

# Papua New Guinea Extractive Industries Transparency Initiative

Scoping Study for the 2014 EITI  
Report

8 September 2016

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8 September 2016

Private and confidential

Re: Scoping Study for the 2014 PNG EITI Report

Dear Lucas

Thank you for the opportunity to work with the Papua New Guinea (PNG) Extractive Industries Transparency Initiative (EITI) National Secretariat, the Multi-stakeholder Group (MSG), and the PNG Government in relation to the preparation of PNG's second EITI reconciliation report (the '2014 EITI report'). We have now completed Phase 0 of the services, relating to the preparation of PNG's EITI Scoping Study Report (the 'Scoping Study'), which sets out the proposed scope of work for the 2014 EITI report.

This Scoping Study has been prepared in accordance with the Terms of Reference for the Independent Administrator, and the contract between Ernst & Young and the PNG EITI National Secretariat, dated 18 July 2016, and as discussed with members of the MSG throughout the course of the work. This Scoping Study represents our findings, analysis, and recommended approach to the 2014 reporting process. Once agreed with the MSG, the scope of work set out in this document will form the basis of the project planning and execution mapped out in the Inception Report.

The nature and content of the information we have provided has necessarily reflected the specific scope and limitations of our engagement, the amount and accuracy of information provided to us and the timescale within which the data was required. Certain areas for further follow-up have been communicated to you.

We appreciate the cooperation and assistance provided to us during the course of our work. Should you have any questions in relation to our report, please do not hesitate to contact either Madhu Nair on +675 305 4100, or Matthew Bell on +61 411 647 114.

Yours sincerely

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# 1. Executive Summary

The preparation of Papua New Guinea's ('PNG') second Extractive Industries Transparency Initiative ('EITI') Report, covering the period 1<sup>st</sup> of January 2014 to 31<sup>st</sup> of December 2014, presents an opportunity for the Government of PNG to continue its progress towards enhanced transparency and accountability around its management of natural resource wealth. PNG's 2014 EITI Report must leverage the strong foundations for EITI reporting established through years of the Multi-Stakeholder Group's (MSG) planning and the preparation and publication of PNG's 2013 EITI Report<sup>1</sup>. Further, it needs to respond to reflect the updated EITI Standard<sup>2</sup>, and address any gaps identified to ensure successful validation of the 2014 EITI Report.

The objective of this scoping study is to inform the Papua New Guinea (PNG) Multi-Stakeholder Group (MSG)'s discussions regarding the scope of information to be published in PNG's second EITI Report. Recommendations made in this scoping study will help to seek to ensure that the content of PNG's second EITI Report is timely, reliable, comprehensive, and comprehensible; further, that progress is demonstrated against the requirements of the EITI Standard (2016). This will assist the PNG MSG in meeting the requirements of the country's subsequent validation process in 2017.

This Scoping Study describes the proposed scope for the 2014 EITI Report, considering key requirements such as compliance with the 2016 EITI Standard, and addressing any identified gaps required for validation. Specifically, this Scoping Study addresses the following requirements, as set out in the Terms of Reference for the Independent Administrator:

1. An assessment of the challenges and recommendations from the first Report specifically in relation to data and information gaps identified;
2. An assessment of reporting streams and materiality thresholds for revenue streams and companies to seek to ensure what is included in the report both meets the EITI Standard (2016) and can be achieved by relevant government agencies and companies;
3. A discussion of any additional contextual information that should be part of the 2014 EITI Report;
4. An assessment of the types of assurances that are needed to seek to ensure that the data submitted by reporting entities is credible; and
5. Identifying any opportunities for the MSG to consider the feasibility of extending the scope of EITI reporting beyond the minimum requirements to address the objectives outlined in the 2016 EITI Work Plan.

## 1.1 Addressing data and information gaps from the 2013 EITI Report

The 2013 EITI Report provided detailed findings and recommendations, linked to each of the EITI Requirements. Each finding was prioritised, with 'key' findings to be implemented in the short-term, as they deemed to potentially have a material affect on the integrity and robustness of the EITI report, and may therefore impact on the outcome of the validation process for PNG's EITI report for the 2014 calendar year.

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<sup>1</sup> 2013 PNG EITI Report, <http://www.pngeiti.org.pg/download/pngeiti-report-2013/>, Accessed 6 August 2016

<sup>2</sup> EITI Standard (2016) <https://eiti.org/node/4922#download>, Accessed 6 August 2016

Full details of findings and recommendations from the 2013 EITI Report are provided at page 28.

Through the preparation of the 2013 EITI Report, we are keenly aware of the challenges presented by these gaps in systems and processes, and issues with data quality. In developing our approach to the 2014 EITI Report, we have considered the limitations in systems and processes, as outlined above. We note, however, that it is outside the scope of the 2014 EITI Report to address the gaps identified for the 2013 reporting period. In Section 2 we outline some potential mechanisms for responding to these challenges.

## 1.2 Revenue streams and materiality

In developing our recommended materiality threshold for the 2014 EITI Report we have had regard to the materiality requirements set out in the EITI Standard, which states that:

*Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report.*<sup>3</sup>

Consistent with the 2013 EITI Report, we suggest that the MSG includes all revenue streams that contribute two per cent or more to the total known revenue received by the government from the mining and oil and gas sectors. Two per cent has been selected as the threshold as it is within the range usually applied for determining a material misstatement in the auditing of financial accounts, and is broadly consistent with materiality thresholds used for other EITI compliant countries. Lowering the materiality threshold further will not significantly increase coverage of the report. Further, we have included those revenue streams that are below this quantitative threshold, but which are considered potentially material based on our qualitative definition of materiality.

On this basis, the data to be collected for the 2014 EITI Report will remain largely consistent with the revenue streams for the 2013 EITI Report. The revenue streams, and receiving entity, are set out in Figure 1, below. Significant efforts will be focused on improving the accuracy and completeness of these revenue streams, rather than expanding the range of data collected.

To facilitate the reconciliation process, full disclosure of the payments received by the Internal Revenue Commission ('IRC') is required. As these payments are confidential, reporting entities must sign a Tax Waiver Letter to enable the release of this data by the IRC. The timely preparation and circulation of the Tax Waiver Letter should remain a high priority for the MSG.

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<sup>3</sup> EITI Standard (2016) <https://eiti.org/node/4922#download>, page 22.

