

World Bank Group (WBG) - Oil Gas and Mining Policy and Operations Unit
supported by Multi-Donor Trust Fund for EITI (MDTF)

Toward Strengthened EITI Reporting – Summary
Report and Recommendations

Introduction

1. This document draws on EITI country implementation experience and contains the summary report and recommendations of a consultation process. The goal of the consultation process was to examine and recommend ways to strengthen EITI reporting, through building on existing EITI policy guidance, yet concretely helping to reduce variability of EITI reports and promoting qualitative improvements in disclosure within EITI reports. Accordingly, the recommendations in this document are addressed to the EITI International Secretariat and through it, to the EITI Board, as well as stakeholders in EITI implementing countries.

2. **Annex II** sets out the context and the Terms of Reference for this exercise, that was led by the EITI team ^{1/} in the World Bank Group Oil, Gas, and Mining Policy Division (COCPD) working in concert with the Extractive Industries Transparency Initiative (EITI) International Secretariat and key stakeholders, in particular from EITI-implementing countries and International Monetary Fund (IMF) staff.

3. The findings in this document draw in part on experience in EITI reporting issues gained by the World Bank Group (WBG) team to date via the Multi-Donor Trust Fund (MDTF)-supported program of technical assistance to EITI-implementing countries, in particular the 12 countries that have published one or more EITI reports to date.

4. Two consultative workshops, however, provided the primary input into this document—one held in Paris, France on April 1, 2009 and one in Washington D.C, on May 13, 2009. These workshops brought together EITI stakeholders in a structured discussion of the key issues affecting EITI reporting and the quality of the reports; prioritizing the emerging issues and views on recommendations on how EITI reports and underlying data could be improved. The workshops brought together a wide range of stakeholders from both implementing and supporting countries, civil society, industry, audit firms, and industry/financial specialists experienced in EITI reports and

^{1/} WBG team comprising Andre Ufer, Robert Murphy, Dorian Vasse and Anwar Ravat. The extensive inputs to this process by a range of stakeholders, in particular, Anton Op de Beke (IMF) are gratefully acknowledged.

the EITI International Secretariat team, as well as staff from the African Development Bank, IMF, and WBG.

Quality of EITI Reporting – Key Prioritized Issues

5. From these consultation workshops, six sets of issues emerged as core areas for review, as summarized below (in approximate prioritized order).

- **Detailed Reporting** of revenues/payments data (versus aggregated reporting)
- **The detail to be published on** revenue streams on (for example. value of profit oil or gas)
- **The need to reconcile government reporting to** EITI reports with official public finance information
- **Accuracy** – underlying (audit) reliability of revenues and payments data
- **Completeness** – share of sector revenues actually reported in EITI reports
- **Comprehensiveness** – inclusion of all benefit streams in EITI reports

6. This document accordingly focuses on these six key issues and sets out recommended actions. However, stakeholders also contributed other suggestions and concerns regarding EITI reporting, as well as processes for producing EITI reports). These issues summarized are in **Annex I**.

Overarching consensus on EITI Criteria and Principles – and Existing Guidance

7. Before expanding on these issues, an important preliminary point to highlight is that there is almost-complete consensus that the EITI Criteria and Principles and the related guidance literature (EITI Source Book and Validation Guide) *have served EITI well*, in particular the notion of EITI as a “global standard applied locally” by national multi-stakeholder EITI steering groups. EITI is thus applied flexibly at the country level and tailored to specific individual country circumstances and practice, yet meets a minimum global standard – enforced by the validation process.

8. The strong momentum of EITI globally and in countries is seen as testament to the basic robustness of the EITI policy framework, and of the basic consensus among different EITI stakeholders on EITI Criteria and Principles. EITI managed to bring to debate the management of resource revenues in many countries, and has strengthened civil society there. Yet perceptions also exist, shared by many stakeholders, that variable quality in EITI reports, or concerns on data reliability, could be damaging to the EITI over the medium-term and detract from EITI’s value as a meaningful and credible reporting standard. In short, a good *participative process for EITI* is not enough – good-quality *reported EI data* is also needed.

9. With this in mind, the recommendations in the document attempt to maintain continuity with the broad policy framework for the EITI, yet set-out options for incremental refinements and clarifications to EITI policy guidance, to promote concrete improvements in EITI Reporting.

Issue #1: Detailed reporting of revenues and payments versus aggregated reporting

10. This particular issue – the extent of detailed, or disaggregated reporting needed or required in EITI reports – has been discussed since the very beginning of the EITI process². The issue centers around the question of: (i) publishing aggregate-level but readily understood figures for revenues and payments (for example, the total revenues received from companies in the extractive industries sector, perhaps itemized by type of revenue but not by payer); or (ii) publishing such data in detail, showing type of revenue (royalties, bonus payments, corporate taxes etc.) as well as the paying company.

11. Global practice has varied with each of these forms of EITI reporting in use in about equal measure, though more recent EITI country reports have tended toward detailed reporting.

12. Strong opinions were voiced at the consultation workshops by some stakeholders (mainly but not only by civil society groups), citing the public good accruing from more detailed rather than summary-level disclosure. In this view, best-practice requires detailed methods of reporting, by allowing citizens to better monitor EI sectors and help address residual suspicions of opacity. In this view, EITI information is most useful when presented in its fullest context: indeed companies may welcome that detailed reporting highlights and publicizes the company’s contribution to a particular country’s EI sector and economy.

