

Joint EITI Secretariat – World Bank Technical Workshop on EITI Auditing and Reconciliation Issues, Paris, April 01

Suggestions to the EITI Secretariat:

Introduction

EITI has come a long way since its inception in 2002, with 15 reconciled reports from ten countries having been published by now. However, during its implementation a number of technical and general issues have arisen, which sometimes resulted in inefficiencies and delays, and even potential inconsistencies in EITI Reports. This experience underlined the urgent importance of an exchange of opinions and experiences from those people and organizations that have so far worked on EITI reconciliation and audits at the country level.

Purpose of the workshop

For this purpose, the World Bank and the EITI Secretariat jointly convened a workshop on 1 April that brought together the audit / reconciliation firms which had provided services on EITI at country level, in order to:

Firstly,

act as a forum that convenes practitioners to discuss and exchange information on the more problematic and/or recurrent issues that have been arising when performing EITI audit/reconciliation work and which relate to EITI policy issues or principles (or where implementation guidance may help to smoothen EITI implementation); and

Secondly,

prioritise the issues in a way that follow-up actions or guidance may be considered by the EITI Secretariat if feasible.

Key Issues:

Already prior to the workshop, it emerged that the key issues would center around the fact that EITI Reports vary a great deal in scope and size due to, notably, differing sizes of the country / EI sector, and differing multi-stakeholder expectations. This, of course, gives rise to the question of what standards should be set, and whether there was any merit in a 'core / minimum' standard. The case for doing the latter would then have to be weighed against the fact that

differences in scope are the essence of the type of country-driven process that EITI perceives itself to be.

Outcome: Points for Consideration by EITI Secretariat / Board

Having convened and discussed on 1st April in Paris, the group agreed on the following conclusions, and would like to propose them to the EITI Secretariat and Board for information and, where applicable, for consideration:

1. Scope of the EITI process:

Issue: What is the precise scope of the EITI process, and how to deal with the fact that stakeholders often still expect the administrators to perform full audits?

Outcome of the discussions:

The group agreed that the payment and revenue reconciliation process is not an audit according to international auditing standards. This is simply due to the fact that a full audit service, given the complexities of the industries involved, is out of scope, both financially and given its duration. Given stakeholders' expectations of the administrator (who are frequently generally best known for their audit work) this best be made clear in the implementation process for expectations management purposes. One key practical implication from this would be to refer to 'examiners' rather than 'auditors', or use the term 'administrators' consistently, in the EITI Sourcebook.

2. ToRs for validators:

Issue: How to improve the ToRs for the validators to acknowledge better the real circumstances of the reconciliation process?

Outcome of the discussions:

As for the core ToRs for validators, the group suggested that the EITI Secretariat provide a statement for the validation process not to be a repeat of the previous auditing or data reconciliation processes, thus keeping these processes clearly apart. The group also suggested to reiterate, in such ToRs, that where reconciliation is not done to auditing standards, validators should note the clause on page 19 of the validation guide: "Where figures submitted for reconciliation are not to audited standards, the multi-stakeholder group is content with the agreed way of addressing this".

3. The definition of the Administrator's role in practice:

Issue: How to avoid confusion in the definition (and expectations) of the Administrators task which lies at the core of EITI disclosure and reporting?

Outcomes of the discussion:

This topic generated considerable discussion and debate among the EITI practioners present, focused in particular on the depth of follow-up or verification work on reported EITI data (needing to be carried out by an Administrator) implied by the EITI Criteria and Source Book guidance.

No consensus was reached, and the distinct positions on this are summarized below. It should be noted there was common agreement that the phrase "reconciliation" as written in the EITI literature did imply (in accepted audit professional practice) a detailed follow-up and verification (by the Administrator) of discrepancies which emerge in the reported data. Also it was also clear that the EITI literature on this matter and the word "reconciliation" used therein is not likely change soon.

The core of the difference therefore was whether such detailed "reconciliation" work was feasible at all for an Administrator within scopes of most national EITI processes, the size and complexity of their EI sectors and the available financial resources (for the Administrators' task).

One view-point (and practice) was that the more in-depth and detailed reconciliation work as not only possible but essential for credible national EITI processes (and thus important that the necessary funding investments be made by national EITI committees to allow this depth of work). In this view, any perceived difficulties of conducting the more in-depth verification work implied by the term "reconciliation needed to be revisited and if cost constraints was an issue, then that was the problem to be addressed since reporting of unresolved discrepancies would not yield credible EITI processes."

