Extractive Industries Transparency Initiative

MSG oversight of the EITI reporting cycle

Guidance note 8

1. Summary

Countries that implement the EITI commit to the regular disclosure of data about their extractive industries. This disclosure is overseen by a multi-stakeholder group (requirement 1), covers all stages along the extractive industries value chain (requirements 2-6), should contribute to a wider public debate on the management of the sector (requirement 7) and needs to take place in a timely manner (requirement 8). The annual publication of EITI Reports is a key element of this, even if some or most of the disclosure increasingly takes place through government webpages or other channels. This note provides guidance to the MSG on some of the key challenges involved in overseeing the EITI reporting cycle, drawing on insights from implementing countries. The note also highlights additional guidance materials that MSGs may wish to review in more detail.

Figure 1 presents a stylised "EITI reporting cycle", which this guidance note follows. It is important to emphasise that this model does not seek to capture all of the objectives, decisions and activities that the MSG will undertake related to EITI reporting. **In many cases, EITI implementation will deviate from this model.** Nevertheless, the model is a useful reference point for highlighting some of the key steps in the process, and common challenges encountered in implementing countries. Readers are advised to refer to the EITI Standard to verify the detailed requirements that need to be satisfied in order to achieve and maintain compliance.

2. Guidance

Figure 1 presents a simplified EITI reporting cycle, outlining 10 key steps (see figure 1). The guidance below addresses each step in turn.

Figure 1 – Simplified EITI reporting cycle

Step 1	Establish EITI objectives and workplan
Step 2	Preliminary or updated scoping
Step 3	Agree terms of reference for the Independent Administrator
Step 4	Appointment of the Independent Administrator
Step 5	Confirmation of reporting procedures (Inception Report)
Step 6	Data collection, verification and reconciliation
Step 7	Review of the draft EITI Report
Step 8	Approval and publication of final EITI Report
Step 9	Dissemination and promoting public debate
Step 10	Review and annual activity report

Step 1 – Establishing EITI objectives and agreeing the EITI work plan

EITI Reports should contain information that is relevant to national discussions and that helps stakeholders achieve their objectives for the sector. In order to ensure this, requirement 1.5 of the EITI Standard requires that multi-stakeholder groups, in consultation with key stakeholders, develop a work plan that sets out why the EITI is being implemented and what issues the EITI process will seek to address. The EITI is relevant in different ways in different countries. It is implemented to address specific concerns about corruption, lack of trust, effective natural resource management, including revenues allocations, or to attract foreign direct investment. EITI Reports are key tools to address these concerns, so clear objectives in the work plan are important in order to set the premises of the reports themselves. A *Guidance note on developing an EITI work plan* is available from the EITI International Secretariat.

Step 2 – Preliminary scoping

Scoping work aims to support the multi-stakeholder group with identifying options and approaches for ensuring that the information about the extractive sector is disclosed, taking into account what information is already publicly available. It also helps identify other preparatory work necessary to ensure that the EITI report is timely, comprehensive, reliable and comprehensible. Preliminary scoping provides the basis for developing the terms of reference for the Independent Administrator, the firm hired to conduct the reconciliation (see step 3). For an overview of the kind of issues scoping should consider, see the *Checklist for establishing the scope of the EITI Report* (available from the EITI International Secretariat).

Scoping also allows multi-stakeholder groups to decide who produces the various sections of the EITI report. In the majority of cases to date, MSGs have tasked the Independent Administrator with preparing the entire EITI Report. However, in some countries, e.g. Guatemala and the Philippines, it is the multi-stakeholder group that compiles the non-financial information about the legal and institutional framework (requirement 2), exploration and production (requirement 3), revenue allocations (requirement 5) and social and economic spending (requirement 6), with the Independent Administrator's reconciliation report attached. The multi-stakeholder group should agree the procedures and responsibilities for the preparation of the contextual information for the EITI Report, ensuring that all the information and analysis is clearly sourced and attributed.