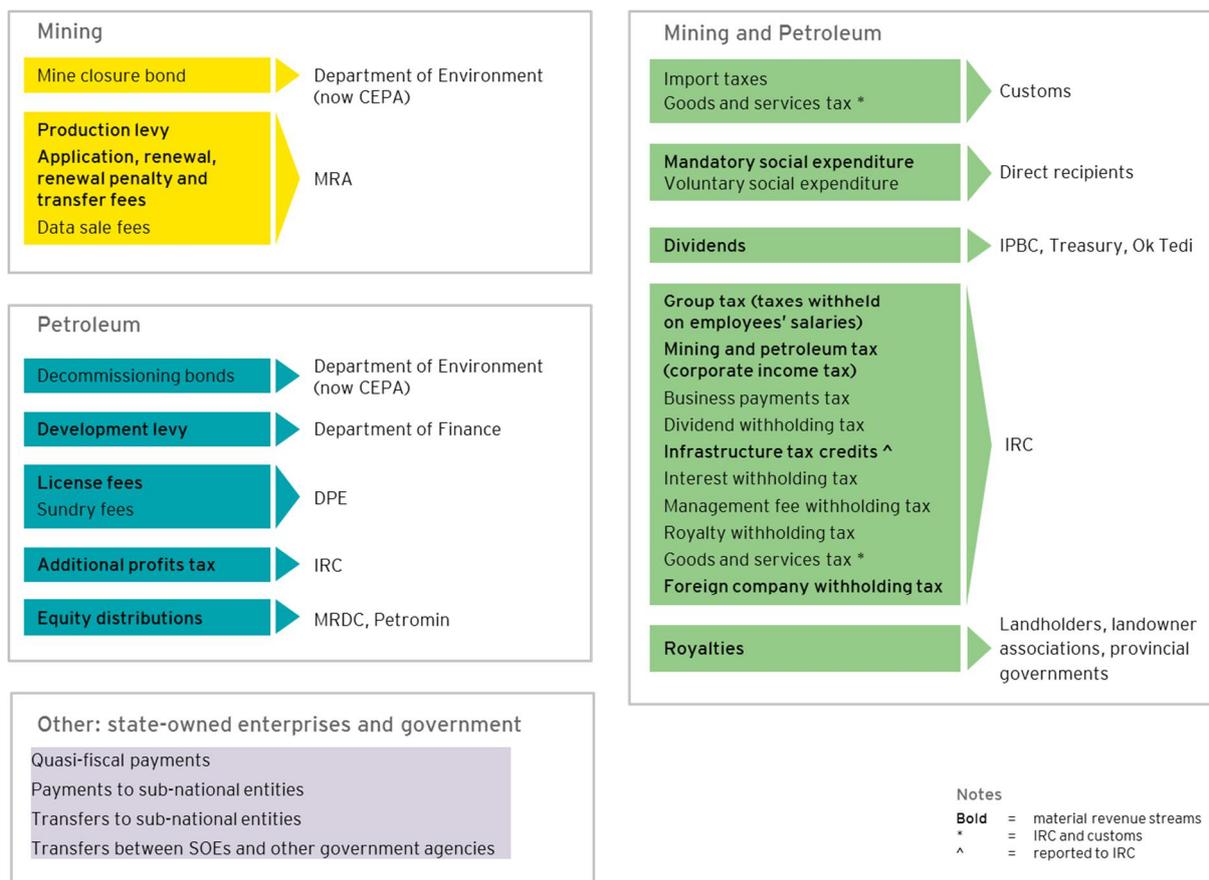


Figure 1 Revenue streams from the extractive sector, together with receiving entity

For the PNGEITI 2014 report, it is recommended that sub-national transfers and payments not be included in the data for reconciliation, but will be covered in relevant narrative sections using available information. If any details regarding royalties and levy payments are made available due to details of benefit sharing memorandum of agreements (MOAs) being made available then attempts to confirm payment made with relevant provincial government should be made.

### 1.3 Contextual information

In line with the new 2016 EITI Standard, PNG's 2014 EITI Report will need to incorporate additional contextual information in relation to the revenue streams being reported. These include the following key aspects of the report:

1. Award and transfer of licenses: Extending the contextual information reported regarding legal and institutional framework specifically surrounding the award and transfer of licenses pertaining to the companies covered in the EITI Report (Requirement 2.2)
2. Contracts: Considering opportunities for partial contract disclosure (Requirement 2.4)
3. Beneficial Ownership: Addressing deeper disclosure of beneficial ownership, as per EITI Standard (Requirement 2.5)
4. Exploration and Production Data: Investigate options for improving the reporting of exploration and production data (Requirement 3)

To assist with collecting additional contextual information for the 2014 EITI report, we propose the following approach:

- ▶ Additional face-to-face discussions with reporting entities
- ▶ Incorporation of questions regarding contextual information within reporting templates
- ▶ Increased guidance on response to questions and type of information required

## 1.4 Assurance and audit requirements

For the 2014 period, it is important for PNG to continue moving towards enhanced quality assurance, whilst being pragmatic about timelines and resources. During our meeting with the MSG on 8 August 2016, a range of approaches to improving quality assurance requirements were discussed. However, the preferred approach was to strengthen the wording of the Data Validation Statement in the template, for example:

*On behalf of (Insert Company Name) I confirm that the reported amounts are materially consistent with (Insert Company Name)'s audited financial statements for the 2014 calendar year.*

Feedback from the MSG is requested on the wording of the validation statement. We will incorporate this feedback into the data templates.

## 1.5 Opportunities to address 2016 Work Plan Objectives

Within the Terms of Reference for the 2014 EITI Report, the MSG requested that we identify opportunities for the scope of the 2014 EITI report to be extended beyond the minimum requirements to address the objectives of the 2016 Work Plan.

We will consider the 2016 Work Plan objectives in the way we execute our procedures for the 2014 EITI Report. This will include, for example:

- ▶ Providing comprehensive guidance material and support to reporting entities (Objective One)
- ▶ Preparing a complete and compliant 2014 EITI Report (Objective Two)
- ▶ Maintaining regular communications with the MSG and key industry, government and civil society stakeholders (Objective Three)

EY would also be pleased to assist the MSG to address the Work Plan Objectives through the provision of additional services including:

- ▶ Developing additional scopes of work and project plans for selected activities included in the Work Plan, and
- ▶ Implementing a selection of projects.

A range of possible services, linked to the 2016 Work Plan Objectives, are outlined in Section 6 of this Report. We would be pleased to discuss opportunities to provide additional assistance to the PNG EITI Secretariat and MSG.

## 1.6 Preparing for report validation

The validation process for the second EITI Report will need to commence by March 2017, three years from the date Papua New Guinea was admitted as an EITI Candidate country. Beginning the validation process by this date is vital to achieving compliance with the EITI Standard (2016).

This timeline is ambitious for the EITI Report with the management of potential issues that could prolong the data collating and reporting process requiring early identification. Several issues that could impact on the smooth delivery of a project of this scope and magnitude are related to the current lag that exists between the reporting period and the preparation of reports. These include:

- ▶ The changing state of reporting entities between the reporting period and the period when the report is being prepared (e.g. there is at least one mining company that was actively producing during 2013 and 2014 that is now in receivership and unable to respond to any data requests)
- ▶ The ownership and structures of some reporting entities changing during this period, complicating the data reconciliation process
- ▶ Whilst some improvements in systems and processes for data management have been implemented, in many cases data for the 2014 period will need to be obtained from redundant and less reliable sources, despite these improvements.

As with PNG's first report for the 2013 calendar year, every effort will be made to liaise with the relevant data owners and compile the data required to carry out a meaningful reconciliation of data supplied by reporting companies with the data reported by the PNG Government. These efforts and associated recommendations for improvements will continue to assist PNG to ensure that the government receives all revenues from the extractive industries that it is supposed to and that stakeholder accountability is increased as outlined in the PNG EITI Work Plan for 2016.

