96	2,266,545.78	<b>16,260,096.13</b>
Goldfields-Abosso	-	23,407.00	47.70	2,764,247.14	4,145,975.20		<b>6,933,677.04</b>
Wexford Mining	-	21,738.00		774,612.76			<b>796,350.76</b>
<b>TOTAL</b>		<b>253,103.00</b>	<b>4,118.50</b>	<b>23,293,295.90</b>	<b>9,760,320.25</b>	<b>6,854,001.53</b>	<b>40,164,839.18</b>

Table 3

PERIOD: JANUARY 2005-DECEMBER 2005.

ALL AMOUNTS IN GHANA CEDIS

TABLE 3: GOVERNMENT RECEIPTS

GOVT AGENCY	MIN.COMM	MUN/DIST ASMBL	OASL	IRS	IRS	NTRU	
COMPANY	MIN.RIGHT LICENCE	PROPERTY RATE	GROUND RENT	MINERAL ROYALTIES	CORPORATE TAX	DIVIDEND	TOTAL
Anglogold-Obuasi		61,606.00		4,426,665.42	-		4,488,271.42
Anglogold –Iduaprim		28,729.00		2,368,753.10	-		2,397,482.10
Anglogold –Bibiani		30,000.00		1,449,583.94	130,000.00		1,609,584.94
						4,574,377.19	4,574,377.19
Bogosu Gold Ltd		13,726.00		1,554,634.78	-		1,568,360.78
Ghana Bauxite CO.		7,493.00	3,954.00	380,956.39	-		392,403.39
Ghana Manganse Co.		10,717.00		1,055,561.98	194,762.09	13,078.56	1,274,119.63
Goldfields –Tarkwa		55,687.00		8,518,280.39	5,415,893.59	2,275,000.00	16,264,860.98
Goldfields-Abosso		23,407.00	47.70	2,764,247.14	4,482,212.70		7,269,914.54
Wexford		21,738.00		774,612.76			796,350.76
<b>TOTAL</b>		<b>253,103.00</b>	<b>4,001.70</b>	<b>23,293,295.90</b>	<b>10,222,868.38</b>	<b>6,862,455.75</b>	<b>40,635,724.73</b>

1 GH¢ is equivalent to 10,000 old cedis.

**6.1 RESULTS OF AGGREGATION:**

**◆ MINERAL RIGHT LICENCES:**

There was no payment of mineral right licence by the selected companies.

**◆ GROUND RENT:**

Two companies, Ghana Bauxite Company Ltd and Abosso Goldfields Ltd paid three thousand nine hundred, fifty four Ghana cedis and Forty seven Ghana cedis, seventy Ghana pesewas respectively in the year 2005.

These amounts were paid for stool lands obtained outside the mining lease concession area.

There was no payment of concession ground rent.

The concession ground rents due in 2005 are indicated below.

**Table 4: Concession Ground rent payable in 2005**

<b>MINE/COMPANY</b>	<b>Concession size(km)<sup>2</sup></b>	<b>Amount ( GH¢)</b>
<b>Anglo gold Ashanti-Obuasi</b>	<b>334.27</b>	167.54
<b>Anglo gold Ashanti-Bibiani</b>	<b>49.82</b>	24.91
<b>Anglo gold Ashanti-Iduaprim</b>	<b>31.00</b>	15.50
<b>Bogosu Gold Ltd(GSR)</b>	<b>224.05</b>	112.03
<b>Goldfields(Ghana)Ltd-Tarkwa</b>	<b>204.22</b>	102.11
<b>Abosso Goldfields Ltd</b>	<b>49.00</b>	24.50
<b>Ghana Manganese Ltd</b>	<b>175.93</b>	87.97
<b>Ghana Bauxite Company</b>	<b>29.39</b>	14.70
<b>Wexford Goldfields(GSR-Akyempim)</b>	<b>50.00</b>	25.00
<b>TOTAL</b>		<b>574.26</b>

**Source: Minerals Commission**

The amount payable was a product of the concession size and the rate of GH¢ 0.50 per (sq.km)

◆ **MINERAL ROYALTIES:**

All the companies paid royalties at the minimum threshold of 3%.  
The production and royalty payments for the year 2005 are shown in Appendix 7A-7I

◆ **CORPORATE TAX:**

The Internal Revenue Service (IRS) received corporate taxes in the year 2005 from four out of the nine selected companies.