13. The alternative view expressed at the consultation workshops (mainly but not only by industry) was to caution the utility and cost/benefit of overly-detailed reporting, some citing concerns on undue infringement of commercial and competitive considerations. This view stressed the need for EITI disclosures to be appropriate and best left to national multi-stakeholder steering groups to determine. Considerations for country tax codes (which did not permit detailed tax reporting) and of “social license” issues were cited (i.e. the potential adverse impact of possible misinterpretation of EITI data such as higher-than-normal or windfall profits even though such volatility is a normal feature of the commodities price cycle or tax incentives for investors, given economic, geologic, and political risks unique to each case).

14. From an objective and disinterested standpoint, the WBG/MDTF’s exposure to countries’ EITI implementation experience over the past few years does not suggest that

² The issue is not of course whether the “reporting” should be disaggregated by company (it has to be), but whether that info is subsequently aggregated before publication.

detailed reporting *in and of itself* harms commercial interests in the oil, gas, and mining sectors. Equally, there is some validity to the questions on whether detailed reporting in all circumstances *in and of itself* is always positive. Yet, overall there is recognition that reducing the variability of countries' EITI reports (on the degree of disclosure) *is a concrete step that global EITI can take* to promote strengthened EITI reporting globally.

15. The discussions during the consultation workshops converged on two possible ways forward. One was for national multi-stakeholder steering groups to invest the needed time and effort, and have the capacity right *at the start of a country's EITI process* to debate what the national EITI report format should be, especially the extent of detailed reporting of revenues and payments. For countries that already have selected aggregated forms of reporting, ongoing debate on this would be useful, including channels to disclose more detailed information outside of formal EITI reports.

16. The second was for the EITI Board to *agree and enunciate a clear stance in favor of detailed reporting* in EITI reports – but in those rare situations where commercial or competitive considerations do not allow, for there to be an “opt-out” mechanism which countries can invoke so long as such the opt-out is accompanied by a formal statement in the EITI report from the multi-stakeholder steering group that clearly explains the reasons for such an opt-out and an indication of how long such an opt-out may last.

Recommendations for the International EITI Secretariat and EITI Board:

17. Accordingly, this document recommends (within the spirit of EITI Principle #10 on workable approaches to EITI disclosure that are “simple to undertake and to use”):

- The EITI Board should issue new policy guidance which sets-out a clear position in favor of publication of disaggregated company reporting – and requires this for future EITI reports. The policy should permit countries to “opt-out” of this requirement, but in that case require the national multi-stakeholder steering group concerned to clearly explain the reasons for such opt-out on the EITI report and provide an indication of how long such an opt-out may last. This change should be done as a refinement to the EITI Source book and Validation Guide if needed, else done simply as supplemental EITI policy guidance.
- A further option for the new policy guidance, where countries do opt-out of detailed reporting, may be to also encourage relevant, reasonable supplemental information to be identified and made available by the government or companies *elsewhere*, outside of EITI reports (e.g. on related Web sites, company reports, etc.).
- Finally, EITI guidance should reiterate the “*get it right from the start*” message – for national multi-stakeholder groups to invest the time and effort to build knowledge and debate the major decisions on the scope and depth of EITI reports to ensure they

meet national goals and expectations gaps on EITI are minimized. For countries which have already selected aggregated forms of reporting, EITI guidance should encourage periodic review of and debate on formats of EITI reports.

Issue #2: The detail to be published on specific revenue streams (e.g. value of profit oil or gas)

18. Somewhat analogous to the question on aggregated/disaggregated publication of company data is the question on the extent of detail to be published on revenue streams. It is generally accepted that EITI Criterion 1 implies that all material revenue streams should be reported individually. By and large that has been the practice in reports so far, but some issues have emerged. For instance, profit oil received by the state as owner of the resources has been lumped together with the profit oil it receives as equity partner.

The Liberian EITI Report includes a detailed table about each company, featuring a line by line statement on each payment type that has been made between the companies and the government, discrepancies, adjustments and the final balances. In addition to this, the Mongolian EITI Report provides one or two pages for each company with comments on certain payment data (i.e. if there were major differences, and if so, the root causes of them), other important issues that are noteworthy (like donations to communities, inadequate filling of the templates etc), and a summary on how these issues were handled and/or recommendations for the future.

Source: Mongolia EITI Report, issued 2008
Liberia EITI Report, issued 2009

Some guidance is useful that distinct revenue streams should be reported separately.

Two other issues would benefit from further guidance:

- Profit oil or gas: since they are received “in kind” the EITI Source Book prescribed that they be reported “in kind” by companies and government. In addition, the Source Book suggests adding a valuation for greater transparency. This is not always done. Some countries report only a valuation but no volume information, others only the latter. Guidance should point out that both are necessary: volume information to be reconciled between companies and government, and value information to be reconciled with the budget. Such detailed reporting could add transparency to, say related-party oil or gas trading arrangements involving a national petroleum company and/or trading company.

- Sub-national payments and revenues³: where capacity allowed, detailed disclosure of significant revenues and payments (for instance surface fees or other taxes) occurring at sub-national levels of government such as municipalities, districts and/or regional development funds) is considered desirable, so that affected communities and stakeholders could be better informed and respond to their interests accordingly.

In Nigeria's EITI Report, the featured revenue streams include all physical and financial aspects of oil production and trade:

- *Reports physical flows of crude oil and associated financial flows*
- *Reconciles Nigeria's net financial flows, including crude sales, gas sales, taxes and cash calls*
- *Identifies potential sources of revenue loss, including unrecorded company payments*

Source: Nigeria EITI report, issued 2006

Recommendations for International EITI Secretariat:

19. Accordingly, this document recommends:

- Specific EITI guidance be provided (via existing EITI literature) to country multi-stakeholder steering groups to consider and agree on opportunities to strengthen EITI reporting by supplemental disclosures in situations such as reporting the value of profit oil or gas, or significant revenues and payments at sub-national levels (the latter subject to cost-benefit considerations and capacity to implement).
- Such guidance could include the possibility of “one-way” supplemental disclosures by companies or governments where full inclusion of such data in EITI reports and their reconciliation / audit is not feasible.

