

# D-EITI

Extractive Industries Transparency Initiative  
in Germany

## D-EITI Implementation of the alternative quality assurance procedure

1. Country context, objectives and motivation for alternative reporting
2. Approach, Methodology
3. Assessment of results achieved and next steps

# 1. Starting point for Germany's pilot on alternative reporting

- All relevant payments are unilaterally disclosed by companies and publicly available in **payments to governments reports**
  - Reporting companies are by law subject to **audits and tax audits on an** annual basis
  - Two **reconciliations without any discrepancies**, major findings and limited added value to **payments to governments reports**
  - **Reconciliation process is resource intensive and demanding** for companies and federal/ local administrations due to tax secrecy and federal system
  - **No potential for mainstreaming** the disclosure for the part of the tax administrations
- D-EITI MSG decided on pilot concept for 2018

## 1. Objectives of the alternative approach to quality assurance

Alternative approach to quality assurance  
for payment data ...

in line with EITI  
Standard

fits with MSG  
process

more cost  
efficient than  
reconciliation

valued added  
beyond quality  
assurance

adaptable to  
var. contexts  
and progress

## 2. Two-step approach for alternative reporting in Germany - overview

### 1. Risk assessment

Making sure that sufficient information on the relevant payment flows is available:

- Understanding of relevant processes and controls
- Regular follow-ups of findings
- Establishing a routine for collecting information
- Identification and assessment of any limitations of the information collection process

Evaluation of the information

Engagement of the IA

No indications of incorrectly processed payments

Assessment and decision of the MSG

Indications of incorrectly processed payments

### 2. Quality assurance

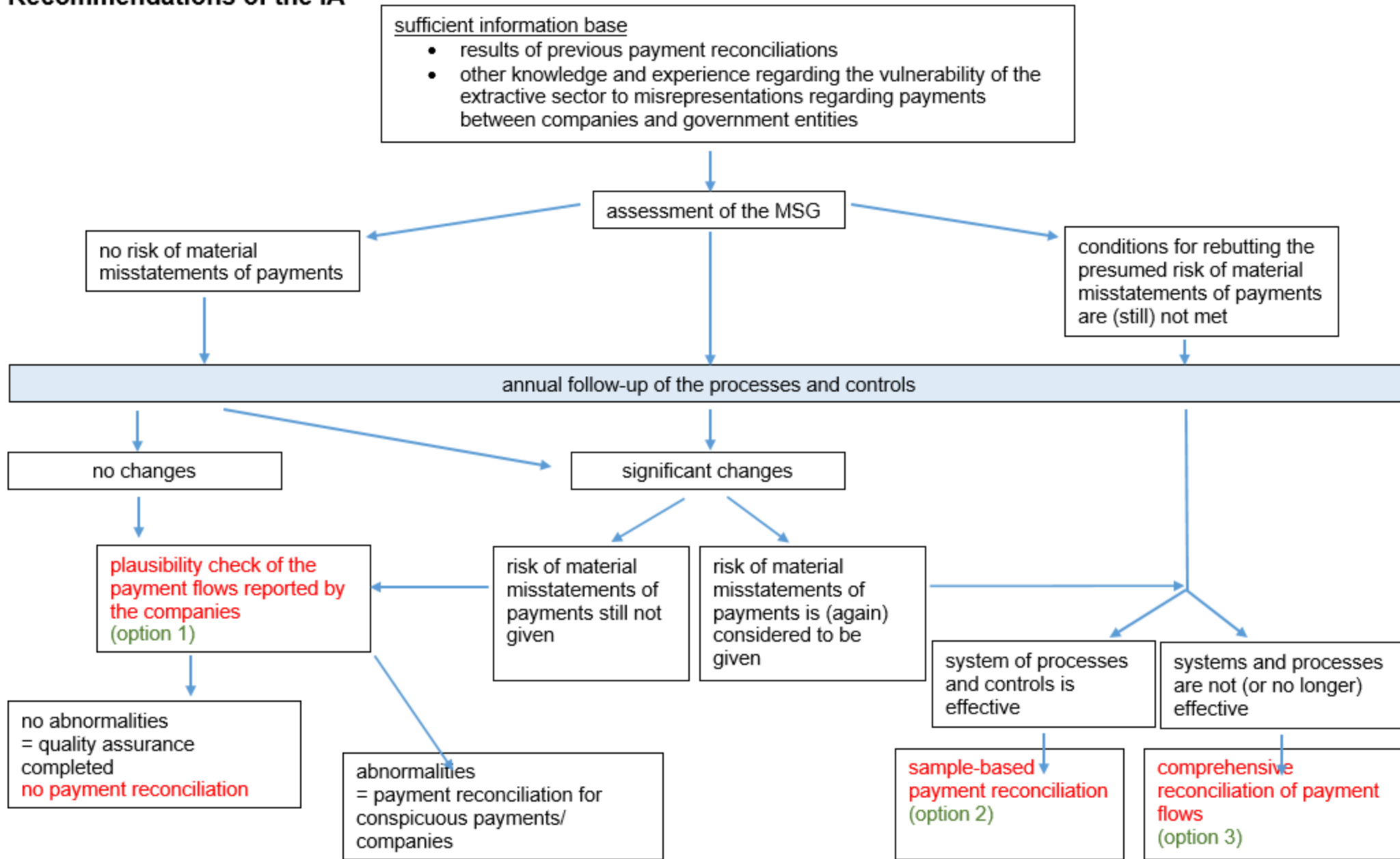
Plausibility check for reported payment flows

- Development of appropriate criteria for the analytical assessment of payment flows