## 2. Addressing data and information gaps from the 2013 EITI Report

Through the research and analysis conducted for the 2013 EITI Report, we observed a number of areas where weaknesses in systems, processes, or organisational capacity had the potential to materially impact on the quality, accuracy, and comprehensiveness of future EITI Reports. We documented our findings and recommendations in relation to these areas, and included these within the 2013 EITI Report. The full list of findings is provided at Appendix B, for reference.

Within the Terms of Reference, the MSG requested that EY comment on the process for addressing information gaps from the 2013 EITI Report. The key recommendations from the 2013 EITI Report, to which we assigned the highest priority, included:

- ▶ Implementation of a reliable electronic oil and gas license register by the Department of Petroleum and Energy ('DPE'), which incorporates mandatory elements of the EITI Standard
- ▶ Engagement of State Owned Entities ('SOEs') in EITI training and key MSG meetings to ensure more comprehensive revenue and contextual information from these entities
- ▶ Improving the accuracy, reliability and robustness of production data provided by the Minerals Resource Authority ('MRA'), through quality assurance, consistent units of measurement, and auditing
- ▶ Finalisation of the DPE compliance review, and implementation of associated recommendations
- ▶ Modernisation of government payment systems, including the introduction of electronic payment systems and appropriate processes and procedures to minimise fraud
- ▶ Improving the consistency of information shared between Government departments
- ▶ Implementing a credible assurance process for data provided by reporting entities

### 2.1 Overview of PNG's progress against 2013 EITI Report recommendations

Varying degrees of progress have been made by the MSG in responding to each of these recommendations since the publication of PNG's first EITI Report. At the time that this Scoping Study was prepared, the indication from the MSG was that progress is likely to be made for the following recommendation with noticeable outcomes to be evident in the content of the 2014 EITI Report:

- ▶ Recommendation: Obtain comprehensive revenue and contextual information from State Owned Entities ('SOEs') through engaging them in EITI training and key MSG meetings
- ▶ Progress: SOEs are slowly getting involved in MSG meetings and there is a positive indication that DPE and MRDC will be engaged in the reporting process for the 2014 Report. To encourage further involvement from all reporting entities, the Secretariat is organising additional consultation with SOEs and government entities such as DPE and Finance before the reporting templates for the 2014 EITI report are distributed

Although actions are being implemented to address the other recommendations made in the 2013 EITI report (as outlined in the 2016 Work Plan<sup>4</sup>), the outcomes of these actions are not likely to significantly impact the content of the 2014 EITI Report.

We recommend that commentary be included in the 2014 EITI Report outlining progress against each of these high priority recommendations.

## 2.2 EY's approach to working with remaining data and system gaps

For the 2014 EITI Report, we understand that the majority of recommendations from the 2013 reporting process will not yet have been addressed, resulting in similar challenges for the 2014 reporting period. We are cognisant of the impact that these gaps may have on our report, and will implement measures to minimise negative impacts on report completeness and accuracy by:

- ▶ Engaging with reporting entities to walk through reporting templates and explain the information required
- ▶ Collecting data from more than one source, if possible, to facilitate cross-checking of information
- ▶ Assisting reporting entities to collect information, if required

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<sup>4</sup> PNG EITI 2016 Work Plan, <http://www.pngeiti.org.pg/download/png-eiti-2016-work-plan/>

### 3. Revenue streams and materiality thresholds

The EITI Standard requires the MSG to agree and implement a definition and approach to materiality, and thresholds for inclusion of revenue streams. EY recommends that the materiality definition and revenue streams are consistent with the 2013 reporting period.

#### 3.1 Materiality

In developing our recommended materiality threshold for the 2014 EITI Report we have had regard to the materiality requirements set out in the EITI Standard (2016), which states that:

*Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report.*<sup>5</sup>

Consistent with the 2013 EITI Report, we suggest that the MSG includes all revenue streams that contribute two per cent or more to the total known revenue received by the government from the mining and oil and gas sectors. Two per cent has been selected as the threshold as it is within the range usually applied in auditing financial accounts, it is broadly consistent with materiality thresholds used for other EITI compliant countries, and lowering the materiality threshold further would not have significantly increased coverage of the report. Further, we recommend including those revenue streams that are below this quantitative threshold, but which are considered potentially material based on our qualitative definition of materiality.

Through the preparation of the 2013 EITI Report, we found that data for a number of the identified material revenue streams was unavailable, not collected centrally, or restricted through confidentiality agreements. Figure 2 below summarises the percentage contribution of revenue streams based on data that was able to be captured in the 2013 EITI Report.

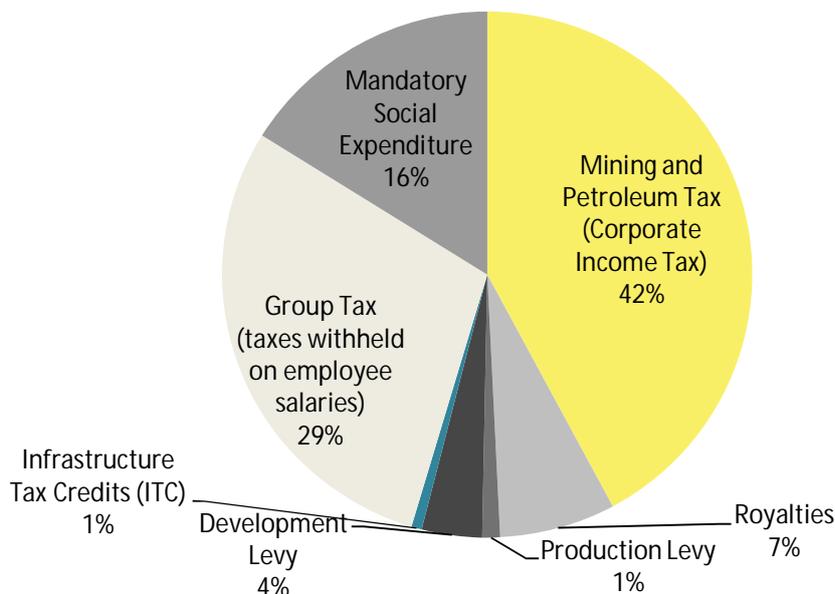


Figure 2: Revenue streams by percentage contribution (based on data captured in the 2013 EITI Report)

<sup>5</sup> EITI Standard (2016) <https://eiti.org/node/4922#download>, page 22.

This data is not a complete representation of all material revenue streams identified in the 2013 EITI Report and as such, significant efforts will be focused on improving the accuracy and completeness of material revenue streams for the 2014 EITI Report, rather than expanding the range of data streams collected.

On this basis, the data to be collected for the 2014 EITI Report will remain consistent with the revenue streams for the 2013 EITI Report. These revenue streams, and associated reporting entities, are set out in Sections 3.2 and 3.3, below with recommendations in relation to improving the level of disclosure for the second report.

If the reporting process reveals further barriers that had not been previously identified – or access to information that was previously considered inaccessible – we may revisit the scope of the second report in consultation with PNG EITI.

