

Statement by the MSG on the implementation status to date of the payment reconciliation pilot

At the request of the international EITI Board and the international EITI Secretariat, the D-EITI MSG decided on 15 May 2020 to implement a payment reconciliation pilot for the third D-EITI report 2020 covering the reporting year 2018. The international Secretariat's proposal for this pilot is based on the option, introduced in the EITI Standard 2016, of implementing alternatives to the previous reconciliation procedure. Ensuring the same quality of data and level of control, these alternatives are designed to place the focus on the function and control of state systems and to make it possible on this basis to use freed-up resources to improve the systems and other areas of EITI implementation. In order to implement the pilot, the D-EITI approved a strategy which served, in conjunction with the EITI Standard, as the basis for the independent administrator (IA)'s terms of reference, which were approved by the MSG on 2 June 2020.

The results of implementation (work report by independent administrator, draft section entitled 'Disclosed payment flows and quality assurance', and the independent administrator's recommendations) were sent to the MSG on 14 January 2021. The independent administrator subsequently presented his findings at two meetings with MSG members, where he also noted practical feedback from the MSG on the drafts. The final drafts were approved together with this statement at the fifth special meeting of the MSG on 12 February 2021.

Joint statement by the MSG

The D-EITI MSG would like to thank the EITI Secretariat and the EITI Board for the pilot initiative and for support with its implementation as part of the D-EITI. It also wishes to thank the participating administrations and companies for their work and for supporting the MSG in the implementation process. The MSG looks forward to further dialogue on the results of the pilot and will be happy to answer any questions that the EITI Board, the EITI Secretariat and the EITI partner countries may have.

The MSG has accepted the independent administrator (IA)'s report and its quality assessment of the reported data. The MSG is satisfied that the report shows how the details, reported by the companies during data collection, of the amounts paid to state bodies correspond to the revenue correctly posted by the state. The written presentations and supplementary explanations provided by the independent administrator enabled the MSG to understand the procedures used at the relevant authorities, the underlying auditing and control standards, the

audit methodology and the work results of the independent administrator, and thus to comprehend the final assessment of data quality.

As far as the pilot strategy and the terms of reference approved by the MSG are concerned, the MSG found that these had been implemented correctly, even though there is room for improvement and scope to supplement these, as is typical of pilot processes.

- With reference to a comprehensive and comprehensible presentation of the measures implemented by the independent administrator and to the description of the state systems and controls, the independent administrator implemented amendments directly, based on feedback from the MSG, and these amendments were fed into the now approved final section of the report. Additionally, the MSG identified other topics and areas that could or already do effectively supplement this presentation even though they did not form part of the terms of reference/the investigative actions. These amendments relate in the first instance to a comprehensive and comprehensible presentation, rather than an assessment of data quality. In the event of the pilot being continued, the MSG will agree whether any of these topic areas should be explored in more detail and, if so, which ones, where they could possibly be incorporated, and whether there is a need for further amendments:
 - corruption prevention, anti-corruption rules and measures in public administration and the companies, compliance measures of the companies,
 - further explanations on the role and duties of the supreme audit institutions,
 - discussion as to whether and to what extent, for example, payments for improving infrastructure and lease payments should be recorded as part of quality assurance.
- The MSG considers that the systematic observation and presentation of the agencies responsible for payment processing add significant value to the MSG and to the D-EITI report. A presentation of this sort was not previously publicly available and it very effectively supplements the existing content of the D-EITI report. The additional information, particularly in conjunction with supplementary explanations provided by the independent administrator and the responsible government representatives at the MSG, enable the MSG to discuss priorities for the future orientation of the D-EITI on a technical basis.
- The independent administrator was unable to implement some of the measures listed in the terms of reference, as the relevant information was not publicly available/accessible. For instance, the areas of payment processing recorded in conventional payment reconciliation in accordance with the EITI Standard were not mentioned in public audit reports by the supreme audit institutions. The independent administrator's findings suggest that relevant reports are not available because the area of payment processing covered by