Head of EITI Secretariat Jonas Moberg on the potential benefits of MSGs taking a bigger role in report writing:

"Usually when a country starts to implement the EITI they will ask the Independent Administrator to research and write the report, then the MSG will read and approve it. This is of course fine, but it often leads to very technical, data-heavy reports that are of limited practical use. What we are increasingly seeing in what we sometimes call "second-generation EITI Reports" is that MSGs are taking a more active role in writing about the subjects that are of particular relevance for their country. The technical data is of course still there, but the narrative has the potential of being much more useful because it directly addresses the aims of the MSG's work plan, the process of writing is itself multi-stakeholder in nature and the recommendations that the MSG can come up with can be a lot more powerful."

MSGs are advised to review the scope ahead of each reporting cycle, including reviewing any recommendations from the Independent Administrator and the Validator related to scoping issues. Implementing countries that have already produced one or several EITI Reports also need to regularly revisit the scope of EITI reporting to reflect changes in work plan objectives, industry structure, fiscal regimes and revenue fluctuations. Many countries, new and old, conduct formal scoping studies to guide them in these efforts. *Template terms of reference for scoping studies* are available from the EITI International Secretariat.

Step 3 – Agree terms of reference for the Independent Administrator

The terms of reference (TOR) sets out the work to be undertaken by the Independent Administrator. It is typically attached to the contract between the Independent Administrator and the government. The EITI Board has agreed a Standard TOR which the MSG is required to use and approve (Requirement 4.9.b.iii). The International Secretariat should be consulted if the MSG wish to deviate from the procedures set out in the Standard TOR because advance approval from the EITI Board might be required (Requirement 8.a). The template TOR includes agreed upon procedures for key steps in the reporting process, including:

- agreeing the scope of EITI reporting;
- a preliminary analysis and inception report, including agreement of materiality definitions and thresholds;
- the procedure for data collection, including the development of reporting templates;
- the preparation of a draft report and investigation of discrepancies in accordance with the EITI requirements; and
- the publication of a final report.

The Board has developed these procedures to promote greater consistency and reliability in EITI reporting. Utilisation of the template does not guarantee compliance. The MSG needs to ensure that the reporting process is rigorous, comprehensive and reliable.

It is recommended that the process relies as much as possible on existing procedures and institutions so that the EITI process draws on, complements and critically evaluates existing data collection and auditing systems. In this way, the EITI process has the potential to generate important recommendations to strengthen other oversight systems.

The Standard TOR enables the MSG to list additional objectives and activities to be undertaken by the Independent Administrator in accordance with the MSG's work plan. The EITI International Secretariat can provide further advice on completing the template.

Step 4 – Appointment of the Independent Administrator

It is a requirement that the Independent Administrator be perceived by the MSG to be credible, trustworthy and technically competent (Requirement 4.9.b.ii). In addition to approving the Terms of Reference (Requirement 4.9.b.iii), it is recommended that the MSG agrees the procedure for procuring and contracting the Independent Administrator. Implementing countries have often encountered delays in the procurement process. It is recommended that the MSG investigates in advance the procurement procedures and time needed for hiring the Independent Administrator and that this timeline is reflected in the EITI work plan. The MSG is also advised to monitor the process closely, and to take steps to address delays.

A timely start is key for timely reporting
Research by the International Secretariat suggests that delays in appointing the Independent Administrator is the key reason why countries sometimes struggle to publish information by the deadlines set out in the EITI Standard. Sometimes this is due to delays in securing funding or to administrative delays, but most often the delays happen because the multi-stakeholder group starts discussions of the Terms of Reference too late. Some countries also encounter delays in the procurement process itself, which on average takes three months. In order to avoid bottlenecks, some MSGs choose to write parts of the EITI Report in parallel to the procurement process for the Independent Administrator to undertake the financial reconciliation. In Guatemala in 2016 for example, expecting delays in the procurement process but not wishing to be late with the publication of the data, the MSG decided to themselves start writing the parts of the report that did not require an Independent Administrator. The standard TORs for Independent Administrators were made to reflect this, and the procurement process could continue while parts of the report were already getting written.