The alternate view-point (and practice) was that Administrators had to adopt methods more feasible and suited to the circumstance in discharging their Administrator role, such as matching and comparing of data reported, perhaps with some (but not in-depth) verification of any discrepancies. In this view, a credible EITI process required that data-reporting entities to be more accountable for submitting accurate EITI data to minimize discrepancies (such by requiring certifications of submissions rather that for expectations to be placed on the Administrator to verify

any data discrepancies fully). Continuing this view it was felt that the phrase ' rapprochement ' (as used in the French version of the Source Book) more closely described the extent of the data verification implied in the Administrator's role (as compared to the in-depth verification work implied otherwise).

4. Core vs. non-core EITI, and country ownership of EITI processes:

Issue: How and whether to mark a distinction between 'core' and 'non-core'-EITI, and ensure comparability of EITI reports?

Outcome of the discussions:

A major issue seems to be to clarify in-country what the particular EITI exercise will be about (i.e. the scope of the EITI implementation process). Again, how to meet the diverging expectations of stakeholders seems to be crucial. But this should be a country-specific process and therefore should only to a limited extent be guided by unified propositions (i.e. policy guidelines). Given the status of country ownership, individual countries are free how far they go with their process. For example, in case a country concludes it wants to go for a full audit (incl. government audit), then this would reach beyond core EITI. While the core (i.e. that what is required by the Validation Guide) is mandatory, the space around the core (which could also include other sectors – e.g. forestry in the case of Liberia) is open to individual decision.

Hence, some participants suggested that the core EITI exercise, as clearly defined in the Sourcebook, should be the concern of one report, while any non-core EITI activities should go into a separate report or into annexes to the report. This, according to the participants, would minimize the risk for administrators not fulfilling core EITI goals because of highly ambitious national definitions of EITI.

The variability of the scope of EITI and of EITI reports will likely have to remain and is indeed a conscious choice, but given especially administrators' discomfort with the current situation the Secretariat might consider providing guidance on this aspect where needed. General guidance on the nature of 'core EITI' is provided by p. 17 of the validation guide, stating that "The EITI criteria require that "all material oil, gas and mining payments to government" and "all material revenues received by governments from oil gas and mining companies" are published."

5. Expectations management of what EITI means.

Issue: How to manage in-country expectations of the EITI process early on, in particular among NGOs and firms?

Outcome of the discussions:

Several administrators stressed that more expectations management in national stakeholder groups was necessary, notably to (i) keep NGO expectations from being too high; (ii) conversely, help companies get a prior realistic picture of the effort EITI requires from them. The group agreed that government has a key role to play as a facilitator in such expectations management, mediating the expectations of both the CSOs and the companies. Technical assistance from the World Bank-administered Multi-Donor Trust Fund to train the Multi-Stakeholder Working Group (MSWG) in auditing issues may be called for in order to obtain reasonable TORs for the administrator.

6. ToRs for multi-stakeholder group: quality issues.

Issue: How to ensure quality ToRs for the multi-stakeholder group?

Outcome of the discussions:

Several participants raised the issue of quality of the ToRs of the MSWG. It was suggested that some general best practice guidance on ToRs be provided from the Secretariat, and to then have the MDTF provide more money for ToR capacity building. It was also proposed to involve the administrators already at the ToR writing stage. A longer-term contract (e.g. a 3 year period) for the administrator might be helpful to increase coherence of the process. This might also increase the possibility of the country to stick to the agenda (as there are less factions), especially with regard to the 2 year period between reaching candidate status and the requirement to get validated.

7. Data quality:

Issue: How to ensure quality of the data provided to the administrator?

Outcome of the discussions:

Participants stressed that the data provided to administrators should have been audited, and that it should be a requirement for the administrator to have access to the auditors of the data (and this also to be included in the TORs). It is proposed that this is to be facilitated by the relevant authority (Ministry) writing a letter to the company (sent by the administrator), saying that audited declarations are needed. Legal questions will likely have to be resolved in this question, possibly in the context of the legal analysis / consultancy by which many EITI implementing countries assess

the need to change the legal framework to allow for effective EITI implementation. The disincentive effect for company participation of such actions must be borne in mind. A view was expressed that not all companies saw the data reporting process as a priority.

8. Who reports among consortium or Joint Venture (JV) of EI firms?

Issue: In a consortium or JV of EI firms, which of the EI firms should report the data to the EITI administrator?

Outcome of the discussions:

On the question of who is responsible for providing financial information to the administrator in situations where there is a consortium or JV involved, managed by a lead operator. This has proved an issue in some countries but a useful principle (or good practice) that has emerged in such cases is that "the payment-maker provides the reporting". I.e., the lead operator of the JV/consortium provides the EITI data to the administrator for almost all payments made by that lead operator (namely most operating payments to government from the production) while each individual consortium/JV member company will report on payments that they make themselves (for that JV) - usually corporate / income tax.

