

TEMPLATE FOR SUBMISSION OF TEXTUAL PROPOSALS DURING THE 27<sup>TH</sup> SESSION:

COUNCIL - PART VII

Informal Working Group on Financial terms

Please fill out one form for each textual proposal which your delegation(s) wish(es) to amend, add or delete and send to [council@isa.org.im](mailto:council@isa.org.im).

**1. Name of Working Group:**

Informal Working Group on Financial terms

**2. Name(s) of Delegation(s) making the proposal:**

China

**3. Please indicate the relevant provision to which the textual proposal refers.**

Regulation 75 Audit [and inspection] by the Authority

**4. Kindly provide the proposed amendments to the regulation or standard or guideline in the text box below, using the “track changes” function in Microsoft Word. Please only reproduce the parts of the text that are being amended or deleted.**

**\*Note: China’s amendments are in Blue**

Regulation 75 Audit ~~[and inspection]~~ by the Authority

2. Any such audit shall be undertaken at the Contractor’s sole cost and shall be performed by [an] independent auditor appointed by the Council ~~[Council approved]~~ Inspector in accordance with Part XI of these regulations.

3. An ~~Inspector~~ auditor may, in connection with a liability for a royalty payment, require assistance from the Inspectors, through the Secretary-General, and the Inspectors shall assist the auditors in discharging their functions under this part.

4. The Contractor shall make available to an auditor ~~Inspector~~ such financial records and information contemplated as reasonably required by the Secretary-General to determine compliance with this Part.

5. Members of the Authority, in particular a sponsoring State or States, shall, cooperate with and assist the ~~[Secretary General]~~ [relevant organ of the Authority] and any ~~Inspector~~ auditor in the carrying out of any audit under this regulation, and shall facilitate access to the records of a Contractor by an ~~Inspector~~ auditor and assist in the

exchange of information relevant to a Contractor's obligations under this Part.

**5. Please indicate the rationale for the proposal. [150-word limit]**

Regarding title. Audit and inspection are two different issues. Part XI of the Draft Regulations, entitled " Inspection, compliance and enforcement ", already contains provisions on matters relating to inspection, so it is proposed that regulation 75 should only deal with audit matters, and that the contents relating to inspection should be provided for in Part XI.

Regarding paragraph 2. In accordance with article 17, paragraph 1 (c) (i), of annex III to the Convention, the Authority shall "establishment of uniform and non-discriminatory costing and accounting rules and the method of selection of auditors". Annex IV, article 11, paragraph 5, of the Convention provides that "the records, books and accounts of the Enterprise, including its annual financial statements, shall be audited annually by an independent auditor appointed by the Council." It is recommended that, in accordance with the Convention and with reference to the audit rules of the Enterprise, an independent auditor should be appointed by the Council to audit the contractors.

Most of the contents concerning inspections in Paragraph 3 of this regulation are covered in Part XI of the draft regulations " Inspection, compliance and enforcement ", and should not be repeated in this paragraph. Audit and inspection are two separate issues, and the auditor may, through the Secretary-General, request the assistance of inspectors if inspections are required in order to carry out its responsibilities with respect to royalties.

Regarding paragraph 4. Audit and inspection are two separate issues, and audit matters should be a function of the auditor.

Regarding paragraph 5. Audit and inspection are two separate issues, and audit matters should be a function of the auditor.