Step 5 – Confirmation of scope and reporting procedures (Inception Report)

The template terms of reference for the Independent Administrator sets out five phases of work (see figure 2).

Figure 2 – Overview of the work and deliverables from the Independent Administrator
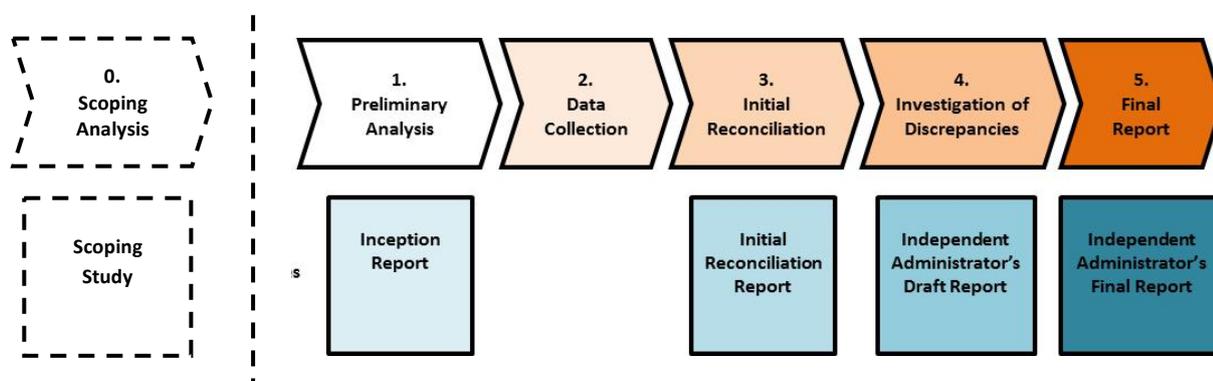
The objective of the first phase of work is to confirm the scope of the EITI reporting process (drawing on the work done during the preliminary scoping analysis), the reporting templates, data collection procedures, and the schedule for publishing the EITI Report. The findings from this first phase should be documented in an inception report produced by the Independent Administrator in consultation with the MSG. The inception report ensures that there is a mutual understanding between the MSG and the Independent Administrator of the scope of the EITI Report and the work to be carried out. It should include:

- Details on how the different disclosure requirements will be incorporated into the EITI Report.
- An overview of the proposed scope of the reporting process, including a proposal on an appropriate definition of materiality and associated thresholds. For additional information on

materiality, see the guidance note on *Defining materiality,* available from the International Secretariat.
- A list of the entities that will be asked to report.
- The reporting templates to be completed by the reporting entities.
- Details on the assurances and supporting documentation to be requested from reporting entities.
- The data collection and reconciliation procedures, including appropriate training and guidance to reporting entities.
- A timeframe for finalisation of the EITI Report.

Section 1 of the Standard TOR for Independent Administrator sets out the content of the Inception Report in more detail.

Although the scoping work is conducted by the Independent Administrator, experience shows that it is important for MSGs to be actively involved in this work. For example, MSGs may wish to take an active role in drafting the reporting templates to ensure that they address relevant issues. This could take the form of a session where MSGs look at current issues, discuss what kind of data they will need to know to effectively suggest policy changes and ensure that the reporting template reflects this.

Where necessary, the inception report should also highlight any unresolved issues or potential barriers to effective implementation and possible remedies for consideration by the MSG. The MSG should review the Independent Administrator's inception report and approve the proposed scope, data collection and reconciliation procedures prior to the commencement of data collection. The MSG may wish to make the inception report publicly available.

Step 6 – Data collection, verification and reconciliation

The second and third phases of work undertaken by the Independent Administrator are data collection and initial reconciliation. The most common procedure for data collection is that the Independent Administrator is mandated to distribute the reporting templates and collect the completed forms (and associated supporting documentation) directly from the participating reporting entities. Where an alternative approach is proposed - e.g. where a national secretariat assists with data collection, or where the data is collected through existing reporting mechanisms – there should be consultations with the Independent Administrator to ensure that there are appropriate procedures in place to protect the integrity of the process. The MSG should work with the Independent Administrator to ensure that the request for data includes appropriate guidance and advice on where to seek additional information and support.