These were Abosso Goldfields Ltd; Goldfields Ghana Ltd(Tarkwa); Ghana Manganese Company Ltd and Anglo gold (Bibiani) Ltd.

**PROPERTY RATE.**

The property rate payable and the amounts paid are indicated below.

**Table 5: Property rate payable/paid in 2005**

Company	Property rate due in 2005.( GH¢)	Property rate paid in 2005.( GH¢)
Anglogold-Obuasi	61605.65	61605.65
Anglogold –Iduaprim	28728.67	28728.67
Anglogold –Bibiani	30000.00	30000.00
Bogosu Gold Ltd	13725.66	13725.66
Ghana Bauxite CO.	7492.72	7492.72
Ghana Manganese Co.	9743.93	9743.93
Goldfields –Tarkwa	55686.67	55686.67
Goldfields-Abosso	23407.10	23407.10
Wexford/GSR-Akyempim	21737.75	21737.75

Source: Mining companies/District Assemblies.

◆ **DIVIDEND:**

There were dividend payments by Anglo gold International, Goldfields Ghana Ltd-Tarkwa and Ghana Manganese Co.Ltd.

Anglo gold International which operated three mines at Obuasi, Iduaprim and Bibiani, paid the highest dividend of GH¢4.5m.The amount represented two payments made up of i) final dividend payment for the year 2004;GH¢2.4m and ii) the interim payment for the year 2005;GH¢2.1m.

Goldfields(Tarkwa) and Ghana Manganese Co Ltd paid an amount of GH¢2.3m and GH¢13,078 respectively.