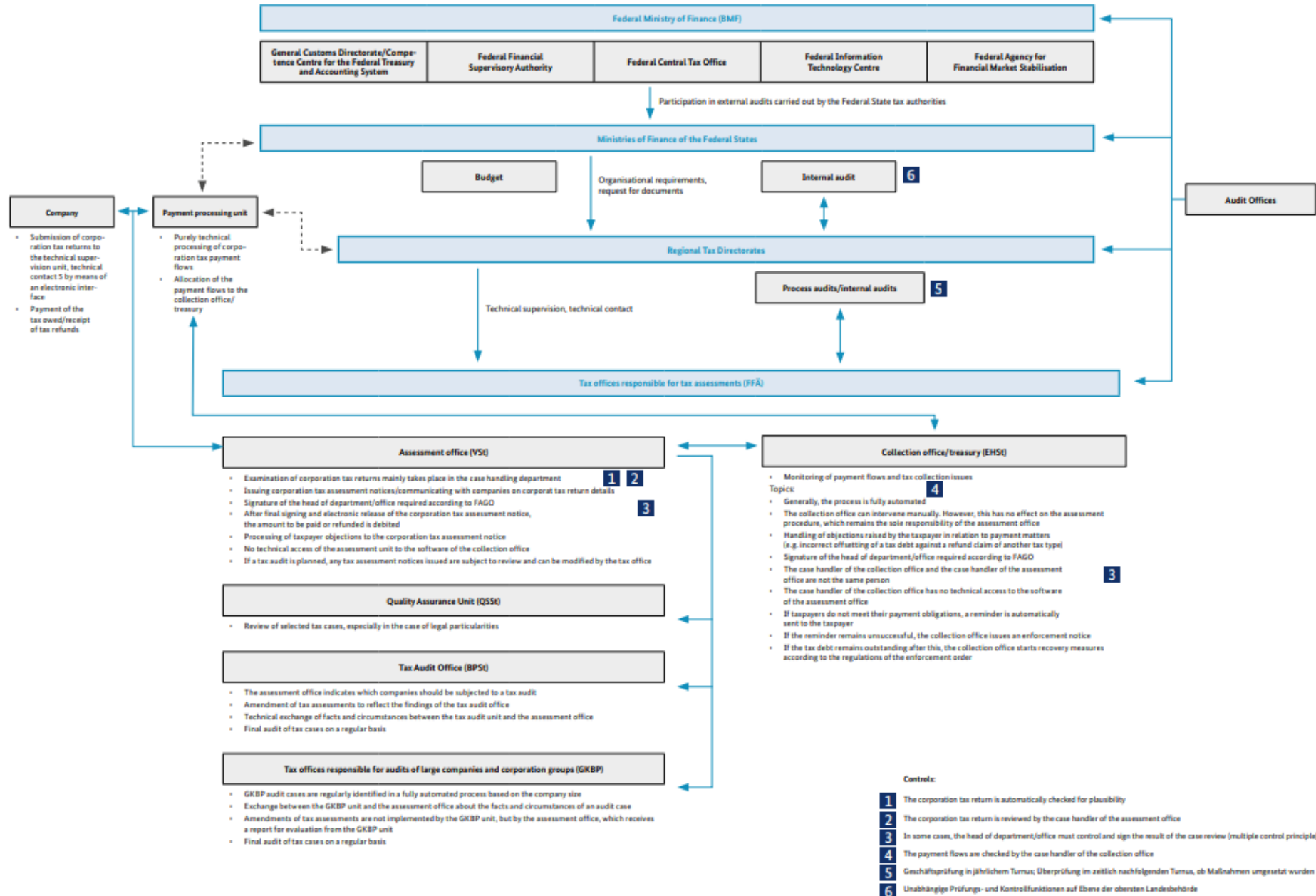
Further analysis and/or, if necessary, payment reconciliations for risk-prone payments flows

Engagement of the IA

## Recommendations of the IA



## c. i. Schematic overview of the organisational structure with relevant processes and controls for corporation tax



## 2. Two-step approach for alternative reporting in Germany

### 1<sup>st</sup> step: Risk Assessment (material misstatement of payments)

1. **Update** systematic analysis of the processes and controls (pilot phase I)
  - Set up a standard procedure for this annual update comparable to update of contextual information
2. **Extension** systematic analysis of the processes and controls
  - Analysis of internal and external audit institutions modes of operation and public reporting
3. Collate **further information** that contribute to a comprehensive risk assessment
  - Cases of corruption (CSO), findings in company audits (com.), SAI report (gov.)
4. Prepare MSG meeting for decision on risk assessment



## 2. Two-step approach for alternative reporting in Germany

### 2<sup>nd</sup> step: Plausibility check of actual payments

1. Define specific criteria for income tax and royalties that allow to define a **range of expected values**

→ economic trends, income, production volumes, company data

2. Collect data and present findings to MSG

→ focus is to explain the concept and the challenges and to build MSG capacity

3. Collate further information from companies and government agencies on individual payments if needed

4. Reconcile implausible payments if needed

## 2. Two-step approach for alternative reporting in Germany

Challenges for each step of the procedure:

- define roles for IA, MSG and secretariat
- Identify sources and collect information
- agree on decision procedures for MSG
- agree on communication/documentation of the pilot

## Lessons learned

- The implementation of the alternative approach is less a technical challenge (contribution IA & administrations!) but a very challenging task for the MSG:
  - The new approach strengthens the role of the MSG, but the MSG is critical towards increased responsibility
- Due to development and adaptation cost the new approach will be more efficient only in the long run, but immediate benefits for companies & administrations
- The systematic analysis is a clear added value and bears further potential
- The role and potential of state audit institutions is not clear yet, given its neutral and independent role.

## More information about D-EITI

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