



LEVEL 6, TREASURY BUILDING
PO BOX 1907
PORT MORESBY, NCD
PAPUA NEW GUINEA

**PNG EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE
NATIONAL SECRETARIAT**



PHONE: (675) 3133772
(675) 3133581
EMAIL: info@pngeti.org.pg
WEBSITE: www.pngeti.org.pg

Validation File Note: 1/2019

Date : 24/10/2019

Meeting: Meeting with PNGEITI Technical Working Group on the Validation Exercise

Purpose: The PNGEITI National Secretariat, under the oversight of the PNGEITI MSG has called for an initial meeting for the TWG to convene and review, firstly the progress of some of the action items (1st validation outcome), and secondly, plan how these items will be addressed in the lead up to the second validation in 2020.

Venue : Alotau International Hotel, Alotau, Milne Bay Province

Time : 09:00am to 04:30am

Attendees:

National Secretariat - Mr. Lucas Alkan, Head of National Secretariat
- Mr. Swartz Buf, Research & Data Analysis Officer
- Mr. Francis Diakon, Procurement Officer
- Ms. Sonia Kenu-Becks, Media Officer

Ok Tedi Mining Limited (OTML)

- Ms. Debra Lessi, Superintendent
Management, Accounting

Internal Revenue Commission (IRC)

- Mr. Albert Kenny, Policy Officer, Policy &
Advise

Department of Finance (DoF)

- Mr. Mai Kuraya, Senior Revenue Policy
Officer, Non-Tax Revenue

Department of Treasury (DoT)

- Ms. Christy Tende, Assistant Analyst,
Extractives Industry Branch

Kumul Petroleum Holdings Limited (KPHL)

- Mr. Tim Baiyo, Financial Controller

Mineral Resources Authority (MRA)

- Mr. Arnold Lakamanga, Manager (Marketing & GIS Information)

- Mr. Louie Kawale, TIMS Administrator

Department of Petroleum & Energy

- Mr. Chanriam Kumalau, Director Special Projects & Head DoP-EITI Team

- Ms. Vicky Coleman, Revenue Officer (Finance)

JICA Experts

- Mr. Toyohiko Yogo

- Mr. Yoshio Chikamatsu

Discussion Summary:

Action Item (EITI Requirements)	Discussion
<p>Licence Allocation (Requirement 2.2)</p> <p>Rating – Inadequate</p>	<ul style="list-style-type: none"> ✓ IA indicated that there were some missing data identified from 2017 report – Gas licence transfers and awards ✓ Initial data provided by DoP and MRA is under review by IA. ✓ MRA has provided license allocation data to IA for the 2018 report. Data processing/review is in progress for providing full disclosure – full compliance ('satisfactory') status likely to be met in the 2018 report as indicated by IA. ✓ IA identified gap in 2016 report and have updated the data templates to address this inadequacy. The gap will be addressed in the 2018 report as indicated by IA.
<p>Licence Register (Requirement 2.3)</p> <p>Rating – Meaningful</p>	<ul style="list-style-type: none"> ✓ DoP – need for electronic system. IA indicated that hard files to be provided by DoP – no central database at this time. DoP data are separately managed by respective branches within DoP in stand-alone databases (revenue, production, licencing). ✓ JICA is currently working with DoP to establish a network (a central database and a website) where all relevant datasets will be stored and/or accessed on one central point. <p>Way Forward/Resolution:</p> <ul style="list-style-type: none"> ✓ To meet requirement of public disclosure, MRA indicated the possibility of having DoP data (pdf/excel) uploaded on CCOP GSi portal, which is managed by MRA. ✓ DoP and MRA to initiate some discussions on how best MRA can assist DoP. Both MRA and DoP (Arnold & Kumalau) agreed to meet this week (weekending 1st Nov) to come up with the way forward on how MRA can assist DoP to upload its data onto the MRA cadastre online register. ✓ JICA to continue work with DoP in the background to get the database and website up and running. Once a website is up & running, the standalone registers can be easily uploaded onto the central database and website, which can then be publicly accessible. ✓ JICA indicated that procurement of the ITC materials by JICA for the set-up of the DOP website will begin soon and installation of the technology at DOP will follow afterwards. JICA will try to complete the website set up before the second validation in 2020.

