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Trinidad and Tobago EITI Report 2016: Brief on Main Findings

Introduction

The Extractive Industries Transparency Initiative (EITI) is the global gold standard for natural resources revenue transparency, accountability and management. It is being implemented in 51 countries worldwide; including many of Trinidad and Tobago's trading partners in Europe, Asia, Africa and the Americas.

T&T was the first Caricom EITI member and Suriname and Guyana, joined the initiative in 2017 with some coaching from T&T. The EITI's mandate is to collect and disseminate independently verified information on revenue payments made to government by the main oil, gas and mining companies operating in the country's extractive sectors, audited and reconciled with Government's declared corresponding receipts, so as to promote greater revenue transparency and accountability for citizens.

The information is disseminated through annual EITI Reports and T&T has published five such Reports to date covering Fiscal Years 2011 to 2016. To date, the TTEITI Independent EITI Administrator (IA) has audited an estimated TT$123 billion of revenue payments to government from the main extractive companies. The IA has reported that he has found TT$866 million in differences between companies' declared payments and Government's declared receipts i.e. a difference of less that 0.1%, which differences have been audited and reconciled to his satisfaction. That finding provides independent confirmation that the EITI reporting process has unearthed no evidence of corruption at the level of revenue payments and receipts.

In the Reports, the IA has also provided extensive recommendations on improving government revenue collection, data management and audit and assurance processes. Data published in the EITI Reports have also informed the findings of T&T's Gas Master Plan and assisted in meeting its obligations to the Open Government Partnership.

1.0 Overview of Revenue and Production

Upstream oil and gas reporting companies made a total of *TT$8,664.43* million in revenue payments to government in fiscal year 2016. This represents 99.4% of all revenues generated from the upstream sub-sector. There was TT$26 million in discrepancies (i.e. 0.03%) between what companies reported paying and what Government reported receiving and the IA's audit found that the reasons for this difference was timing differences, foreign exchange fluctuations and insurance premium tax payments.

Mining sector participating companies made a total of *TT$ 13,345,199* million in royalty payments to government in fiscal year 2016. (See Section 2.2.1). The participating mining companies were Trinidad Cement Limited, Hermitage Limestone Limited, National Quarries Company Limited, Lake Asphalt of Trinidad and Tobago (1978) Limited and F.W Hickson & Co. Ltd.

In relation to oil and gas production, the IA reconciled oil production at 26,453,449 barrels and gas production at 1,224,644,791 million cubic feet in fiscal year 2016. The difference between oil production reported by companies and by the Government was the lowest in fiscal year 2016 - a 4,008 barrels difference. This is due to the streamlining of production reporting data and measurement units which was an exercise recommended by the IA in EITI Report 2014-2015. Also, the large gas difference of 1,564,245 MCF reported by Shell (formerly BGTT) relates to fuel gas.

Still, caution should be taken to prevent the possibility of large unexplained variances in oil and gas production, particularly from non-EITI reporting companies that are not subject to the same level of rigorous data inspection as reporting companies. For this reason, the TTEITI Multi-Stakeholder Group Steering Committee (TTEITI MSGSC) has recommended in writing to the Petroleum Company of Trinidad and Tobago Limited (Petrotrin) that the company considers mandating its Lease Operators, Farm Outs and IPSCS to participate in EITI reporting. This will provide another layer of assurance around production data and act as a deterrent to corruption.

Mineral production was reconciled at 1,872,357 metric tonnes (See Section 5.3). There was a 5,000 metric tonnes difference between mineral production reported by companies and Government's reported production figures.

2.0 Revenue Collection

2.1 Production Sharing Contracts (PSCs) Audit and Monitoring

Summary

- Issues: There are outstanding PSC payments due from operators to the Government which are likely to be in excess of TT$10 million. Weakness in the system for reporting PSC payment amounts may lead to the failure of or delay in collecting monies due. Further, a number of PSCs were transferred/assigned without the required payments made to the Ministry of Energy and Energy Industries (MEEI).
- IA's Recommendation (Section 8.2.3)**:** the MEEI should urgently review prior periods of PSC payments and review cases of unpaid transfer/assignment fees so that the necessary actions can be taken to collect monies due.

PSCs specify the various fees, levies and contributions that operators are required to pay to the Government. MEEI's PSC Audit Unit is responsible for monitoring and auditing amounts due and paid by PSC operators. One of the IA's recommendation in EITI Report 2014-2015 led to the MEEI Commercial Evaluation Division implementing a system in 2015 to report on some of these payments (e.g. administrative charges, surface rental, and minimum payment).

The Commercial Evaluation Division Report 2016 shows that TT$10,303,369 million in payments have not been made. According to the IA, this amount *"…does not necessarily reflect the correct amount owing and discussions with the MEEI suggest that it may be understated."* (See Section 4.8.1). Furthermore, a number of PSCs have been transferred or assigned without the MEEI receiving its entitled fees. (Refer to Sections 2.3.1 & Appendix 9.13).