³ There are two issues for reporting here: Some payment types in some countries are made directly to sub-national entities, but this can be handled differently in other cases (i.e. payments would be made to the central government, which then redistributes). The reporting / reconciliation concept would have to adapt accordingly. .

In Ghana, both the disbursements to sub-national governments as well as their utilization were taken into account of the report. Since some difficulties were encountered, the reconciler recommends to:

- *Provide a clear set of information to the districts and traditional councils, including the annual quarter to which the payments relate to and the name of the paying companies. This is to enable the recipients to assess the correctness of the benefits received.*
- *Encourage the mining companies themselves to send details of payments to the district assemblies*
- *Make available (or develop in the first place) a formula for the distribution of mineral benefits in areas where there are more than one traditional council or district assembly*
- *In order to make utilization more effective, develop clear and transparent guidelines for the use of mineral benefits. It might in this regard be necessary to target expenditures to provide sustainable economic development within communities*

Source: Ghana EITI report, issued February 2007

Issue #3: The need to reconcile government reporting to EITI with official government finance information

20. The requirement that governments report what they receive implies a consistency between the government reporting to EITI and the official public finance information. To establish this consistency, and at the same time enhance the transparency of the EITI process, government reporting to the EITI should be reconciled with official information on revenue outcome reviewed by the government auditor and submitted to parliament. This process may uncover substantial revenues spent off budget, such as the free transfer of profit oil or profit gas to the national refinery or national oil company (compare to issue no. 2). More generally, it would also bring out differences in coverage (companies and/or revenue streams) between the EITI report and the budget.

Recommendations for International EITI Secretariat:

21. Accordingly, this document recommends:

- Specific EITI guidance be provided (via existing EITI literature) to country multi-stakeholder steering groups on ensuring that government-provided data in EITI reports match (or is reconciled to) related revenue outcome information presented to parliaments or external agencies (such as the IMF).
- Such guidance should also suggest a central role for the national Offices of Auditor-Generals in ensuring that “baseline” government EI revenue data is reviewed to

eliminate inconsistencies (and thus help build comprehensive public financial management of EI revenues over the medium-term including “off-budget” items). Also, see the related recommendation at Issue #4 below.

- Related to this, the sample reporting templates in EITI guidance material could be updated to reflect the need for EITI-reported data to match other government-reported EI data.

Issue #4 — Accuracy – underlying (audit) reliability of revenues and payments data

22. It is one of the core principles of the EITI process (EITI Criteria #2) that payments and revenue data reconciled and presented by administrators in EITI reports be subject to credible audits. The EITI Source book (2005) also provides clear guidance on the topic (Suggested Action #18). Nonetheless a significant view tabled during the consultation workshops stated that, in practice, this Criteria is applied unevenly, and not enough attention is paid to assure the (audit) reliability of underlying EI data reported by governments and companies to EITI administrators (one view was that no EITI country has as yet fully applied the latter Source book standard, whether for government-reported or company-reported EITI data).

23. Implementation experience so far is that the audit certification concepts of the EITI Source book (and Validation Guide - #12) is quite feasible in the case of companies,

Avoiding Discrepancies between Data made available to the EITI Report and to the Relevant Government institutions:

- *In Ghana, the reconciler scrutinized the returns submitted by the mining companies to the Internal Revenue Service (for royalties) for any inconsistencies to those declarations that were made to the reconciler*
- *Figures provided by the mines were compared to those stated in the financial statements to assess comparability*

Source: Ghana EITI report, issued February 2007

including the implied guidance that where no audits (to international audit standards) exist for companies, alternative

methods be found such as additional audit-type work by EITI Administrators (although such extra audit-type work would entail additional cost).

24. However in the case of governments, experience is that audit-certification guidance of the EITI Source book (and of the Validation Guide - #13) has not been applied generally, perhaps due to capacity and staffing constraints in the national Offices of Auditor-Generals or that the time constraints of the EITI reports processes falls outside the normal workflows of their Offices or (in the case of Validation Guide

#13) due to an inherent inability ^{4/} to meet the “based on government accounts audited to international standards” test.

Recommendations for International EITI Secretariat and EITI stakeholders:

25. Accordingly, this document recommends:

- The EITI International Secretariat should specifically draw the attention of country multi-stakeholder steering groups to the fundamental importance of EITI Criteria #2 in assuring credible EITI reporting, and the need to assure (audit) reliability of data submitted to EITI administrators by governments and companies.
- That multi-stakeholder steering groups responsible for EITI implementation in countries should adopt “best-effort” ways of applying the existing Source book guidance, including that (i) for government-reported data, the national auditor-general office’s review and give an opinion on the EITI data and (ii) for company-reported data, the companies’ own auditors issue separate confirmations that the EITI data submitted is consistent with the company’s audited financial statements and records (and/or signed certification of such by a senior company official). The effort could include issuing comprehensive instructions on the data submission process with supporting workshops to explain the process fully and how the audit requirements for EI data reported to administrators is to be met.
- That EITI implementing countries, recognizing the potential for the EITI to leverage and contribute to strengthened public financial management of EI revenues and reporting (see recommendation at Issue #3 above), should develop strong internal linkages between national offices of auditor-general and the EITI process, so that the latter (or private-sector audit firms working under their supervision) can fulfill the role of certifying the accuracy and completeness of government-reported EITI data.

^{4/} This issue – the practicality of meeting the EITI Validation Indicator #13 for government / public sector accounts and their audits to international auditing standards – has been explicitly raised in a Validation Report of an EITI country. The matter is being addressed by the EITI International Secretariat including seeking advice and inputs from specialists including staff in the International Monetary Fund (IMF).