the conventional payment reconciliation process according to the EITI Standard are held to be immaterial or not thought to pose a risk. In the view of the MSG, a confirmation/explanation of this assumption by the supreme audit institutions would be a useful addition and could even form part of the continuation of the pilot. The D-EITI faces the challenge that a large number of public administration agencies at the financial administration level of federal states (corporate tax, trade tax), local authorities (trade tax), mining authorities (exploration fees and mining royalties) and other state organisational units (payments for improving infrastructure and lease payments) are involved in processing the identified payments and/or payment flows. The transferability of system-related investigations of individual agencies to the entirety of the affected agencies depends on whether there are corresponding similarities in their systematic and organisational structure. As regards the quality-assured payments made as part of the pilot, the MSG considers that these similarities exist for the financial administration at federal state level and that they are set out with sufficient transparency in the report or in other publicly available documents. In the area of exploration fees and mining royalties the authorities examined by the independent administrator are responsible for 95 per cent of the reported mining royalties. However, when it comes to the collection of trade tax by local authorities, the MSG still sees a need for further explanation in terms of systematic and organisational processing. A general presentation of the financial administration of local authorities and, where relevant, supplementary information from their external audit could be a useful addition in the event that the pilot is continued.

Special votes by the stakeholder groups

Civil society found that it was not possible as part of the pilot project to conduct an analysis of the weakness of the system presented, on the basis of empirical data collection. Consequently, no conclusions can be drawn on the actual effectiveness of the audit institutions. An analysis could cover such aspects as anti-corruption measures or the frequency and of company audits undertaken by the tax offices and the numbers of staff involved.

The **government** makes reference in this context to the written and verbal information provided by the independent administrator, according to whom weaknesses were sufficiently analysed. On this basis and drawing on internationally recognised auditing standards, the independent administrator came to issue a positive verdict on the effectiveness of the systems examined. The independent administrator also noted that weakness analyses were the responsibility of the supreme audit institutions within the framework of the constitutional order. Additionally, company audits are part of the disposition process not covered by the payment

reconciliation, and questions about matters such as staffing at the agencies fall within the budgetary remit of the parliaments.

The **private sector** concurred with the government's vote.

Conclusion

Against the backdrop of the pilot initiative and the EITI Standard, it is the preserve of the EITI Board to evaluate the alternative procedure used and the available findings. As a participant in the pilot process and with regard to implementation of the alternative quality assurance procedure, the MSG notes the following findings in closing:

- As a quality assurance measure, the payment reconciliation process is a key part of EITI implementation. Consequently, developing and implementing alternative quality assurance processes requires an extensive discussion of the objective of quality assurance and of the task itself, against the backdrop of the EITI Standard. This discussion, conducted in particular in order to approve and evaluate the process, proved challenging for the MSG. The technical and substantive support provided by the international Secretariat was therefore especially important. In implementing the pilot, the MSG intends to contribute to the success of the pilot initiative and play a long-term part in refining the EITI Standard. Nonetheless, it is important to note that the specific design of the alternative quality-assurance procedure is tied to the German context. The MSG therefore wishes to avoid any statements about the transferability of the procedure that extend beyond the D-EITI. Instead, the MSG is keen to conduct an intensive dialogue on lessons learned with the implementation of the procedure in order to help EITI and EITI partner countries gain key insights from pilot implementation. The MSG is available for such a dialogue at any time.
- The MSG will discuss and decide upon the continuation of the pilot. The discussion of the independent administrator's recommendations, as provided for in the EITI Standard, serves as a starting point. Furthermore, the MSG is grateful for the international EITI Secretariat's support for this discussion. The international Secretariat and the EITI Board will be informed without delay of the MSG's decision on the next steps.

Special votes by the stakeholder groups on the conclusion

Civil society is of the opinion that there is no need for the complete reconciliation of the payment flows. Due to the aforementioned lack of an empirical study, it would however be necessary to conduct reconciliations of individual payment flows on a random sample basis as the prerequisite for quality assurance. This random sample procedure would have to be

defined in more detail in the subsequent procedure. Civil society is prepared to use this alternative procedure for the fourth report.

In the view of the **government** and the **private sector**, in accordance with the independent administrator's recommendations, the MSG should first evaluate whether the area covered by the payment reconciliation does indeed carry risk in order to then make a well-founded decision regarding the future design of the quality assurance process. Only then would they consider the process to comply with the EITI Standard and to have a basis in internationally recognised auditing standards.

From **civil society's** perspective, the pilot project has shown the need for the D-EITI's efforts on the systematic disclosure front to be continued. In the view of civil society, questions of transparency and its limits, for instance, in terms of the availability of information on audit processes and the public accessibility of audit reports, should more comprehensively inform the activities of the working group on systematic disclosure.