	<ul style="list-style-type: none"> ✓ <i>Comprehensive description of what is available and what can be done in the subsequent period –document process in the 2018 report</i>
<p>State Participation <i>(Requirement 2.6)</i></p> <p>Rating – Meaningful</p>	<ul style="list-style-type: none"> ✓ <i>The 2017 EITI report updated to include comprehensive disclosure about SOE/State participation.</i> ✓ <i>SOE's (KPHL/OTML/KMHL) are requested to provide additional information such as existing loans, guarantees extended by the State (where necessary) in the draft 2018 report to be circulated by IA. The main issue here is compliance from SOEs in reporting the data requested/required on time.</i> ✓ <i>SOEs are to review the draft report to ensure what is reflected in the draft report is correct and consistent with the data they submitted to IA. Where necessary, SOEs are also required to provide additional narratives on the draft report to ensure their sections are updated and is comprehensive.</i> ✓ <i>IA anticipates 'satisfactory' rating for this requirement in the 2018 report.</i> ✓ <i>Reporting entities to document EITI reporting as part of their annual operational activities.</i> ✓ <i>MSG resolved in 2018 for a TOR for Scoping Study for SOEs. Consultants to be engaged in January 2020. The tendering processes will be included in the 2018 report as mention by the IA representative (Leonard)</i>
<p>Production Data <i>(Requirement 3.2)</i></p> <p>Rating – Inadequate</p>	<p><i>Mining:</i></p> <ul style="list-style-type: none"> ✓ <i>Data reported by MRA for 2018 report.</i> ✓ <i>Companies are complying in reporting required data.</i> ✓ <i>Some data from company reports not captured by MRA. MRA to work with companies to rectify that.</i> <p><i>Oil & Gas:</i></p> <ul style="list-style-type: none"> ✓ <i>Oil Search and DoP have provided some information (produced qty, not produced value).</i> ✓ <i>Exxon also provided some data but not provided production/export values.</i> ✓ <i>Project agreements need to factor clauses that counter confidentiality clauses to allow companies/operator/JV to report to state/EITI.</i>

	<ul style="list-style-type: none"> ✓ <i>Call for State, if possible, to audit the project partners' books to establish facts about data reported for EITI purposes.</i> ✓ <i>IA emphasis again on the need for actual production value to be included in the 2018 report. IA to work closely with all reporting entities to confirm whether this information are disclose in the reporting templates provided.</i>
<p>Export Data <i>(Requirement 3.3.)</i></p> <p>Rating – Meaningful</p>	<ul style="list-style-type: none"> ✓ <i>IA indicated that estimated values were used (in part) in 2017 to avoid 'inadequate' reporting.</i> ✓ <i>IA indicated that already some data were provided for the 2018 report.</i> ✓ <i>'Satisfactory' rating expected for this requirement.</i> ✓ <i>Call for possibility of IA to estimate 2018 data, especially PNG LNG data (for Exxon and other JV partners), based on data reported by KPH for 2018 report.</i> ✓ <i>IA needed to include export value in the 2018 report – all reporting entities must disclose this export value in their reporting templates - same as above.</i>
<p>Comprehensiveness <i>(Requirement 4.1)</i></p> <p>Rating – Inadequate</p>	<ul style="list-style-type: none"> ✓ <i>Lack of capacity by AGO or internal audit teams from entities to have their annual reports audited in time for purposes of EITI reporting.</i> ✓ <i>State entities have to be audited before April 2020 to ensure there is credibility/confidence in figure reported. Copy of audited reports to be provided (when available) to IA and PNG EITI website.</i> ✓ <i>MSG to engage more closely with AGO.</i> ✓ <i>Possibility for MSG/PNG EITI to get some directive for State Agencies to be audited on time for the purposes of EITI reporting.</i> ✓ <i>MSG to agree on a TOR for a consultant/IA to scope out the work to be done to assist the AGO office with non-audited books for government agencies and SOEs soon. The MSG to agree and endorse this assignment soon so IA will document and include the endorsement in the 2018 report.</i>
<p>SOE Transactions <i>(Requirement 4.5)</i></p> <p>Rating – Meaningful</p>	<ul style="list-style-type: none"> ✓ <i>Discussion and issues identified are in line with discussions/notes highlighted in requirement #2.6.</i> ✓ <i>MSG to finalise the TOR soon for Scoping Study for SOEs. Tendering processes and timeline will be included in the 2018 report.</i>

