“EITI in Mongolia

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Major outlines of the Presentation

- How you have together reports
- What key political and technical issues came out of putting together these reports
- Importance of the reporting reconciliation process in promoting transparency, accountability and better management of natural resources
- Next steps to improve the process in the future
How you have together reports

Legal background

- The 2006 law of Mineral resources, art. 48.10, under which a license holder on extractive industries is obliged to publicize amount of production and paid taxes and fees to state and local budgets on fiscal year basis before end of 1st quarter of the following year.
- Memorandum of Tripartite cooperation for EITI in Mongolia, signed on April 25, 2006, which guidelines all the stakeholders to have cooperation for implementation of EITI in Mongolia.
- The EITI reporting templates #1, 2, 3, 4 were endorsed by joint order of Chairman of National Statistical Committee and Finance Minister in April 2007. The templates are with instructions how to produce and publicize.
- The Resolution # 80 endorsed by Government of Mongolia (functions of State central and local administrative bodies in relation to EITI implementation) in 2007, and reveals what functions and tasks are assigned to:
  - Ministry of Finance, Ministry of Industry and Trade, Ministry of Environment, General Department of National Taxation, Customs Office, Mineral Authorities, State property Committee, local Governments
  - Rules out about forming sub-national Councils headed by Deputy Governor of Provincial Government.

How you have together reports

The Mongolia EITI Reconciliation report- 2006

- In 2007 the 64 companies from more than 150 companies operating in extractive industries produced EITI report template #1 for 2006.
- The Government produced EITI report template # 3 for 2006 receipt from 137 companies operating in these industries.
- The Australian audit firm Crane White and Associates did the Mongolia EITI first reconciliation report.
25 Companies were selected for first reconciliation report

The tradeoff for selection— amount of paid tax and fees of 200 million MNT and above

- 12 gold companies
  (Boroo Gold, Shijir Alt, Uitz gol, Jump, Cold Gold, Erdes Holding, MAK, Datsan Trade, Altan Dornod Mongol, Gatsuurt, Mongol Gazar, MJH)
- 6 coal companies
  (Sharyn Gol, Baganaur. Chinchua MAK Narin Suhalt, Aduunchuluun, Tavantolgoi, Shiveep-Ovoo)
- 3 copper/molybdenum companies
  (Erdenet, Ivanhoe Mines Mongolia, Shim Technology)
- 1 flour spar
  (Mongolrostsvetmet)
- 1 oil company
  (Petro China Dachin Tamsag)
- 1 zinc company
  (Tsairt Mineral)
- 1 polymetal company
  (Shin Shin)

The largest payers

- Erdenet Copper Mine (Mongolian/Russian JV) - 437 billion MNT
- Boroo Gold (Centerra Gold) – 11,5 billion MNT
- Ivanhoe Mines Mongolia Inc (Copper/Gold Ivanhoe/Rio Tinto) - 9,4 billion MNT
- Altan Dornod Mongol (Russian private company) – 6,6 billion MNT
- Shiiir Alt (subsidiary company of Mongolrostsvetmet LLC) – 6,3 billion MNT
What key political and technical issues came out of putting together these reports

The final discrepancies verified by Crane White and Associates selected as international audit firm

- Total payments by 25 Companies to Government: 492.3 billion MNT
- Total receipts by Government from these 25 companies: 467.2 billion MNT
- Discrepancies: 25.1 billion MNT, (ab. 22 million USD)

Comparizon between 2006 state budget revenues with reconciled amount, in billion MNT

- Total state budget revenue: 986.7 billion MNT
- Total budget revenue: 774.2 billion MNT
- 25 companies payment: 492.3 billion MNT
What key political and technical issues came out of putting together these reports

Causes of discrepancies

- The Government has not produced reports completely;
- Not all tax, payment, fee, dividend and monetary donations received by Government were accounted completely for the report;
- There is still no efficient data collection system between Government agencies and ministries;
- Attached instructions how to produce report were too general;
- There is still no clear methodology in relations to offsetting of different types of payments, and because of that there is some mislead;
- The sum of customs tax has some inclusion other tax like special tax and VAT, which again misled.