Issue # 5 – Completeness – Share of Sector Revenues Actually Reported in EITI Reports

26. The final sets of issues covered in the consultation workshops related to completeness – ways to ensure that all (or the most significant parts) of the extractive sector revenues flows are covered in an EITI report. Again, this is a core part of the EITI Criteria (Criteria #1) but actual practice has been uneven. In a nascent global EITI process, it is well acknowledged that a national EITI process (meeting various difficulties at the start) may choose to get started by covering only a certain portion of the oil, gas, or mining sectors or revenue flows, but then to systematically expand coverage in subsequent EITI reports as process constraints are overcome. Indeed, in a number of countries such an expansion of coverage is noticeable over successive EITI reports.

Making Data more Tangible and Including Wider Forms of Review by the Reconciler: An Example from Ghana's EITI Report:

1) Operating Issues

- *Inspection of ore grades and saleable aluminum components of manganese and bauxite respectively to verify statements of companies*
- *Comparison of shipment records at air- and seaports with company data*
- *Metallurgical accounting of gold extraction for the gold mining companies*

2) Financial and Tax Issues

- *Analysis if tax deductions claimed by the companies in order to identify any improper claims*
- *Review of financial statement for both companies and authorities for consistency. The aggregator reviewed specifically company capital investment and operating costs*
- *Review of capital investments in order to assess the actual amount of investment and determine if the declared amortization and depreciation are correct, and do not constitute an improper tax evasion by the companies*

Source: Ghana EITI report, issued February 2007

27. Nonetheless, disclosure of how much of total sector revenues are covered in a given EITI Report remains patchy. So far just one country specifically states the share of the EI sector actually covered by its EITI report. Overall the utility of the revenue and payments data presented would be increased if it were clear what (even if approximate) share of EI sectors was being covered in a given EITI Report.

Recommendations for the International EITI Secretariat and EITI Stakeholders:

28. Accordingly, this document recommends:

- Specific EITI guidance be provided (via existing EITI literature) to country multi-stakeholder steering groups to provide an indication of the extent of coverage EI

sector revenues being reported in EITI reports, in relation to approximate total sector revenues. This should be done by reporting government or third-party data such as national GDP share of EI revenue and similar information as context. A tangible number of the extent covered should be seen as a minimum standard if whole coverage is not possible or feasible from the beginning onwards.

- That multi-stakeholder steering groups responsible for EITI implementation in countries should consider options, in situations where certain companies have not reported EITI data, for “one-way” supplemental data to be presented in the EITI reports which discloses at least the government revenues from those non-reporting companies (so readers gain an indication of the overall EI revenues and payments). In these cases, a table should indicate the non-EITI covered revenues.

Issue #6 – Comprehensiveness - Inclusion of all Material Benefit Streams

29. Related to the topic immediately above, analysis of EITI reports also shows uneven practice on reporting of all material EI revenue streams in EITI reports. Such non-reporting could include, for instance, in-kind oil or gas allocated domestically or certain minerals extraction-related fees revenues left off the scope of EITI reports.

30. The reasons for the non-reporting can be speculated (lack of overall knowledge of all revenue streams; planned omission of particular revenues streams by multi-stakeholder steering groups or by the government for lack of internal consensus, etc.), but the overall effect is to detract from the overall utility of the EITI reports concerned. In the consultations workshops, one option mentioned to help assure full inclusion of all material benefit streams in EITI reports was for the national finance ministry to have a clear voice on decisions of EITI scope (as the likely agency to possess the information on all extractive industry-related revenue streams and national budget implications).

Recommendations for International EITI Secretariat and EITI stakeholders:

31. Accordingly, this Paper recommends:

- The EITI International Secretariat should specifically draw the attention of country multi-stakeholder steering groups to the fundamental importance of EITI Criteria #1 in assuring credible EITI reporting, that is inclusion of all material revenue streams⁵. It should be pointed out clearly that missing revenue streams are significant omissions (which could possibly endanger a successful validation process).

⁵ Since ‘materiality’ can be effectively valued only ex-post, all revenue flows should be initially reported; it should be then left to the EITI Administrator to address the issue in their Report

- That multi-stakeholder steering groups responsible for EITI implementation in countries should consider ways, where feasible, to report “one-way” supplemental information on significant revenue streams not part of the reconciled EITI reports – including where applicable enhanced roles for ministries of finance in decisions of scope and content of EITI reports (and in reporting such supplemental data).

Conclusion

32. In a relatively short time since inception, EITI has established itself as *the* standard for transparency of revenues and payments. The current EITI policy framework and guidance material has served its role well: many consider that better adherence with *existing* EITI Source book and other policy guidance will itself ensure higher-quality EITI reports, which meet stakeholder and user expectations.

33. The WBG / MDTF experience with many EITI-implementing countries however is that there are concrete steps that can be taken – i.e. more-specific EITI policy guidance and adherence to existing guidance - to help ensure high-quality and consistent EITI reporting and so that the EITI remains a credible standard over the long haul. The recommendations in this Paper are presented with this in mind.

34. In closing, note that just one recommendation in this document entails *new EITI policy* from the EITI Board (that on detailed reporting). The remaining issues are to do with *effective execution of existing EITI guidance by EITI-implementing countries* (albeit where additional policy clarification by EITI International Secretariat can help).

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Toward Strengthened EITI Reporting - Additional comments and feedback
From consultation workshop participants

This Annex provides a high-level overview of other comments and concerns about EITI reports (and the process for their production) received during the consultation workshops held in preparing this document, and at an earlier event (April 2008) that convened EITI administrators and reconciliation / audit firms to exchange perspectives and to share experiences.