**FIG 1 .Government receipts of mining benefits from selected companies in 2005**

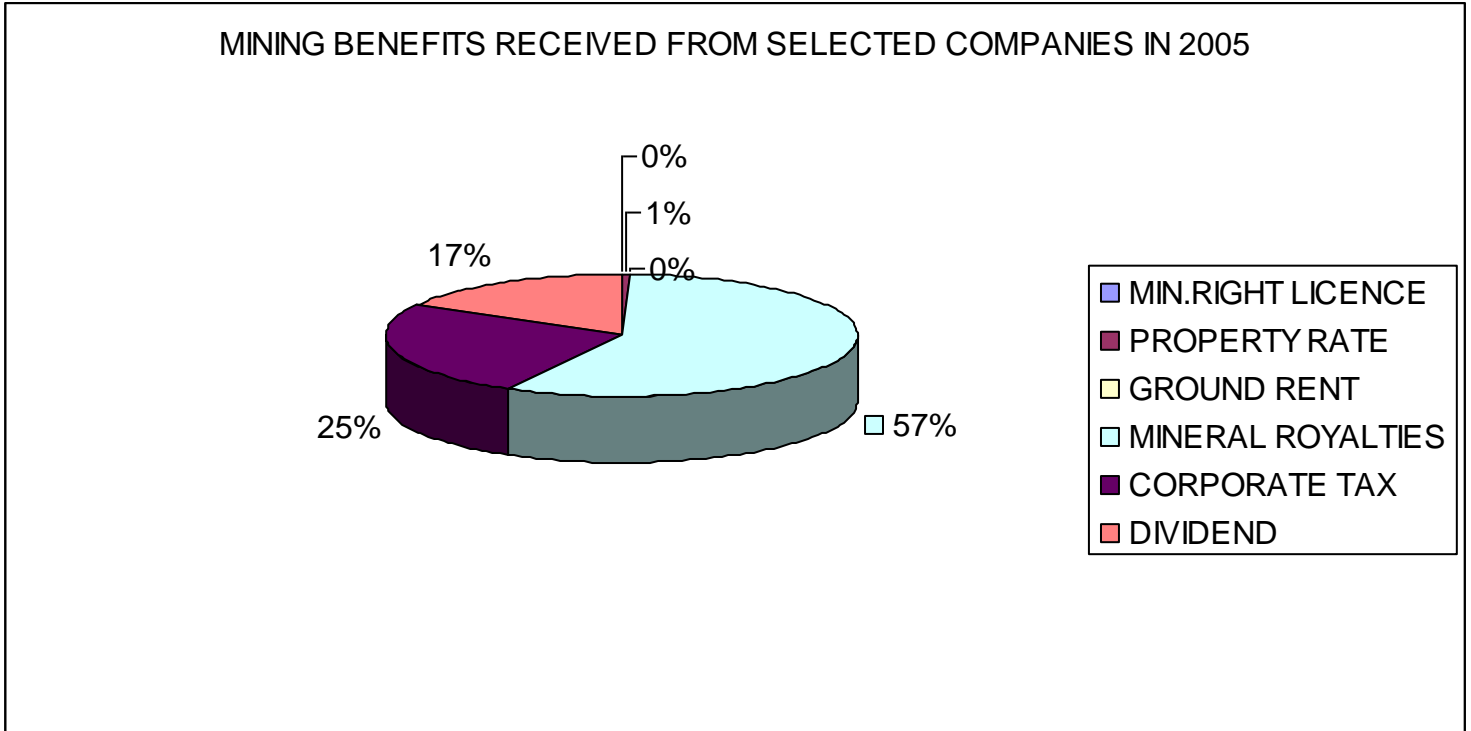
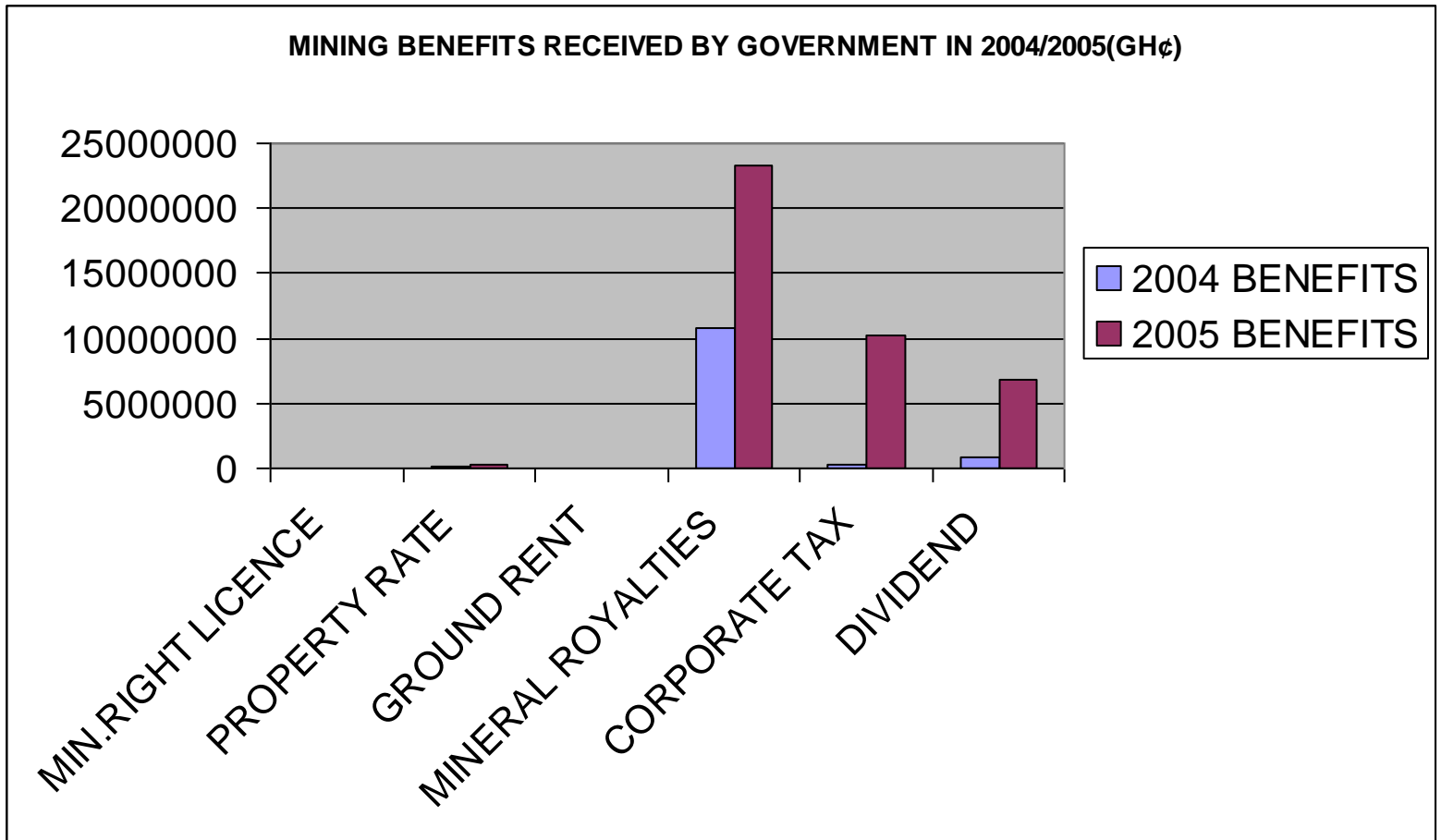