The participants agreed that while the above mentioned issues needed urgent resolution, the tension between consistency / guidance vs. country ownership in the EITI implementation process was overall a 'healthy' one to the process. The key point to bear in mind may likely be that despite the inevitable variability of (i) reporting of countries, (ii) scope (due to country ownership), and (iii) report quality and length, a variability of approach could and should be aimed at by having all participant countries treat their work as EITI, rather than some aiming at EITI and others as EITI ++ (on which workshop participants were briefed).

In closing, it was stressed repeatedly that guidance for EITI implementation, notably the Sourcebook, appeared to be successful. It was suggested that for those additions or revisions needed - in line with the above suggestions - supplementary guidelines or a glossary of terms (e.g. 'auditing', 'reconciliation') be issued.

Also, overall it was agreed that these kind of meetings were very helpful in increasing knowledge of the issues, and should be repeated regularly.

Background documents to the meeting (1. List of Participants; 2. Agenda; 3. Discussion Points) are provided in the annexes to this report.

Annex I: List of Participants

	Name	Company	Country audited
1	Ismael Nabe	Richard Michel & Nabe	Guinea
2	Nargiz Alizadeh	Moore Stephens	Azerbaijan
3	Philippe Mongin	Ernest & Young	Mauritania, Gabon
4	Anton Melard de Feuarent	Ernest & Young	Mauritania, Gabon
5	Jules Alain Njall Bikok	Mazars Cameroon	Cameroon
6	Richard Michel	Independent Consultant	Guinea
7	Dominique Meizou	KPMG France	
8	Pascal Ghazi	KPMG France	
9	Chris Nurse	Hart, UK	Nigeria
10	Manuel Hutama (via TC)	Deloitte Touche	Kazakhstan
11	Des Crane (inputs via email)	Crane and White	Mongolia
	Plus:		
	Eddie Rich	EITI Secretariat, Oslo	
	Andre Ufer	World Bank, Oil, Gas and Mining Policy and Operations Unit	
	Georg Caspary	World Bank	
	Anwar Ravat	World Bank	

Annex II: Workshop on EITI Auditing and Reconciliation

The World Bank, Paris, April 01 2008

AGENDA

08:30 – 09:00	Registration and Breakfast
09:00 – 09:15	Introduction World Bank and EITI Secretariat Oslo
09:15 – 10:30	Tour de Table: Country Experiences and Challenges
10:30 – 10:45	Coffee
10:45 – 12:00	Discussion and Weighting of Technical Issues
12:00 – 12:45	Lunch
12:45 – 14:15	Discussion and Weighting of Practical / General Issues (e.g. relation with the multi-stakeholder groups, questions of TORs etc.)
14:15 – 15:00	Discussion of Solutions and Implementation Possibilities
15:00 – 15:15	Coffee
15:15 – 16:45	Discussion of Solutions and Implementation Possibilities
16:45 – 17:00	Wrap-up and Closure EITI Secretariat Oslo

*Annex III: EITI Auditing and Reconciliation – Potential Discussion Points
Handed to Participants Prior to Workshop*

1. Technical Issues

The Legal Environment	Are there confidentiality clauses that disallow the disclosure of EI data on third parties, and how does this affect the data collection?
	Is the obligatory disclosure (for companies) clearly defined, i.e. is there legal backing for the audit companies' inquiries? This in the end might lead to discussion on how to increase the official status of the EITI process, as a legally binding process
Data	How better to include data from smaller partners in consortia, or from remotely operating companies?
	Also in the realm of consortia, who is reporting? The lead operator, or several / all firms involved?
	How reliable is company data in the first place, especially for non-international companies that do not adhere to International Auditing Standards (while this question has of course also to be addressed with regard to government data)?
	What could be done in case of inexplicable revenue discrepancies?
	How to best account for the government's production share, especially when NOCs are involved?
	How reliable are NOC data in general, since blurring between two government entities could be particularly easy to do?
	Valuation issues (e.g. exchange rate differences, transfer payments)
	Do different reporting templates pose difficulties for the reconciliation of data (e.g. the "other items" reporting line)?
Reporting formats	Appropriateness

2. *Practical & General Issues*

TORs, Budget and Costs	Can accurate costs estimated beforehand?
	How do various obstructions and/or political unwillingness increase costs, and what influence does this have on the quality or reports
	Is the scope of the EITI process clear to everyone (i.e. to all stakeholders)? How do TORs and expectations differ, and how does this influence the work of the audit firm?
The Multistakeholder Environment	Are there conflicts of interest regarding the oversight function by the government, which, at the same has also the highest stakes with regard to the EI rents?
	How to move between the diverging interest of the stakeholders involves (gov., CSOs, companies), especially when each one is trying to exert pressure on the firm?
	How to improve information exchange and collaboration between the stakeholders?
	Can / should the auditor also take on a developmental role when dealing with the non-expert MSWG? What lessons can be shared from these experiences?