The Independent Administrator then compiles a database with the data provided by the reporting entities, and prepares an initial reconciliation report based on the reported (unadjusted) data for consideration by the MSG. This is an important opportunity to review whether there has been full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies in accordance with the agreed scope (requirement 4).

MSGs have an important role in monitoring and facilitating the submission of data throughout this process. For example, incomplete templates can be remedied by government agencies in the MSG who can direct companies to submit complete information. Active engagement by the MSG at this early stage can also help MSGs come up with separate recommendations before the report is finalized, ensuring that these are reflected in the final product.

Step 7 – Review of the draft EITI Report

The Independent Administrator is mandated to contact the reporting entities in order to clarify any discrepancies in the reported data. The Independent Administrator then prepares a draft Report. The MSG is advised to ensure that the report:

- describes the methodology adopted for the disclosure and reconciliation of company payments and government revenues, and demonstrates the application of international professional standards
- includes a description of each revenue stream, related materiality definitions and thresholds (Requirement 4.1a).
- includes an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information.
- documents whether the participating companies and government entities had their financial statements audited in the financial year(s) covered by the EITI Report.
- comprehensively discloses and reconciles the information submitted by the reporting entities, identifying any discrepancies.
- includes an assessment from the Independent Administrator on the comprehensiveness and reliability of the data presented, including an informative summary of the work performed by the Independent Administrator and any limitations of the assessment provided.
- indicates the coverage of the reconciliation exercise.
- Provides recommendations for extractive sector reforms.

Where previous EITI Reports have recommended corrective actions and reforms, the MSG should ensure that the Independent Administrator comments on the progress in implementing those measures.

Step 8 – Approval and publication of final EITI Report

The MSG should endorse the EITI Report prior to its publication. Where the MSG agrees to include additional comments by key stakeholders in the EITI Report, the authorship of these additional comments should be clearly disclosed. The MSG should ensure that the Independent Administrator also submits summary data templates in accordance with the template TORs for Independent Administrators.

Step 9 – Dissemination and promoting public debate

The MSG must ensure that the EITI Report is comprehensible, actively promoted, publicly accessible and contributes to public debate (Requirement 7.1). The MSG is also encouraged to make EITI Reports machine-readable, and to code or tag EITI Reports and data files so that the information can be compared with other publicly available data (Requirement 7.2). The EITI Standard includes a number of recommendations and requirements in Requirement 7 to help MSGs ensure that EITI Reports contribute to increase the quality of public debate on the sector, including undertaking capacity-building efforts to improve understanding of the information presented in EITI Reports. EITI reporting often results in recommendations to improve the governance of the sector, and MSGs are also required to consider these (Requirement 7.3). A *Guidance note on developing, implementing and monitoring recommendations from EITI reporting* is available from the International Secretariat.

Step 10 – Review and annual progress report

EITI Reports are a tool to help MSGs reach their joint goals for the governance of the sector. The EITI Standard requires that MSGs review the outcomes and impact of their efforts on natural resource governance through the publication of annual progress reports (Requirement 7.4). This includes assessing and communicating efforts undertaken through the publication of EITI Reports. Annual progress reports should also document any recommendations from the Independent Administrator and Validator (where applicable) and describe actions undertaken by the MSG to act on such recommendations. A *Guidance note on annual activity reports* is available from the EITI International Secretariat.

3. Further guidance

As noted above, readers are advised to refer to the EITI Standard to verify the detailed requirements that need to be satisfied in order to achieve compliance. (**EITI Standard**: http://eiti.org/document/standard).

The Secretariat has also produced a wide range of guidance notes covering many of these topics highlight above (**Guidance notes**: https://eiti.org/guidance-notes-and-standard-terms-reference).