FIG 2: Comparison of Mining Benefits,2004/2005



## 6.2 RECONCILIATION:

Table 6: Reconciliation of Government receipts/Company payments of Mining Benefits in 2005.

MINING BENEFIT	Government Aggregated Receipts(GH¢)-A	Mining Companies Payments (GH¢)-B	Deviation(A-B)
Mineral Royalty	23,293,296	23,293,296	0
Property Rate	253,103	253,103	0
Corporate Tax	10,222,868	9,760,320	462,548
Dividends	6,862,456	6,854,002	8,454
Ground Rent	4,002	4,119	(117)
Mineral Right Licence	0	0	0
<b>TOTAL</b>	<b>40,635,725</b>	<b>40,164,840</b>	<b>470,885</b>

### 6.2.1 DISCREPANCIES:

The deviation of GHC470,885 (see Table 6) resulted from bookkeeping/exchange rate differences.

The detail breakdown of the deviation is as follows.

#### Corporate Tax:

i) Anglo gold (Bibiani) Ltd could not confirm payment of GH¢130,000 which is stated as receipt by the Internal Revenue Service (IRS).

ii) Abooso Goldfields did not recognize in its books a payment of GH¢336,237.50 that the Internal Revenue Service claimed was received on the 5<sup>th</sup> of December 2005.

iii) This discrepancy of GH¢(3689) resulted from differences in exchange rates used in recording the payment of corporate tax in the books of Goldfields (Ghana) Ltd, Tarkwa, and that used for payment to the IRS.

The company recorded an amount of GH¢5,419,583 corporate tax payment in its books as a result of reporting in the US\$ denomination. However the actual payment made to the IRS amounted to GH¢5,415,894. This difference for corporate tax has an opposite effect to the two indicated earlier.

#### Dividends:

The differences in the dividend figures for government receipts and companies payments resulted mainly from Goldfields Ghana Ltd (Tarkwa) figures for payment to the Non Tax Revenue Unit and recordings in its books.

These figures were GH¢2,275,000 and GH¢2,266,545 for payments to the IRS (Government receipt) and recordings in the books respectively.

**Ground Rent:**

The discrepancy in the Ground rent figures reported resulted from the inability of the OASL office in Takoradi to confirm the payment of non-concession Ground rent of GH¢117 by the Ghana Bauxite Company Ltd.