### 3.2 Revenue streams

The 2013 Scoping Study identified a number of revenue streams from the extractive sector in PNG, along with the receiving entity. These are summarised in Figure 3 below.

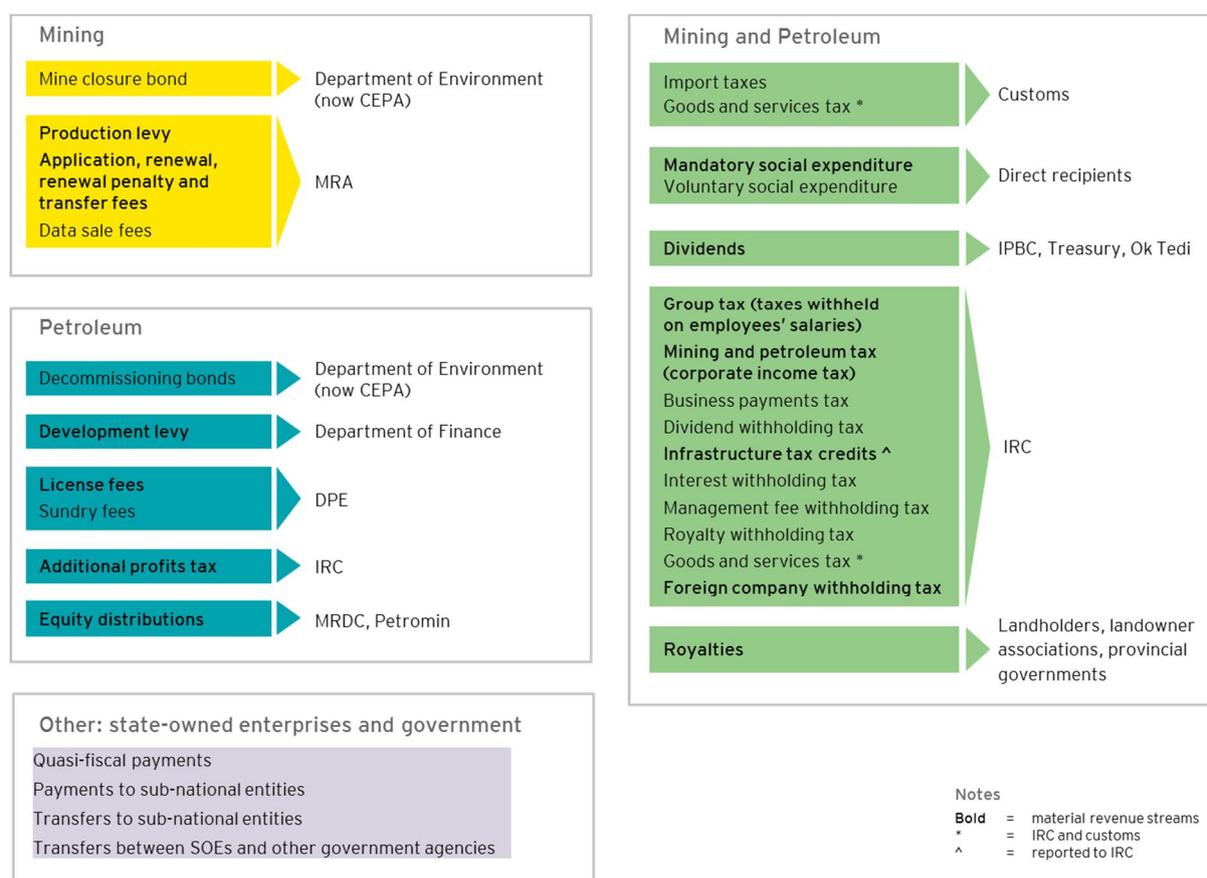


Figure 3 Revenue streams from the extractive sector, together with receiving entity

Table 1 sets out the revenue streams to be included in the 2014 report, together with recommended approach and other considerations.

Table 1 Revenue streams included in the 2013 EITI Report and recommendations for 2014 EITI report

Revenue Stream	Government recipient	Notes from 2013 EITI Report	2014 Recommendations
<b>Mining and petroleum revenue streams</b>			
1. Mining and Petroleum Tax (Corporate Income Tax)	Internal Revenue Commission (IRC)	Partially reconciled	Reconcile - Require early and timely circulation of IRC tax waiver letter to improve level of reconciliation.
2. Group Tax (taxes withheld on employee salaries)	IRC	Declared unilaterally by IRC. Companies were not requested to report group tax	Reconcile - To be requested by reporting companies and reconciled with data declared by IRC
3. Royalties	DPE and MRA (then State, provinces, landowner groups, other trusts) Distribution of royalty payments are made in accordance with the benefits sharing agreements of each project	Partially reconciled Not all reporting templates were complete and the MRA was in the process of retrieving hard copy reports from reporting entities and completing data entry for years 2013 to 2015.	Reconcile - Engage early in the reporting process with MRA to assess progress of the continued data entry for royalty payments.
4. Dividends	Department of Treasury and Department of Mineral Policy and Geohazard Management IPBC (Kumul Consolidated Holdings)	Oil Search declared dividend payments to the General Business Trust (GBT), which is administered by the IPBC. Petromin declared a payment to a government trust that was unable to be reconciled	Reconcile - Engage early with State Owned Entities to improve reconciliation of this data in 2014 Report
5. Mandatory Social Expenditure	Paid by reporting companies to direct recipients - Mandatory social expenditures are agreed on a case-by-case basis between the government and project proponents, and these agreements are not disclosed.	Unilaterally disclosed by companies	Unilaterally disclose <sup>6</sup>
6. Infrastructure Tax Credits (ITC)	Department of National Planning and Monitoring and IRC	Partially reconciled due to delayed submission of reporting templates and data not being retained electronically by the IRC. We were subsequently advised that ITC data may also be available from the Department of National Planning and Monitoring (DNPM) although it was not approved for release by DNPM senior management at the time the 2013 EITI Report was finalised.	Reconcile - Engage with DNPM early in the reporting process to improve the completeness of reconciled ITC data in the 2014 EITI Report
7. Equity distributions	Mineral Resources Development Company (MRDC) and Petromin	Unilaterally disclosed - Only Ok Tedi disclosed equity distributions in 2013 EITI Report	Reconcile - Equity distributions should also be paid by PNG LNG in 2014
8. Assessable income	IRC	Not included in 2013 EITI Report	Unilaterally disclosed – attempt to include using data from the companies to provide a reference point for other revenue streams reported by each company

<sup>6</sup> Investigate potential to access Benefit Sharing Memorandum of Agreements (MOA) held by the MRA to provide additional context to this revenue stream