What key political and technical issues came out of putting together these reports

The discrepancies 25 billion MNT

- Working group discussed this issue and recommended to submit to National Council, mid January 2008
- National Council discussed this issue and instructed Minister of Finance to study and make explanation at end of January, 2008
  - The Ministry of Finance considered the donation as most difficult complicated part in terms of data collection, first, many parties involved in remote areas and second, there is no clear budget line to account.
  - Improve reporting templates and instructions, train those who directly involved in producing reports and activate promotion in this regard.
  - In accordance with newly adopted Mineral Law, and 2008 budget law of Mongolia, it was approved that fee for exploration and exploitation license, reimbursement of exploration costs of deposit conducted by the state budget funds would be collected at state and local budget by revenue category, therefore, Mineral and Petroleum Authorities of Mongolia and Treasury Department are recommended to produce the reports properly by entity and revenue.
  - Improve inter-coordination of state administrative organizations producing reports, improve accountability and, match- up data every year, make the process as standard.
- In May, National Council overviewed the position of Ministry of Finance and instructed to submit the issue for further enquiry by National Audit office.
  - The Ministry of Finance and biggest copper mine Erdenet were reluctant explaining too many reports should be produced, which in turn is disturbing routine work.
- The National Audit office is still processing, no progress.
What key political and technical issues came out of putting together these reports

Other reconciliation for 2006, was carried out by team of Mongolian Institute of Certified accountants in June- August, 2008

- 28 companies were initially selected for this Reconciliation. These companies are so called medium and small sized companies.
- Selection was simple, availability of reports, if both a company and Government has produced reports, then both reports were selected for reconciliation.
- The Institute team could reconcile reports of 22 of them, as the other 6 companies moved, and within a short period of time and due the cost to reach them they have not been reconciled.
- It was the first time, the local audit team could proceed with this task, and they made financial audit focusing only on portion of discrepancies.
- Total reconciled and verified 1,161 million MNT
- The discrepancies from Government reports - 16,5 million MNT
- The discrepancies from Companies reports - 164.1 million MNT

Findings of the Institute team

- Understanding of transparency and EITI reporting among Government agencies, Company management and general public is very poor
- Failure of appropriate methodology and ethics for professionals is widespread in consolidation and reporting of statements and reported issued by Government agencies.
- Mining companies are reluctant in submitting required reports or misreport tax payable in accounting
- There are cases where the paid interest, fine and penalty are included in the amount of tax, payment and fees.
- Book-keeping and accounting records at small mining companies are weak, even there is some case that owners do force accountants misstate sales revenue and expenses.
- There is case also both central and local government agencies and ministries do not include all donations from mining companies in accounting reports and expense donations off- balance, not reporting in consolidation.
- Some agencies understate the receipts from mining companies.
Collection process of EITI 2007 reports in Mongolia

- The number of companies, which have produced EITI report for 2007 and number companies on which the Government has produced reports is increased.
- As of late September 2008 the 102 companies operating in extractive industries have produced EITI Report 2007 template #1.
- 87 of them was companies, which have production license, and 15 of them has license for exploration.
- The Government produced EITI Report 2007 template #3 on receipt from 186 companies operating in this sector.
- At the sub-national level, EITI Branch Council were established in 9 aimags (provinces)

Importance of the reporting reconciliation process in promoting transparency, accountability and better management of natural resources

Conclusions

- It is already evident not all donations were accounted and reported completely
- Exchange of data between Government agencies should be improved, such as between taxation, customs and mineral authorities, between Central agencies and local government.
- Exchange of data within a Government agency should be addressed, for instance between Central taxation and local taxation departments, between Minerals and Petroleum authorities.
- Knowledge and attitude of officials, who have personal duties to produce reports should be improved, more sustainable training should be provided.
- We have to review quality and methodologies of training, improve training activities.
- Attitude and responsibilities of those who was trained should be improved.
- The time for reconciliation should prolonged, at least be a 45 days.
- The Council and Working group should be renewed.
Next steps to improve the process in the future

Further actions

- Deep verifying of causes of discrepancies of over 25 billion MNT by National Audit Office, and will follow their recommendations.
- Organization of international and domestic audit firms consortium for reconciliation of EITI Reports for 2007 is done and reports of 38 companies and respective Government reports should be reconciled before June, 2009.
- Renewal of National Council and Working group should be carried out not later than March 2009.
- Prepare for the validation in late 2009 and resolve funding for the validation by June, 2009
- A TV documentary about ongoing EITI in Mongolia is completed, soon it will be broadcasted by National TV. TV documentary about ongoing EITI in Mongolia is completed, soon it will be broadcasted by National TV.