**7.0 DISBURSEMENTS:**

Disbursements of mineral royalty receipts for the year 2005 by the Administrator of Stool Lands to the Ashanti and Western Regions are as shown in the tables below.

**7.1 ASHANTI REGION:**

**Table 7: Disbursements of Mineral Royalties to the Ashanti Region in 2005**

DATE	BANK	CHEQUE NO.	AMOUNT(cedis)
07/06/05	Bank of Ghana	537113	188340.37
23/08/05	Bank of Ghana	537120	94903.63
29/12/05	Bank of Ghana	537128	111460.57
<b>Total</b>			<b>394704.57</b>

**7.2 WESTERN REGION:**

**Table 8: Disbursements of Mineral Royalties to the Western Region.**

DATE	BANK	CHEQUE NO.	AMOUNT(GH¢)
07/06/05	Bank of Ghana	537112	651870.37
23/08/05	Bank of Ghana	537121	417729.78
29/12/05	Bank of Ghana	537127	452171.12
<b>Total</b>			<b>1521771.27</b>

The 07/06/05 disbursements emanated from mineral royalties paid within the period September 2004 to February 2005.

The disbursements of 23/08/05 encompassed royalties paid between March and May 2005.

The final disbursements in 2005 which were made on 29/12/05 came from mineral royalties paid from June 2005 to September 2005.

### 7.3 FROM REGIONS TO DISTRICTS:

#### 7.3.1 OBUASI MUNICIPAL ASSEMBLY:

The mineral royalties due the Obuasi Municipal Assembly/ Adansi West in 2005 amounted to GHc142,028 ; see Appendix 6c and table 9 below.

**Table 9: Mineral royalties due to Obuasi Municipal Assembly in 2005**

<b>DATE OF PAYMENT</b>	<b>AMOUNT PAYABLE(GH¢)</b>
June 2005	81,067.35
August 2005	28,593.52
December 2005	32,367.93
<b>Total</b>	<b>142,028.80</b>

The amount of royalty received by the Obuasi Municipal Assembly amounted to Ninety seven thousand Ghana cedis.(see Table 10 )

**Table 10 Mineral Royalties received by Obuasi Municipal Assembly in 2005**

<b>DATE OF RECEIPT</b>	<b>AMOUNT RECEIVED(GH¢)</b>
<b>08/07/05</b>	77,000.00
<b>23/11/05</b>	20,000.00
<b>TOTAL</b>	<b>97,000.00</b>

**7.3.2 WASSA WEST DISTRICT ASSEMBLY:**

**Payment from OASL (Takoradi) to the Wassa West District Assembly.**

Amounts payable to the Wassa West District Assembly, (see Appendix 6D) from the disbursements made in 2005 are indicated below.

**Table 11: Amounts due Wassa West/amount paid by OASL in 2005.**

<b>Date Amount Disbursed from Accra.</b>	<b>BOG cheque Number</b>	<b>Amount Due Wassa West District Assembly GH¢</b>
<b>JUNE 2005</b>	<b>537112</b>	357,733.04
<b>AUGUST 2005</b>	<b>537121</b>	202,282.79
<b>DECEMBER 2005</b>	<b>537127</b>	211,604.71
<b>TOTAL</b>		<b>771,620.54</b>

The total Mineral Royalty receipts by the Wassa West District Assembly in the year 2005 amounted to three hundred and ninety thousand Ghana cedis- GH¢390,000(see Appendix 6F)

A difference of GH¢381,620 existed between the amounts due and received.