Petroleum revenue streams			
9. Development Levy	Paid by Oil and Gas Companies to DPE who deposit into nominated account. The Trust Branch within the Department of Finance administers any payments out of the trust accounts to Provincial and Local Government	We were advised that there was only one development levy trust account during 2013: the Central Moran Petroleum Development Levy Trust with ANZ bank.	Reconcile - Development Levies for the PNG LNG should be included in the 2014 EITI Report. <sup>7</sup>
10. Additional Profits Tax	IRC	None reported in 2013 EITI Report	Reconcile - APT is a component of the tax application to the PNG LNG project and will be included in 2014 report
Mining revenue streams			
11. Production Levy	MRA	Reconciled	Reconcile
12. Foreign Company/Contractor withholding tax	IRC	None reported in 2013 EITI Report	To be unilaterally disclosed by the IRC by sector where available
13. License fees	DPE, MRA and CEPA	None reported in 2013 EITI Report	To be unilaterally disclosed by the relevant authority/department where available

Based on the above revenue streams, and considering the need to streamline and improve the effectiveness of the reconciliation process, for the 2014 Report we recommend that:

- ▶ Focus of the MSG and IA should be on improving the accuracy, robustness and completeness of largely the same revenue streams as 2013, allowing for the reconciliation of a larger number of revenue streams to be reported.
- ▶ In addition to the revenue streams included last year, an attempt will be made to include:
  - ▶ Assessable income from each of the reporting companies in the 2014 EITI Report. This information will be unilaterally disclosed using data from the IRC to provide a reference point for other revenue streams reported by each company
  - ▶ Foreign Company/Contractor withholding tax to be unilaterally disclosed from the IRC
  - ▶ License fees to be unilaterally disclosed by DPE, MRA and CEPA where available and
  - ▶ Additional Profits Tax should also be included in the 2014 report in relation to the PNG LNG project

<sup>7</sup> Any additional data available as a result of the scoping study to investigate implementing EITI Standard to sub-national governments (provincial governments) and landowner associations (identified in the 2016 Work plan) will be incorporated during the reconciliation of this stream

### 3.3 Reporting Entities

Based on the Materiality recommendations outlined in Section 3.1 of this report, the reporting entities that are expected to be included in the 2014 EITI Report are outlined below. Two new operations came online during 2014, and will be included in this report:

- ▶ PNG LNG Project
- ▶ Edie Creek Mine

#### 3.3.1 Mining companies

There were nine mining companies in production during the 2014 reporting period. These are listed below (with relevant mine in parenthesis) and their locations are identified in the map in Figure 4 below:

1. Ok Tedi Mining Ltd (Ok Tedi)
2. Barrick Niugini (Porgera)
3. Lihir Gold Ltd (Lihir)
4. MCC Ramu NiCo Ltd (Ramu)
5. Newcrest and Harmony (Hidden Valley)
6. Petromin (Tolukuma)
7. Simberi Gold Co. Ltd (Simberi)
8. New Guinea Gold (Sinivit)<sup>8</sup>
9. Niuminco Edie Creek Ltd (Edie Creek)

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<sup>8</sup> New Guinea Gold apparently ceased operating in 2014, and was unable to respond to reporting requests for the 2013 PNG EITI Report

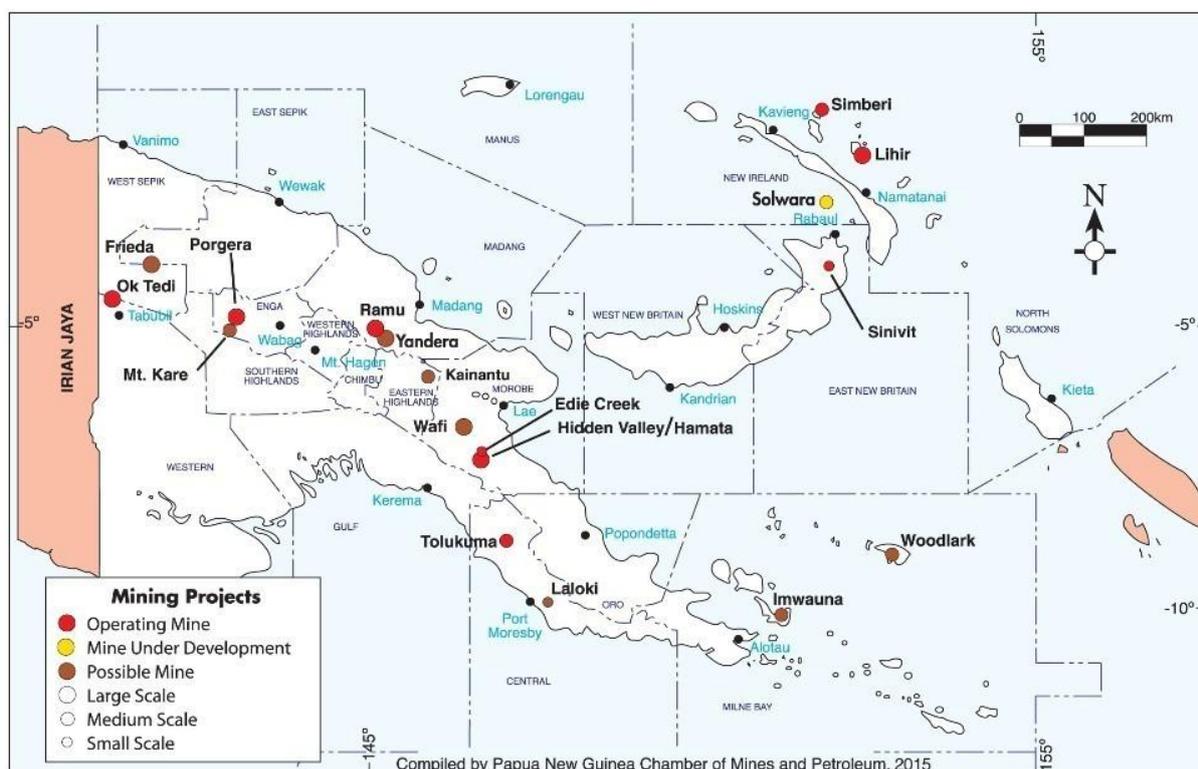


Figure 4 Mining projects in PNG, 2014<sup>9</sup>

### 3.3.2 Oil and gas companies

Operators of production licences in 2014 included Oil Search Limited and ExxonMobil PNG Limited (a subsidiary of Exxon Mobil Corporation). For most revenue streams listed in Section 3.2, only the operators are required to report. However, all of the partners in the unincorporated joint ventures for each of the producing PDLs must also provide information on corporate income tax paid. The partners of these joint ventures are identified in the table below.

In 2014 the PNG LNG project began production. PNG LNG is operated by ExxonMobil PNG Limited (a subsidiary of Exxon Mobil Corporation) in co-venture with Oil Search Limited, National Petroleum Company of PNG (PNG Government), Santos, JX Nippon Oil and Gas Exploration Corporation, Mineral Resources Development Company (representing landowners) and Petromin PNG Holdings Limited.