The IA outlined several gaps in the reporting system that have implications on the MEEI's ability to collect monies due. For example, the report generated by the Commercial Evaluation Division is not cumulative; therefore, users cannot see the amounts due before the current year, neither all amounts due under PSCs (e.g. Government's profit share and transfer/assignment fees). The MEEI also reported that, in January 2018, there were 238 expenditure audits and 121 revenue audits due but not yet carried out/completed. It is important to note that during the period from October 2016 to September 2017, the PSC Audit Unit commenced 113 new expenditure audits and concluded 34 expenditure audits from previous fiscal years. The Unit started 25 revenue audits in the same period. (See Section 2.5.1)

In addition to proposing ways to improve the system of reporting PSC payments, the IA recommends that the MEEI should urgently review prior periods of PSC payments and review cases of unpaid transfer/assignment fees so that the necessary actions can be taken to collect monies due.

2.2 Mining Sector

Summary

- Issue: National Quarries Company Limited (NQCL) owes the MEEI TT$52.2 million as at December 31, 2017 (based on unaudited company records).
  IA Recommendation (Section 8.2.9 & 8.2.2): Review staffing in MEEI's Minerals Unit to improve system for revenue collection and the Auditor General should conduct the necessary audits for National Quarries Company Limited (NQCL).

In relation to revenue collection, the IA found that NQCL owes the MEEI *TT$ 52.2 million* as at December 31, 2017 (based on unaudited company records). Many of the other findings of the IA were repeated from the EITI Report 2014-2015 and relate to issues such as 1) the need for an independent verification system for mineral production, 2) the inefficiency of the license allocations process and 3) the need to review the resources available to the MEEI's Minerals Unit.

The IA also recommends that, more Mining Sector companies be included in future EITI Reports to improve the coverage of the sector.

3.0 Extractive Sector State-owned Enterprise (SOEs) Monitoring and Assurance

Summary:

- Issue: Some SOEs do not have updated audited financial statements and this has implications for the level of assurance and financial controls environment.
- IA Recommendations (Section 8.22): the Auditor General should conduct the necessary audits for NQCL and Lake Asphalt of Trinidad and Tobago (1978) Limited (LATT) to be able to produce them to the Ministry of Finance (by end of the 2018).

The National Gas Company (NGC), Petrotrin, NQCL and LATT were the four extractive sector State-owned Enterprises (SOEs) that participated in EITI Report 2016. Non-reporting SOEs were the Estate Management and Business Development Company Limited and the Palo Seco Agricultural Enterprises Ltd.

EITI Report 2016 shows that the NGC has completed audited financial statements for the year ending 31 December 2016 with unqualified audit report. The NGC has since released its consolidated financial statements as at 31 December 2017. Petrotrin is up-to-date with its audited financial statements for the years ended 30 September 2016 and 2017 with unqualified audited reports.

The NQCL's last audited financial statements were prepared for the year ending 30 September 2011 and approved in November 2017. Section 2.5.1 of the EITI Report shows the company's timetable to update its audited financial statements. Similarly, LATT is behind in producing up-to-date audited financial statements and the IA noted that the company's activities, assets and liabilities are unknown. Further, its financial control environment is weak.

The IA recommends that the Auditor General conducts the necessary audits for NQCL and LATT to be able to produce to the Ministry of Finance (by end of 2018) audited financial statements for the year ending 30 September 2017.

4.0 Legal Obstacles to Transparency & Accountability

Summary:

Issues: The Auditor General has never performed an independent audit of the revenue accounts of the Board of Inland Revenue (MOF- IRD) because of denial of access, despite being mandated under the country's Constitution to be allowed access.

IA Recommendations (Section 8.2.7): Government should remove legal barriers to the Auditor General's audit of MOF-IRD's revenue figures under International Auditing Standards (INTOSAI). In addition, TTEITI MSGSC to discuss with the Auditor General, the levels of assurance required in order for the Government to report under international EITI Standards. Any action items discussed should be incorporated in the AG annual Workplan.

Whereas the Auditor General (AG) is in the position to report under the INTOSAI Standard, the AG does not have access to the records of the Ministry of Finance- Inland Revenue Division (MOF-IRD). This has implications on the levels of assurance over the information reported by the MOF-IRD and makes it difficult to identify ways to increase revenue.

T&T’s Constitution grants the AG, or other any other person authorized by him, to access all documents relating to T&T’s public accounts. However, the MOF-IRD believes that under the Income Tax Act it is under a statutory obligation to keep its data confidential. Further, the AG shared concerns with TTEITI MSGSC of potential confidentiality requirements under FATCA (United States Foreign Account Tax Compliance) that may further prevent access to information.

The IA recommends that all barriers to the AG’s access of MOF-IRD revenue details be removed and for there to be discussions with the AG to identify further levels of assurance required to bring Government reporting in line with EITI Standards of accountability and transparency.

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5/25/2018