Underlying many of the issues discussed below is a basic reality that may not have a satisfactory solution, namely the tension between a broad EITI policy framework designed to be flexible to suit EITI country circumstances – versus - the precise guidance that professional service (audit) firms feel they need to be able discharge their EITI responsibilities efficiently.

1. Design issues regarding the scope of the EITI and EITI reports

Administrator / Reconciler's role and scope of work:

It is amply clear that the scope of EITI reports (and thus the terms of reference and contract for the reconciliation / audit firm) creates expectations gaps among stakeholders in many countries – whether the primary objective of the administrator / reconciler is just to reconcile and report on data submitted or carry out procedures to audit or verify data submitted. Lack of precise definition of the administrator's role does create difficulties for reconciliation firms, who have to make their own interpretations locally, contributing to variations in the scope of EITI reports.

Imprecise use of terms like “audit” may create misperceptions among stakeholders on what the administrator's role is – and is not. It thus falls to the multi-stakeholder steering groups to be precise in their understanding of the administrator's role and in their terms of reference (contract under which an administrator / reconciler is hired), taking into account the cost of the chosen approach.

Reconciliation – or - audits of EITI reports:

There was common agreement that the payment and revenue reconciliation process envisaged by EITI Criteria is *not* an audit according to international auditing standards. This is simply due to the fact that a full audit, given the complexities of the sectors involved, would likely be beyond the intent and the scope of the EITI, both in its cost and in its complexity.

Again, given stakeholders' expectations of the administrator (who are frequently also better known for their audit work); this is best made clear early in implementation process to manage expectations.

It was agreed that the follow-up on discrepancies by the administrator / reconciler would in practice involve limited audit procedures, e.g. verifying receipts from government departments for payments made, though even there, it was an open question as to how far the administrator should go in following up items that do not reconcile. But where an EITI country chooses to go beyond what is required under EITI guidance, the view was that they should be treated as such and not be treated as a form of comparison benchmark for all EITI reports.

In any event, regardless of whether an EITI country adheres to the core EITI requirement or goes beyond, it is important that the purpose of the EITI Report be agreed and clearly understood and communicated. This is not only important from both a data collection perspective but also to ensure all stakeholders understand the expanded scope of the EITI process and the specific type and depth of reconciliation/audit work to be done.

The Box below provides brief, abridged highlights of feedback on these points received from KPMG France, Africa desk

EITI Reconciliations versus Audits — A Suggested Overview
(in relation to EITI Criteria and Professional Standards)

- **Where company as well as government EITI data is audited to international audit standards – the reconciliation work by an EITI administrator and a Compilation Report (ISRS 4410) should be adequate to meet EITI Criteria**
- **Where company EITI data is audited to international audit standards, but government data is not, then reconciliation AND additional work by an EITI administrator (including representations from Government) is needed – to issue a Compilation Report (ISRS 4410) and thus meet EITI Criteria**
- **Where neither company nor government EITI data is audited to international audit standards, nor is the data otherwise attested to, then audit testing by the EITI administrator / auditor is needed on the submitted data, to issue an Agreed-upon Procedures Report (ISRS 4400) and thus meet EITI Criteria**
- **For the last two cases above, Representation Letters from companies and governments are important, in order for attestations on completeness, accuracy, and veracity to be received.**

Source: KPMG presentation made at WBG consultation workshop April 1 2009.

Standardized EITI Report formats:

It was agreed that overly-prescriptive formats for EITI reports were not feasible if flexibility of the EITI framework was to be maintained, to be adapted in line with country circumstances.

Nonetheless it was clear that this very flexibility and the absence of precise definitions in EITI guidelines also meant that individual countries deal with the issues differently, sometimes entailing inefficiency, and also resulting in greater variability in EITI reports. Thus, any steps that promoted greater consistency of EITI reports were to be welcomed including:

- **Real-time interpretation advice** - devising a central “real-time” means for addressing – and providing consistent guidance on - common auditing and reporting issues that emerge during EITI implementation such as foreign exchange conversion issues; percentages for materiality thresholds for payments and revenues (albeit taking into account the possibility that a payment may be material because of its nature rather than its amount, e.g. a facilitation fee to a related-party); issues by cash accounting by governments vs. accruals accounting by companies.
- **Core minimum outputs** – considering whether a set of minimum EITI report contents could be identified and specified, common to all EITI reports, in order to increase analytical utility and comparability, and thus strengthen the overall EITI brand for reliable EI reporting.

2. EITI implementation issues

Disclosure and presentation of “one-sided” information in EITI reports:

An emerging question, with no precise policy answer as yet, is whether administrators could present one-sided (i.e. not reconciled) data in EITI reports to maximize transparent reporting, in situations say governments have the revenue information available but the paying companies have not reported at all, or vice versa, where companies have reported a payment but is not so reported by government (or is reported by government but is not feasible to reconcile).

Access to EI data by administrators and quality of data submitted:

A systemic issue facing reconciliation/audit firms is the cited delay and difficulty in obtaining data and/or explanations necessary for EITI reconciliations on a timely basis — from both companies and governments.

Companies sometimes view EITI reporting as secondary to other operational or bottom line-related work, and may not invest the effort needed (especially in smaller exploration companies). Staff responsible for extracting and submitting the revenues and payments data have competing priorities and may not necessarily fully appreciate the time constraints the reconciler/auditor is operating under.

Governments' ability to actively support the EITI and provide reconciliation data on a timely basis has also been an issue, given government data can be relatively time-consuming and extracted from dated or manual government accounting systems.

No quick or easy solutions were suggested for this issue, but good planning,; comprehensive detailed instructions on the data collection process (reporting templates); holding workshops to explain these processes in-depth; and hands-on advice by the administrator / reconciler during the data submission phase were noted as feasible action steps for improvements.