	<ul style="list-style-type: none"> ✓ 'Satisfactory' rating expected for 2018 report.
<p>Direct Subnational Payments (Requirement #4.6)</p> <p>Rating - Inadequate</p>	<ul style="list-style-type: none"> ✓ First Validation took place while Scoping study and the 2017 report were being worked on. ✓ Recommended by TWG to be included in the 2018 report. 2018-report data template amended to capture 'unilateral disclosure' of subnational payments in 2018 report. ✓ Improvement made in 2017 to include in the 2018 report. ✓ 'Reconciliation' of subnational payments to be included in 2019 report onwards, including implementation of recommendations from the scoping study report.
<p>Data quality (Requirement #4.9)</p> <p>Rating – inadequate</p>	<ul style="list-style-type: none"> ✓ IA to include comments on this requirement in the 2018 report. ✓ Some government entities are still dragging behind in terms of auditing resulting in lack of credibility of financial data provided. <p>Way Forward:</p> <ul style="list-style-type: none"> ✓ IA to undertake verification for certain government entities (while awaiting formal audits to be completed) to ensure their data are reliable to be included in the report (2018), prior to the validation in April. IA to document this procedure in the 2018 report. ✓ For EITI reporting purposes, PNGEITI and IA, to explore possibility of engaging with reporting government entities and AGO to ensure they are audited on time. ✓ TWG to submit a recommendation to the MSG for MSG to task the National Secretariat to look at scoping out a way on how we can have more engagement with AGO – possibility of engaging with external auditing firms to improve auditing processes and procedures for reporting entities going forward. ✓ Possible engagement with IFMS to capture certain aspects of revenue reporting (receipts/payments), especially for reporting entities (Govt. entities). ✓ IA expects improvement in rating for 2018 report. ✓ Validation TWG resolve to engage an independent consultant to scope or do a feasibility study on how to assist AGO on updated audits reports for government agencies and SOEs.
<p>Distribution of Extractive Industry Revenues</p>	<ul style="list-style-type: none"> ✓ Disclosed in 2017 report (section 5.5, pg. 48)

<p><i>(Requirement #5.1)</i></p> <p>Rating – Inadequate</p>	<ul style="list-style-type: none"> ✓ <i>IA indicates no major actions required for 2018 report. Additional information (narratives) to be included in the 2018 report.</i> ✓ <i>With IRC financial data submitted, IA will update the gaps identified in 2017 report and address the corrective actions in this 2018 report.</i>
<p>Subnational Transfers <i>(Requirement #5.2)</i></p> <p>Rating – Inadequate</p>	<ul style="list-style-type: none"> ✓ <i>Discussed together with 'Direct Subnational Payments #4.6'</i> ✓ <i>Unilateral disclosure for 2018 report.</i> ✓ <i>Scoping study report and recommendations are to be documented in the 2018 report.</i> ✓ <i>'Reconciliation' of subnational payments to be included for 2019 report onwards.</i> ✓ <i>Mr. Leonard (IA) inform that IA will include in the 2018 report but unilateral reporting. Reconciliation of sub-national will be included in the FY2019 report.</i>
<p>Mandatory Social Expenditures <i>(Requirement #6.1)</i></p> <p>Rating – Meaningful</p>	<ul style="list-style-type: none"> ✓ <i>This was not included in 2017 report, but will be included in the 2018 report.</i> ✓ <i>Included in 2018 report template for reporting entities to report on (disaggregated). IA anticipates Improvements in the 2018 report.</i>
<p>SOE Quasi-Fiscal Expenditures <i>(Requirement #6.2)</i></p> <p>Rating - Inadequate</p>	<ul style="list-style-type: none"> ✓ <i>To be included in SOE scoping study. IA to ensure this is documented in the 2018 report</i> ✓ <i>IA to chase up reporting entities for additional information on quasi-fiscal activities and other information.</i> ✓ <i>Not reported by OTML and KPHL.</i> ✓ <i>TOR for a scoping study into SOEs operations in the extractive sector in progress and will include findings on quasi-fiscal expenditures and recommend a way forward for MSGs deliberations. IA will include the tendering process in the 2018 report.</i>
<p>Outcomes and Impact of Implementation <i>(Requirement #7.4)</i></p> <p>Rating – Meaningful</p>	<ul style="list-style-type: none"> ✓ <i>Refers to the PNGEITI Annual Report documenting the National Secretariat's work plan and progress on certain reforms/policy agendas.</i>

File note prepared by:

Mr. Swartz Buf
Research & Data Analysis Officer
PNGEITI National Secretariat