Table 2 Oil and gas reporting entities

Operators of production Licences	Partners in Joint Ventures
Exxon Mobil	Santos
Oil Search	JX Nippon Oil and Gas Exploration Corporation
	Cue Energy
	Petromin PNG Holdings Limited
	Mineral Resources Development Company

<sup>9</sup> <http://pngchamberminpet.com.pg/mining-in-png/> (accessed 2 August 2016)

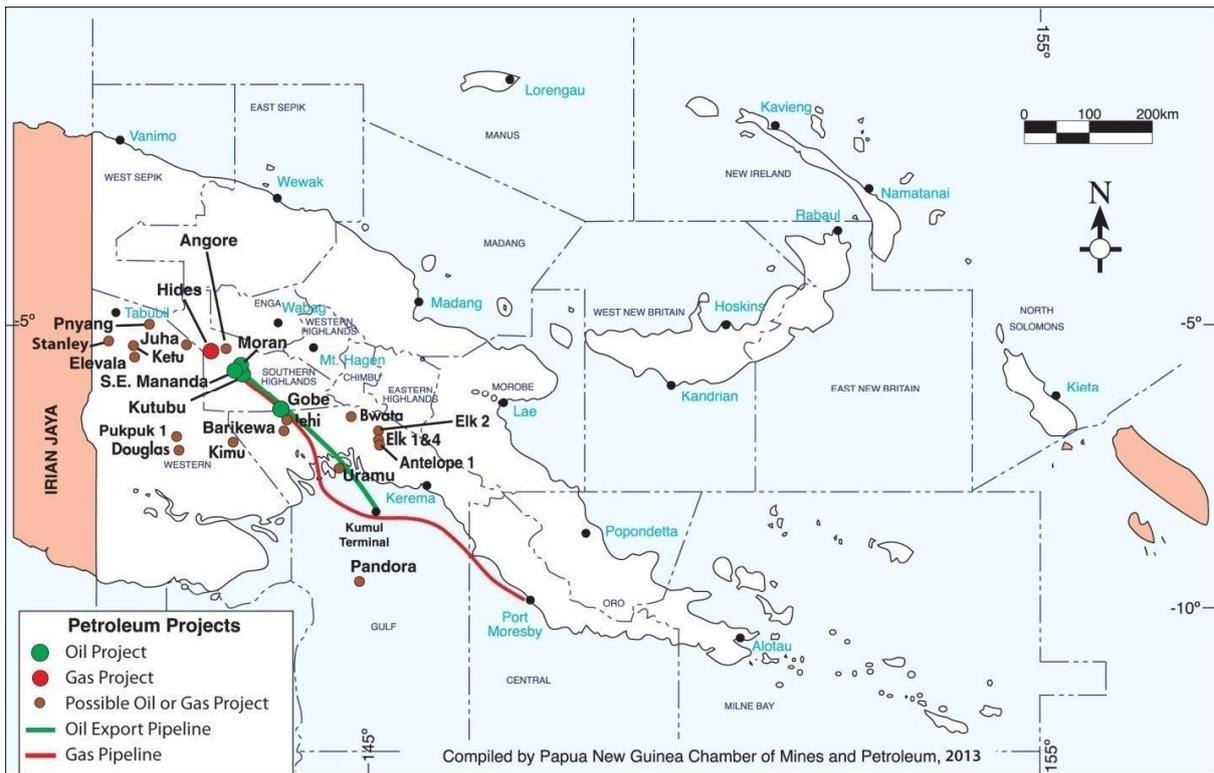


Figure 5 Oil and gas projects in PNG, 2014<sup>10</sup>

<sup>10</sup> <http://pngchamberminpet.com.pg/wordpress/wp-content/uploads/png11-3PetroleumProjectMap.pdf>

### 3.3.3 State owned entities (SOEs)

SOEs play a key role in managing and distributing PNG's wealth, and therefore the transparent disclosure of their processes for managing funds, and transferring funds to beneficiaries (landowners, subnational governments, etc.) is critical to a comprehensive EITI report. The SOEs in PNG during the 2014 reporting period are summarised in Table 3, below:

Table 3 PNG's State Owned Entities during the 2014 Calendar Year

Column one	Column two
Independent Public Business Corporation (IPBC) (Became Kumul Consolidated Holdings in August 2015)	<p>100 per cent state-owned statutory corporation. Formed under an act of parliament (2002, amended in 2015).</p> <p>Most SOEs in PNG are not owned directly by the state, but by a trust, the General Business Trust (GBT). The IPBC (now Kumul Consolidated Holdings) manages the GBT, with the dual role of trustee and SOE owner monitor.</p>
Mineral Resources Development Company Limited	<p>100 per cent state-owned enterprise, established by an act of parliament.</p> <p>MRDC acts as a trustee shareholder for beneficiary landowners and provincial governments. Under the PNG Oil and Gas Act, the MRDC is responsible for managing petroleum royalties, future generation and community infrastructure trust funds.</p>
National Petroleum Company of PNG Limited (Became Kumul Petroleum Holdings Limited in June 2015)	<p>First incorporated in June 2008 under the name Kroton No. 2 Limited. In 2010 the name was changed to National Petroleum Company of PNG (Kroton) Limited (NPCP Kroton), at which time it was mandated by the state to be a special purpose vehicle to hold and manage the state's 16.57 per cent interest in the PNG LNG Project.</p> <p>On 2 September 2014, the NEC approved the establishment of NPCP Holdings Ltd as a wholly-owned subsidiary of IPBC and directed that all petroleum assets of the state, including the Oil Search shares held by the Department of Treasury, all petroleum assets held through Petromin and the NPCP Kroton shares held by IPBC, be consolidated into NPCP Holdings Ltd. The shares of NPCP Kroton Ltd held by IPBC were transferred to NPCP Holdings Ltd on 17 December 2014.</p> <p>The Kumul Petroleum Holdings Limited Authorization Act 2015 was passed in June 2015, changing the name of NPCP Holdings Ltd to Kumul Petroleum Holdings Ltd, and making it the state nominee for all commercial matters relating to oil and gas projects (<a href="http://kumulpetroleum.com/about-us/history/">http://kumulpetroleum.com/about-us/history/</a>).</p>
Ok Tedi Mining Limited	<p>100 per cent state-owned company that operates an open-pit copper, gold and silver mine located in the Star Mountains of Western Province. The company holds a large portfolio of exploration leases in the vicinity of its Mt Fubilan mining operations and is actively undertaking near-mine exploration. Ok Tedi is set to become part of Kumul Minerals Holdings Limited in 2016 which will hold all state-owned mining assets.</p>
Petromin PNG Holdings Limited	<p>100 per cent state owned entity created in 2007 to hold the State's assets and to maximise indigenous ownership and revenue gains in the mineral and oil and gas sectors. Petromin leverages the state's equity holdings, encouraging more production and downstream processing of oil, gas and minerals in PNG through proactive investment strategies either wholly or in partnership with other investors.</p> <p>Petromin is set to become Kumul Minerals Holdings Ltd in 2016.</p> <p>Petromin had six wholly owned operating subsidiaries during the reporting period: EDA Oil Limited, EDA LNG Limited, Tolukuma Gold (operations were ceased at this mine in late 2014), EDA Minerals, Kumul LNG Limited and EDA Energy Limited. Petromin, through its subsidiary Eda Oil Limited holds a 20.5 per cent interest in PDL5. This equates to an 11.28 per cent interest in the Moran Oil Field - one of the producing oil fields in the Southern Highlands.</p>

In preparing the contextual information for the SOEs for the 2013 EITI Report, difficulties were experienced in obtaining current and complete material on some entities. Information on the SOEs' websites was often incomplete or out-of-date, particularly for the IPBC, or non-existent in the case of the MRDC. This resulted in some relevant contextual data being out of date, conflicting with other sources of information, or unavailable to include in the 2013 EITI Report.