Timing of issuance of EITI reports

There is significant variation in the timing aspects of EITI reports and when they are issued. There was agreement that reconciliation work is most-efficiently carried out within a reasonable time frame after the end of the fiscal / tax year when the data is still current and fresh in the minds of governments agencies and companies which submit the data (there being little value in producing EITI reports on out-of-date historical data).

Responsibility for reporting among project consortium or joint ventures (JV):

The issue of responsibility for providing financial information to the administrator in situations where there is a consortium or JV involved (managed by a lead operator) was discussed. This has proved an issue in some countries but a useful good practice that has emerged in such cases is that "*the payment-maker provides the reporting*", the lead operator of the JV/consortium provides the EITI data to the administrator for almost all payments made by that lead operator while each individual JV member reports on payments they make directly, like corporate tax.

3. Issues on dissemination of EITI reports and follow-up

Broad outreach to the public

It was agreed that broad and effective dissemination of EITI reports is key to achieving EITI transparency goals and thus maintaining the momentum of the EITI as a whole. Great variation existed in how successful EITI countries have been in ensuring a broad audience for EITI reports, in terms of different languages; presenting financial data in innovative, graphic forms to make EITI reports easy to read and understandable for lay readers; and public education and explanation of the EITI data so that EITI reports remain comprehensible to a broad constituency.

Thus, proper dissemination of EITI reports does require active distribution to targeted stakeholders, and an integrated communications plan rather than a passive approach of web

publication and some distributing of EITI reports to closely interested parties involved in the EITI.

Progress on follow-up of EITI recommendations made in previous EITI reports:

There is agreement that follow-up actions on recommendations made in previous EITI reports by administrators regarding EITI processes or revenue/payments data do not get adequate attention in subsequent EITI reports. For stakeholders to gain optimal return from the investment they make in EITI processes in a country, accountability for follow-up actions needs to be assigned within the multi-stakeholder steering groups and the results of the follow-up actions or remediation steps (as applicable) should be included in subsequent EITI reports for the process improvements to take hold.

**World Bank Group Oil Gas and Mining Policy and Operations Unit (COCP)
Supported by Multi-donor Trust Fund for EITI (MDTF)**

Toward Strengthened EITI Reporting – A Consultative Process
(Conducted jointly with EITI International Secretariat, Oslo)

(Abridged) Terms of Reference and Approach

Introduction

1. EITI has come a long way since its inception in 2003, with 11 countries now having issued one or more EITI reports by now (Liberia EITI Report being the most recent). It is generally accepted that these EITI reports have, in themselves, begun to have an impact in these EITI countries, in that the EITI reports (i) helped to put revenue data in a public domain or one place for the first time; (ii) have generated debate among citizens, NGOs, and media, adding to availability of information to citizens, and (iii) most importantly, have shown that collaborative EITI processes can and do work in these countries – especially in building consensus on the scope and depth of EITI reports in the countries concerned.

2. However, the experience of this number of published reports from EITI-reporting countries has also made clear that the reports do vary considerably in scope of coverage and nature/degree of disclosures, depending on the country and the scope of EITI adopted. Similarly there is a growing view among stakeholders for the need of greater specificity on how the EITI Criteria is applied in the form and content of EITI reports, as a way of promoting greater consistency and quality of EITI reports, and so that stakeholder expectations are met.

3. Although at its heart this diversity highlights a core strength of the EITI movement (namely a country-owned process which applies locally what is an agreed global standard established by EITI Board), the long-term strength of the EITI brand does depend on maintaining *consistently high-quality, credible and comparable* EITI reports. Therefore, the following issues if addressed could considerably improve the quality of Reports:

- Mandatory reporting of all companies that are involved in the extractive sector, and/or the reporting of firms that did not report;
- Disaggregation of payment data by type and by firm, i.e. each company is required to list the exact payments of taxes, royalties, lease payments etc.;
- The inclusion of sub-national payments when applicable, i.e. when companies forward payments to provincial and local governments;
- Certification by auditors or CFOs that the numbers that have been sent in for reconciliation are certified by an officially accredited auditor

Objectives of the consultative process

4. In this light, there is agreement among a broad range of stakeholders to examine and recommend ways in which strengthened EITI Reporting can be promoted which incrementally

builds on existing EITI Criteria and literature, yet can concretely help to reduce variability of EITI reports and promotes quality improvements in the EITI reports.

5. Accordingly, the World Bank team (supported by MDTF) will lead an exercise together with the EITI International Secretariat toward

- Background analysis: prepare a *preliminary* analysis of the recurrent issues to aid the debate on this topic. The analysis will be prepared by the World Bank team, based on country implementation experience and feedback ahead of the consultation workshops below.
- Consultation: convene an inclusive and open consultative process, with two workshops open to all interested stakeholders to be held in Europe and in USA in April - May 2009, to discuss and debate the issues and identify areas for improvement.
- Recommendations: based on the inputs from the consultation process, finalize a report which sets out the key issues and making concrete yet practical recommendations for policy refinements and guidance notes that collectively help to strengthen EITI reporting quality.

Methodology and approach

6. The World Bank MDTF team will facilitate the process, working with the EITI International Secretariat (to whom the final recommendations will be addressed) with work steps including:

- Desk review and feedback: a review of the EITI reports and feedback reports / critiques from stakeholders in various countries, covering all of the current EITI-reporting countries. Travel to EITI countries for this purpose is not expected.
- Convene EITI stakeholders: bring together, in two workshops / working sessions as described earlier, a wide range of stakeholders (implementing countries, civil society, industry, investor groups, donor agencies, international financial institutions like the IMF and entities with direct interest in and experience of EITI reporting issues, in particular consulting/specialist firms or public accounting firms.
- Finalize prioritized recommendations for improvements: addressed to EITI International Secretariat / EITI Board to action further (via policy refinements and guidance notes)

7. As noted, an important operating principle of this exercise will be to approach potential improvements in a way that builds incrementally on existing EITI Criteria and literature.