## 8.0 UTILISATION.

### 8.1 Obuasi Municipal Assembly

The 2005 budget for the utilization of mineral rights receipts by the Obuasi Municipal Authority is summarized below.(see Appendix 6F)

**Table 12: Obuasi Municipal Assembly: Mineral Royalty Budget for 2005.**

<b>Expenditure Item</b>	<b>Amount(GH¢)</b>	<b>% of Total Expenditure</b>
<b>Infrastructure(Education)</b>	10,000	4
<b>Scholarship Scheme</b>	60,000	22
<b>Share of Royalties(Adansi South/North)</b>	67,500	25
<b>Obuasi Central Market(Pavement)</b>	50,000	19
<b>Purchase Of Meat Van</b>	52,000	19
<b>Pavement Lorry Parks</b>	2,250	8
<b>Improvement of security lights at Lorry Park</b>	2,000	1
<b>Contingency</b>	6,000	2
<b>Total</b>	<b>270,000</b>	<b>100</b>

**Table 13: Obuasi Municipal Assembly Expenditure for the year 2005 from mineral royalty receipts.**

<b>Expenditure Item</b>	<b>Amount(GH¢)</b>	<b>% of Total Expenditure</b>
<b>Assembly(Administration) Expenditure</b>	10786	9.90
<b>Education Infrastructure</b>	31723	29.09
<b>Scholarship Scheme/Educational Fund</b>	30940	28.37
<b>Market</b>	32127	29.46
<b>Waste Management</b>	3212	2.94
<b>Bank Charges</b>	272	0.24
<b>Total</b>	<b>109,060</b>	<b>100</b>

## 8.2 WASSA WEST DISTRICT ASSEMBLY:

Approved budget for utilizing mineral royalty receipts and actual expenditures for the year 2005 is as shown in Table 14 below.

**Table 14--Wassa West District Assembly- 2005 Mineral Royalty Budget /Expenditure**

<b>Expenditure Item</b>	<b>Budget Estimate (GH¢)</b>	<b>Actual Expenditure(GH¢)</b>
Economic	474,430.40	387,660.40
Social	184,917.90	133,959.97
Administration	100,650.00	23,137.85
Environmental	48,965.50	112,311.64
<b>Total</b>	<b>808,963.80</b>	<b>657,069.86</b>

Roads construction and the building of markets formed more than 80% of the budget for the Economic expenditure item.

The Social expenditure head was essentially for the construction of schools.

Budget for Administration refers to The District Assembly's expenditure items.

The construction of places of convenience and general waste management covered the Environmental part of the budget.(see Appendix 6G)

The other districts did not have budgets for the utilization of mineral royalty receipts, as they were applied on recurring expenditures.

## 9.0 SIGNIFICANT FINDINGS:

### 9.1 VARIATIONS IN GOLD PRICING.

As noted in 2004, the issue of companies using varying pricing policies for their gold sales recurred in 2005. However, some of the companies sold their gold at higher than average prices quoted at the London Exchange (LME). Significant amongst them was Wexford Goldfields Ltd.

#### 9.1.1 Recommendation:

Policy guidance on pricing of minerals won is required to ensure transparency and uniformity.

### 9.2 MINERAL ROYALTY PAYMENT:

All the companies paid royalties at the minimum threshold of 3% on gross revenue.

**General:** The rate of royalty payable for 2005 ranged between 3% and 12% of the value of minerals won.

Mining entities were however required after the expiration of each quarterly period to pay on account royalty at the rate of 3%.

The final rate applicable could only be determined when the quarterly returns submitted to the IRS and the yearly financial statements have been reconciled and the royalty payable computed according to the provisions of LI1349 regarding operational ratio (profitability).

Mining entities are required by LI 1349 to compute their operational ratios, sixty days after the end of the yearly period..

There were no records at the Internal Revenue Service of the computation of the operational ratios and reconciliations by mining companies, to determine mineral royalty payable.

### **9.2.1 Recommendations:**

In situations where mining entities are even not required to pay more than the minimum 3% ,due to the fact that operational ratios are below 30%, the Internal Revenue Service should obtain copies of such computations and reconciliations from the mining entities.

### **9.3 LACK OF INDEPENDENT CHECKS ON ASSAYS:**

There were no independent checks on the assays/refinery results provided by mining companies. This assays form the basis for the payment of mineral royalties.

**9.3.1 Recommendation:** In the short term, steps should be taken to run a pilot scheme to check the appropriateness of assay figures that are declared by the mining companies. Depending on the results of the pilot scheme, a permanent means of independently verifying the assay results should be considered.