The 2016 work plan contains a number of activities that will enhance the availability of information from and about State Owned Enterprises participating in the extractive industries in PNG. These include:

- ▶ Monitoring and strengthening the accountability of government agencies in reporting of revenues and benefits received
- ▶ Implementing effective and efficient recording systems for government agencies to store data and to report on all payments received. Also to ensure there is capacity in key agencies to support EITI implementation and to enable them to address public policy and administrative issues in a systematic manner for the extractive sector
- ▶ Improving monitoring mechanisms for transfer of revenues from the industry and the government to sub-national levels of governments and landowner groups on Special Support Grants (SSGs), Infrastructure Development Grants (IDGs) and Business Development Grants (BDGs)
- ▶ Ensuring relevant government agencies have effective and efficient method of transferring funds and to store data and to report on all revenues paid out and ensure there is capacity in key agencies to support EITI implementation. Also government agencies effectively address public policy and administrative issues in the extractive sector

Implementation of the recommendations from the 2013 EITI Report regarding increasing engagement of SOEs in the EITI reporting process as outlined in the 2016 work plan will result in improvements in the quality of the contextual information from SOEs available in the 2014 EITI Report.

### 3.3.4 Government entities

The Government authorities and departments required to report for the 2014 calendar year include:

- ▶ Internal Revenue Commission (IRC)
- ▶ Mineral Resources Authority (MRA)
- ▶ Department of Treasury
- ▶ Department of Finance
- ▶ Department of Petroleum and Energy (DPE)
- ▶ Department of National Planning and Monitoring (DNPM)
- ▶ PNG Customs

In engaging with government entities, particular focus will be directed towards addressing gaps in data relating to sub-national payments, including:

- ▶ For oil and gas projects, development levies and royalties are paid by the oil and gas companies to DPE and DPE then distributes these to provincial governments and landowners through the MRDC
- ▶ For mining projects, in certain instances royalties are paid by the companies directly to the landowners (landowner associations, local level governments) and provincial governments on behalf of the government and proof of payments is then sent to the MRA. MRA keeps a record of payments made to the groups

Information relating to sub-national transfers and payments was difficult to obtain in the 2013 EITI Report as agreements regarding these payments are in most cases are not public and accountability mechanisms vary significantly.

For the PNGEITI 2014 report, it is recommended that sub-national transfers and payments not be included in the data for reconciliation, but will be covered in relevant narrative sections using available information. If any details regarding royalties and levy payments are made available due to details of benefit sharing memorandum of agreements (MOAs) being made available then attempts to confirm payment made with relevant provincial government should be made.

## 4. Additional contextual information

The transition to reporting under the new EITI Standard (2016) increases the focus on a number of areas to provide further contextual information around the revenue streams that are reported. Specifically, a deeper analysis of Beneficial Ownership is required, with disclosure of the individual person/people who own and profit from the extractive industries, as well as a focus on the continuous improvement and implementation of recommendations from previous reports. There is also a move to use existing systems for EITI data collection and making these systems transparent at the source, rather than duplicating for the purposes of creating the EITI Report. This section of the Scoping Study addresses the areas where additional contextual information can be included in the 2014 EITI Report. The following specific areas will be addressed further below:

1. Award and transfer of licenses: Extending the contextual information reported regarding legal and institutional framework specifically surrounding the award and transfer of licenses pertaining to the companies covered in the EITI Report (Requirement 2.2)
2. Contracts: Considering opportunities for partial contract disclosure (Requirement 2.4)
3. Beneficial Ownership: Addressing deeper disclosure of beneficial ownership, as per EITI Standard (Requirement 2.5)
4. Exploration and Production Data: Investigate options for improving the reporting of exploration and production data (Requirement 3)

To assist with collecting additional contextual information for the 2014 EITI report, we propose the following approach:

- ▶ Additional face-to-face discussions with reporting entities
- ▶ Incorporation of questions regarding contextual information within reporting templates
- ▶ Increased guidance on response to questions and type of information required

### 4.1 Award and transfer of licenses

The EITI Standard (2016) Requirement 2.2 states that implementing countries are required to disclose the following information relating to all licence awards and transfers taking place during the accounting year covered by the EITI Report:

- ▶ A description of the process for transferring or awarding the licence;
- ▶ The technical and financial criteria used;
- ▶ Information about the recipients(s) of the license that has been transferred or awarded, including consortium members where applicable; and
- ▶ Any non-trivial deviations from the applicable legal and regulatory framework governing licence transfers and awards.

A number of issues surrounding the completeness and transparency of information relating to the allocation and transfer of licences were identified in the 2013 EITI report. To address these issues, we will work with the MRA and DPE to understand the technical and financial criteria used for assessing licence applications and any non-trivial deviations from the regulatory regime applied in rewarding licences, during the 2014 reporting period. In particular, we will require the DPE and MRA to provide a list of all petroleum development licences, mining leases and special mining leases awarded during the 2014 reporting period.

Depending on how advanced the MRA and DPE are in addressing the recommendations of the previous PNG EITI report, we will either:

1. Reference where information regarding technical and financial criteria used for assessing licence applications is now (or soon to be) publically available for all licences and leases awarded;
2. Liaise with the MRA, DPE and the Environment and Conservation Protection Authority to access the relevant information for the licences and leases awarded during the reporting period; or
3. Reference any significant legal or practical barriers preventing disclosure in the EITI Report, including an account of government plans for seeking to overcome such barriers and the anticipated timescale for achieving them.

## 4.2 Increased disclosure of contract information

The EITI Standard (2016) states in Requirement 2.4 that EITI implementing countries are encouraged to publicly disclose any contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals. The 2014 EITI Report is required to include information relating to the PNG Governments current policies on the disclosure of contracts and any relevant reforms that are planned or underway.

Based on the previous discussions of the MSG, we recommend that:

1. Requests are made to the MRA (as the relevant Government Authority for mining lease agreements) and each of the companies reporting in the 2014 PNG EITI Report to make the conditions of their agreements public. Information included in Benefit Sharing Memorandum of Agreement (MOA) documents is a good example of where partial disclosure of contractual information may be viable for the 2014 EITI Report<sup>11</sup>;
2. Investigate where contractual arrangements regarding the agreed social expenditure can be included in the 2014 EITI Report. Disclosure of the agreed and actual social expenditure, including the beneficiaries and evidence of outcomes would add significant value to the EITI report. When agreements are confidential, there can be no way for interested parties to ensure that payments are being made in accordance with those agreements;
3. If there are instances where the information is already public (due to requirements in countries where the companies are based), include a link to the location of these agreements within the 2014 EITI Report, and;
4. Include an update on any pending changes to legislation to require agreements to be made public within the 2014 EITI Report.