8. For this reason, it is understood that stakeholder groups can/will, if they choose, provide their own views directly and separately to the EITI International Secretariat.



EITI and Auditing of Company and Government Information
Note for EITI Secretariat from the IMF Staff —May 2009

EITI Criterion 2 calls for information on payments and revenues supplied by companies and governments to be “the subject of a credible, independent audit, applying international audit standards” but only “where such audits do not already exist”. The purpose of these financial audits is to add credibility to the data submitted for the EITI reports. Auditors will either express an unqualified opinion, explain their reservations, or deny an opinion. The audit requirement is formulated symmetrically for companies and governments, and consequently there are merits in also formulating implementation guidance symmetrically. But in many countries the state of public finance auditing is such that Criterion 2 presents far greater challenges to governments than to EI companies, and the auditing of government may not be able to achieve standard equivalent to company auditing. The proposal below for operational guidance on implementing Criterion 2 tries to reflect that reality.

Auditing company reporting to EITI

As for EI companies, most are required, by law or regulation, to request an opinion on their financial statements by an external auditor who is “independent” from management and reports to stockholders. Since the companies typically operate internationally, these audits will generally comply with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC).⁶ If a company’s financial accounts have already been audited to international standards, there would be no need for a separate audit of the EITI reporting. It would suffice for the company to ask from its external auditor a **Certification** that the payments to government it reported to EITI are consistent with the audited financial statements and truthful.

Questions to be addressed by the Validator on individual EI company reporting to EITI include:

- Have the financial statements on which the company reporting to EITI was based been the subject of an independent, external financial audit by an internationally reputable audit firm?
- Does this audit comply with ISA? If not, how does it depart from ISA?
- If the auditors expressed reservations, or denied an opinion, what are the implications for the EITI reporting?

⁶ See <http://www.ifac.org> and <http://www.ifac.org/IAASB/>.

The Validator’s task would be much easier if the answers to these questions were provided by the auditors as part of the Certification. Standardized language for the Certification might be useful in this regard. The Validator should have access to the results of all independent audits and to all Certifications. If questions arise on reservations expressed by an auditor, the Validator should be able to request a copy of the Management Letter. He should also be able to draw on any assessment by the Independent Administrator of the coverage, quality and findings of the audits.

The credibility of the EITI process would be enhanced if the results of the independent audits were publicly available, as well as the Certifications submitted to the EITI.

In the end, the Validator must decide, based on all the evidence and together with the EITI stakeholder group, whether for the reporting companies the international-standard audit requirement of Criterion 2 has been substantially met.

Auditing government reporting to EITI

In all countries public finances are routinely submitted to an external “regularity” audit by a national audit body or supreme audit institution (SAI). These SAIs usually enjoy a degree of independence from the government, and report to parliament on their audit of the execution of the budget. Included in the government revenues audited by the SAI will be the receipts of payments made by the EI companies.⁷ Most SAIs belong to the International Organization of Supreme Audit Institutions (INTOSAI)—189 countries are full members—which has promulgated the International Standards of Supreme Audit Institutions (ISSAI).⁸ The IMF and World Bank are among the international institutions active in advising on public finances that recommend the use of INTOSAI auditing standards.⁹

To maintain symmetry with companies having their reporting certified by their external auditors, government should request an independent agency to conduct an **Audit Evaluation Report (AER)** on the consistency of their reporting to EITI with EITI Criterion 2. The national SAI, given its continuous audit activities, should in most countries be well placed to prepare such a report. Alternatively, its preparation could be added to the terms of reference of the Independent Administrator. While, in principle, public finances everywhere should be regularly

⁷ See *Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption*, by Kenneth M. Dye and Rick Stapenhurst, Working Paper, World Bank Institute, 1998 (<http://go.worldbank.org/7XXH3F2LB0>).

⁸ For the INTOSAI see <http://www.intosai.org> and for the ISSAI <http://www.issai.org/composite-347.htm>.

⁹ See the *Manual on Fiscal Transparency* accompanying the IMF’s *Code of Good Practices on Fiscal Transparency* (page 117 of <http://www.imf.org/external/pubs/cat/longres.cfm?sk=20556.0>). The World Bank also promotes INTOSAI standards as part of its strategy to support and strengthen SAIs (see <http://go.worldbank.org/GB079L98P0>).

examined by the national SAI, in practice, the auditing by SAIs may be irregular, seriously delayed, incomplete in coverage, and/or not up to INTOSAI standards.

A critical component of such an AER should be a detailed reconciliation of the revenues reported to EITI with those shown in the budget execution documents, including any financial statements, submitted to parliament. Such a reconciliation would cover receipts into extra-budgetary accounts held by the government, subnational governments, and public corporations. The result would be to link the government's reporting to EITI to the official public finance accounts which are, in principle, subject to an audit by the SAI, are in the public domain, and can therefore be matched with the expenditures figures also in the public domain.

Questions to be addressed by the Validator on government reporting to EITI include:

- Have the government and other public sector accounts on which the reporting to EITI was based been the subject of audits by the SAI?
- Do these audits comply with ISSAI standards? If not, how do they depart from ISSAI standards? What alternative standards were used?
- If the SAI expressed a qualified audit opinion or reservations, what are the implications for the EITI reporting?