### **9.4 DIVIDEND:**

#### **9.4.1 Dividend/Dividend Tax Payments**

Dividends/dividend tax payments made by mining companies in 2005 are presented in table 15. The table also shows Government shareholdings in various companies during the year.

**Table 15 Dividend declared/paid in 2005.**

Company	Government Shareholding (%)	Dividend Declared in 2004/2005	Dividend Paid in 2005 to the Government	Dividend Tax Paid in 2005
Goldfields Ghana Ltd (Tarkwa)	10	\$35,000,000	\$2,500,000	Not Applicable
Goldfields Ghana Ltd (Abooso)	10	25,000,000	Nil	Not Applicable
AngloGold Ashanti International	3.41	Not Applicable	GH¢4,574,377	GH¢6,499
Ghana Manganese Ltd	10	GH¢130,786	GH¢13,078	Not Applicable
Ghana Bauxite Company	20	Nil	Nil	Not Applicable
Golden Star Ltd (Bogoso)	10	Nil	Nil	Not Applicable
Wexford Ltd	10	Not Applicable	Not Applicable	Not Applicable

**NB:** Dividend/Dividend Tax paid by Anglo Gold Ashanti International .In the year 2005 Anglo gold International operated 3 mines in Ghana. i e Obuasi, Iduaprim and Bibiani.

#### 9.4.2 Findings

Anglo Gold Ashanti International (representing the three Anglo Gold companies) paid dividend of over GH¢4.574m in 2005. This amount represents two payments which are i) GHc 2.423 being final dividend payment for and ii) GHc 2.151 being interim dividend for fiscal year 2005. (see Table 15)

National Trust Holding Company (NTHC), the local registrar for Anglo Gold

Ashanti International, paid a dividend tax of GH¢6,499 in December 2005 to IRS on the final dividend for year 2005. Dividend tax payments on the 2004 final and 2005 interim dividends were however not paid.

Goldfields Ghana Ltd. (Abooso) paid a dividend of twenty-five million dollars (\$25m) in 2005 in respect of 2004 fiscal year. However the corresponding US\$2.5m due the government was not made.

Delays and differences in payments of dividends by the Goldfields Ghana Limited companies (Tarkwa and Abooso) were noticed.

### **9.4.3 Recommendations**

Dividend payments made by the Goldfields Ghana Ltd companies (Tarkwa and Abooso) from 2002 to date, should be reconciled to receipts by the Non-Tax Revenue Unit of the Ministry of Finance and Economic Planning. The reconciliation should be carried out with the requisite supporting documents.

Similarly, the Internal Revenue Service should also reconcile dividend tax payments made by NTHC on behalf of AngloGold International in 2004 and 2005.

### **9.5 CORPORATE TAX:**

As noted elsewhere, four companies paid corporate taxes in 2005. These were mainly quarterly payments based on self assessments.

In determining taxable profit for corporate tax purposes mineral royalty payment is treated as part of cost of sales and therefore as an allowable expense.

**9.5.1 Recommendation:** As recommended in the 2004 report, the Internal Revenue Service should critically assess the deductibility of mineral royalty in corporate tax determinations.

This practice is in contravention of section 23(1)(d) of the Internal Revenue Act 2000, which states that "A person shall not be allowed a deduction for any income tax, profit tax, or other similar tax incurred by the person in Ghana or elsewhere."

The Petroleum Income Tax Law (PNDCL188) specifically states that, royalties are allowed as deductible expense for petroleum operations. The income tax law for the mining industry is however not specific on the treatment of royalties in chargeable income determination.

### **9.6 NOTIFICATION OF ROYALTY RECEIPTS FROM IRS TO OASL**

An amount of GH¢94,913.25 was excluded from by the IRS in the

schedule of royalty receipts provided to the OASL for the month of April 2005.(see Appendices 2 and 3C )

This represents the January-March 2005 royalty payment by Ghana Bauxite Company Ltd.

Thus the disbursement made by OASL to the Western Region in August 2005 was understated by the said amount.

**9.6.1 Recommendation:**

Mining companies should be encouraged to provide details of mineral royalty payments to the District Assemblies.

This will enable the District Assemblies to compute mineral royalty receivable.

**9.7 DISBURSEMENT FROM REGIONAL OASL OFFICES TO DISTRICT ASSEMBLIES.**

The disbursements to the Obuasi Municipal Authority and the Wassa West District Assembly in the year 2005, were not done according to the prescribed formulae.

No detailed information accompanied the payment of mineral royalties by the Regional OASL offices.

The amounts due Wassa West District and Obuasi Municipal Assemblies in 2005 were underpaid by GH¢381,620 and GH¢45,028 respectively.

**9.7.1 Recommendation:**

In order to ascertain the extent to which the disbursements had not complied with the administrative fiat for mineral royalty payments, the payments by the Ashanti and Western Regional offices of Mineral Royalties for a longer period of at least five years(2003-2007) should be scrutinized.

The Regional offices of OASL should be made to include computations indicating basis of payments to District Assemblies.

**10.0 CONCLUSION**

- ◆ The submission of this report concludes the aggregation and reconciliation for the years 2004 and 2005.

- ◆ The major benefit received by the government was mineral royalty, accounting for over 80% of total benefits in 2004 and almost 60% in 2005.
- ◆ All the mining companies paid royalties at 3%.

Although there were no computations by the companies to support this payment, the generally low prices of commodities (gold) in 2004 and to some extent 2005 suggests operational ratios' were not likely to exceed the 30% threshold.

It is important to check these computations from 2006 onwards as the prices of commodities (gold) increased significantly and companies were more likely to pay mineral royalties greater than 3% of gross proceeds.

- ◆ There is the need to reconcile dividend payments made by Goldfields(Tarkwa and Aboaso)to the receipts by the NTRU. A period of 2002 to 2008 is recommended. The relevant supporting documents (eg Financial Statements ) should be made available for such an exercise.
- ◆ Details of assay results provided by mining companies should be independently ascertained and recorded as database for comparisons to actuals obtained.
- ◆ To ascertain compliance to the Administrative fiat for payments of mineral royalties, disbursements from the Western and Ashanti Regions of OASL to the Wassa West and Obuasi Municipal Authority (and all district Assemblies benefiting from Anglo gold (Obuasi) royalties) should be scrutinized further for periods of five or more years commencing with year 2003. This is to ensure transparency in the disbursements of mineral royalty receipts from the Regions to the Districts
- ◆ Efforts should be made to publicize the formulae for disbursements of mineral royalties for each district .Guidelines for the use of mineral royalties at the District Assembly levels are also required for effective utilization.
- ◆ The aggregation/reconciliation of mining benefits under the Extractive Industries Transparency Initiative commenced with an inception report in September 2006. Some of the earlier recommendations such as capital gains on reassigning of concessions(with Newmont Lasource paying capital gains of 1.4 million Ghana cedis in December 2006) and inter sect oral corroborations are being implemented.

Secondly the Legislative Instrument which is currently being prepared to regulate the Mining and Minerals Law,2006 (ACT 703),appears to adopt some of the recommendations made in the first and second aggregated reports. These include the valuation of minerals won and changes in the formula for computing operational ratios, which will eventually affect payment of mineral royalty above the 3% threshold. Fuller effects of successful implementation of the recommendations shall be observed from 2007, onwards.

It is therefore important that aggregation and reconciliations continue with the year 2006 and beyond to ascertain how far the establishment of the Extractive Industry Transparency Initiative (EITI) has impacted on mining benefits received by the Government of Ghana.

**OUTSTANDING WORKS.**

Pre -Production Costs: This is the costs incurred by mining entities prior to the commencement of commercial mining activities. It has an effect on corporate tax payment.

Information requested on the accumulation, capitalization and amortization of

pre-production costs of mining entities could not be received on time for this report.