As in the case of the companies, the Validator's task of assessing compliance with the EITI audit requirement by the government would be much facilitated if answers to the questions above were provided in AER. A standardized list of questions to be covered by the AER would be helpful. The Validator should have at his disposal the AER and should also have access to the SAI reports on budget execution. Where available, the Validator should consult as background documentation the evaluation of government audit practices in the IMF country reports on fiscal transparency¹⁰ and in the assessment reports of the Public Expenditure and Financial Accountability (PEFA) initiative.¹¹

In the end, the Validator, based on all the evidence and together with the stakeholders group, must come to an assessment on the degree of compliance of government reporting with Criterion 2. In many cases this is not going to be a clean pass, but if certain minimum conditions are met, a decision to accept this particular indicator could nonetheless be justified. These minimum conditions could be:

- Government explicit and comprehensive reporting of EI revenues to parliament
- Reconciliation of revenues reported to EITI with those reported to parliament

¹⁰ For a dozen of the EITI candidate countries, the IMF has produced so called ROSC reports on fiscal transparency (see <http://www.imf.org/external/np/rosc/rosc.asp>) of which the more recent ones use as a benchmark the IMF's *Guide on Resource Revenue Transparency* (see <http://www.imf.org/external/np/exr/facts/fiscal.htm>).

¹¹ For a dozen EITI candidate countries PEFA assessment reports are available (see <http://www.pefa.org/>).

- Production by the SAI or another independent agency of an Audit Evaluation Report on the consistency of the government's EITI reporting with EITI Criterion 2.

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Annex IV An Analysis of published EITI Reports, as of July 2009

				Level of Aggregation		Type of Report			Number of Companies stated in Report	All companies have reported, by Decree?	All companies have reported, voluntarily?	Number of Companies that have not reported
	Period covered by EITI Report	Reconciliation or Audit Firm	Who paid	Disaggregated by Company	Disaggregated by Payment Type	Reconciliation only	Reconciliation with some Testing	Full Audit				
Azerbaijan	CY 2004+	Deloitte	Gov/Comp.	No	Yes	X			21	No	No*	5*
	CY 2005+	Deloitte	Gov/Comp.	No	Yes	X			22	No	No*	3*
	CY 2006	Moore Stephens	Gov/Comp	No	Yes	X			25	as above *		
	CY 2007	Moore Stephens	Gov/Comp	No	Yes	X			25	No	Yes	Only AIOC, but see explanation on *
Cameroon	CYs 2001-2004	Mazars; Hart Group	Gov	No	Yes	X			5	No	No	7
	CY 2005	Mazars; Hart Group	Gov	No	Yes	X			13	No	No	
Central African Republic	CY 2006	Valentin Nzapaoko	World Bank	No	Yes	X			14 (mostly consolidating Buying Offices collecting diamonds and gold from ASM-mining)		No	
Gabon	CY 2004	Ernst & Young	Gov	No	Yes	X				No	No	
	CY 2005	Ernst & Young	Gov	No	Yes	X			13 oil, 4 mining	No	No	8 oil, 19 mining
	CY 2006	Ernst & Young	Gov	No	Yes	X			20 oil, 10 mining	No	No	6 oil, 13 mining

	Level of Aggregation					Type of Report						
	Period covered by EITI Report	Reconciliation or Audit Firm	Who paid	Disaggregated by Company	Disaggregated by Payment Type	Reconciliation only	Reconciliation with some Testing	Full Audit	Number of Companies stated in Report	All companies have reported, by Decree?	All companies have reported, voluntarily?	Number of Companies that have not reported
Ghana	01/2004-06/2004	Boas & Associates	Gov	Yes	Yes		X		8 (makes up 99% of royalty payment)	Yes		Small-scale only
	07/2004-12/2004	Boas & Associates	Gov	Yes	Yes		X		8 (makes up 99% of royalty payment)	Yes		Small-scale only
	2005	Boas & Associates	Gov	Yes	Yes		X		8	Yes		Small-scale only
Guinea	CY 2005	Richard Michel and Ismael Nabe	Gov	Yes	No		X	By KPMG	6			(small-scale not included)
Kazakhstan	CY 2005	Deloitte	Gov	No	Yes	X			40	Yes, except one		1
	CY 2006	Inaudit	Gov	No	Yes	X			110	Yes, except six		6
Kyrgyzstan	CY 2004		Gov	No	Yes	X, but see comment			2 initially, later 6	Mandatory for SOE	Recommended for private comp.	
Liberia	FY 08	Crane White & Assoc.	Gov	Yes	Yes	Reconciliation, but full audit may be applied if required (i.e. numbers remain unclear)			30, Including, oil (3), mining(25), and logging (2)	No	No	
Mauritania	CY 2005	Ernest&Young	Gov	No	Yes	X			7 mining, 7 oil	No	No	12 mining, 8 oil
	CY 2006	Ernest&Young	Gov	No	Yes	X			17 mining, 10 oil	No	No	4 mining, 7 oil

	Level of Aggregation					Type of Report			Number of Companies stated in Report	All companies have reported, by Decree?	All companies have reported, voluntarily?	Number of Companies that have not reported
	Period covered by EITI Report	Reconciliation or Audit Firm	Who paid	Disaggregated by Company	Disaggregated by Payment Type	Reconciliation only	Reconciliation with some Testing	Full Audit				
Mongolia	FY 2006	Crane White & Assoc.	MDTF	Yes	Yes		X		25, but make up 8/9 of the sector	Only the 25 largest	No	100+ small and very small, but will be reconciliated by domestic auditor
Nigeria	CYs 1999-2004	Hart Group and CMA Ltd.	Gov	Yes	Yes			X	15			Mining, and independent companies
	CY 2005	Hart Group and S.S. Afemikhe	Gov					X	20			Onshore operations