We understand that the MSG discussed issues relating to disclosure of resource agreements during their meeting on 27 March 2015. The MSG felt that mining companies may feel comfortable disclosing agreements, but that oil and gas companies, being more exposed to global market dynamics, may feel that agreement details would reveal their strategy, and would thus be more commercially sensitive.

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<sup>11</sup> <http://www.mra.gov.pg/Portals/2/docs/Mineral%20Policy%202012.pdf>

### 4.3 Deeper disclosure of beneficial ownership

With the adoption of the 2016 EITI Standard (provision 2.5), the EITI has agreed that by 1 January 2020 all implementing countries will ensure that corporate entities that bid for, operate, or invest in extractive assets disclose the identity of their beneficial owners. In addition, any politically exposed persons who are beneficial owners must be identified. It is recommended that the beneficial ownership information is made available through a public register. At a minimum, the information must be included in the country's EITI Report, or the report should include a link to an online beneficial ownership information platform. In order to ensure that the necessary preparatory steps and reforms are undertaken, implementing countries are also required to agree and publish roadmaps for their beneficial ownership disclosures by 1 January 2017<sup>12</sup>.

The PNG government does not currently require companies to disclose the ultimate beneficial owners of companies producing oil and gas or minerals, and does not have a publically available register of the beneficial owners of the corporate entities in the sector.

For the purpose of the 2013 EITI Report, the beneficial ownership arrangements of each of the operating mines and producing oil and gas licences was established through reference to corporate websites and annual reports.

As per the requirements of the 2016 EITI Standard, a deeper analysis of Beneficial Ownership will be included in the 2014 EITI Report. This disclosure will aim to include, where currently available, information about the name of the beneficial owner, the nationality, and the country of residence, as well as identifying any politically exposed persons. It is recommended that a request for this information will be included in the data request templates for relevant reporting companies.

During the inception phase of reporting, we will engage with the MSG to discuss the roadmap developed during the Beneficial Ownership workshop in May 2016. Based on this information, we will conduct a preliminary assessment as to how to address beneficial ownership in the second PNG EITI Report. This assessment will include:

- ▶ Any legal barriers identified to publically release this information;
- ▶ Propose a threshold for reporting; and
- ▶ Make recommendations on how companies will report beneficial ownership in future PNG EITI Reports, as well as (eventually) in public information regarding licence application assessment processes.

The Guidance Note 22 – Guidance on Beneficial Ownership will be referenced in the development of this section of the report<sup>13</sup>.

### 4.4 Improved disclosure of production data

Implementing countries are required to disclose exploration, production and export data for the year covered by the report, including total production volumes and the value of production by commodity and, where relevant, by state/region.

The mining production data provided by the MRA for the 2013 reporting period was both incomplete and inconsistent. Materially different data sets were provided by the MRA at different times, and both sets showed information gaps. These gaps were acknowledged by the MRA, who have advised that they are updating their records and working with companies to address the issue.

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<sup>12</sup> <https://beta.eiti.org/GN22>

<sup>13</sup> <https://beta.eiti.org/GN22>

The 2013 EITI report noted that production data is now captured directly into the MRA's digital cadastre. It is expected that these changes will be reflected in more accurate and complete mining production figures available to be included in future EITI reports.

We note also that DPE will be required to report additional production data for the 2014 calendar year, with the commencement of production from the PNG LNG project during the reporting period. This may present a challenge for the DPE, based on the poor record keeping standards in the Department observed during the previous reporting period. We will also request that mining and oil and gas companies also provide us with production data for the period, to enable comparison and analysis of the reported amounts.

## 5. Quality assurance

Requirement 4.9 of the EITI standard (2016) requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards.

For PNG's first EITI reporting period, the MSG and the Independent Administrator agreed that reporting entities would be required to have their submitted reporting templates signed by an authorised company representative, such as the Chief Executive Officer. An example of the signed statement from the 2013 reporting period is presented in Figure 6, below.

<b>Data Validation Statement</b>	
<i>General Statement: On behalf of (Insert Company Name) I confirm that the above information reflects the details of the listed revenue payments to be true and accurate for the 2013 Calendar Year.</i>	
<b>Name:</b>	
<b>Title:</b>	
<b>Authorized Signature:</b>	
<b>Email Address:</b>	
<b>Office Telephone:</b>	
<b>Date:</b>	
<b>Stamp (if applicable):</b>	

Figure 6 Data Validation Statement for the 2013 EITI Report

This is a very low level of quality assurance, as no audit or review of the reported amounts was requested or obtained. We also noted numerous inaccuracies in the data received through the 2013 reporting process, despite the implementation of this measure.

### 5.1 Quality assurance for the 2014 EITI Report

Therefore, for the 2014 period, it is important for PNG to continue moving towards enhanced quality assurance, whilst being pragmatic about timelines and resources. During our meeting with the MSG on 8 August 2016, a range of approaches to improving quality assurance requirements were discussed. However, the preferred approach was to strengthen the wording of the Data Validation Statement in the template, for example:

*On behalf of (Insert Company Name) I confirm that the reported amounts are materially consistent with (Insert Company Name)'s audited financial statements for the 2014 calendar year.*

Feedback from the MSG is requested on the wording of the validation statement. We will incorporate this feedback into the data templates.

### 5.2 Quality assurance for future EITI Reporting Periods

As the EITI reporting process matures in PNG over the next few years, it is important that the quality and robustness of the underlying data continues to improve. A range of options are available to strengthen quality assurance requirements over time including, for example:

- ▶ Requiring reporting entities to submit a letter from their independent auditors, together with their reporting templates, confirming that reported amounts are materially consistent with the financial statements for the 2014 calendar year.

- ▶ Encouraging reporting entities to implement a higher level of assurance where possible.
- ▶ Implementing a mandatory minimum level of assurance, such as:
  - ▶ Selected agreed upon procedures, conducted by the reporting entity's independent auditor.
  - ▶ A review (limited assurance) over the data reported under EITI
  - ▶ Reasonable assurance over the data reported under EITI

We recommend that the MSG considers that this is part of a staged approach to increasing the level of quality assurance over the data.

It is important to notify reporting entities early in the process of any assurance requirements for the 2015 EITI Report.

## 6. Opportunities to address 2016 Work Plan Objectives

Within the Terms of Reference for the 2014 EITI Report, the MSG requested that we identify opportunities for the scope of the 2014 EITI report to be extended beyond the minimum requirements to address the objectives of the 2016 Work Plan.

A range of possible services, linked to the 2016 Work Plan Objectives, are outlined below. We would be pleased to discuss opportunities to provide additional assistance to the PNG EITI Secretariat and MSG.

### 6.1 Objective 1: Establishment of National Secretariat Office and MSG

To ensure a well-established office for the National Secretariat with the required level of staffing to implement the 2016 Work Plan.

EY would be pleased to assist the MSG and National Secretariat by:

- ▶ Training National Secretariat team members on the EITI Requirements and Standards
- ▶ providing an understanding of the 2013 Report to new team members to enable them to understand identified gaps

EY can also provide *ad hoc* training as required to build capacity relating to knowledge on EITI Requirements and Standards where additional needs are identified by the National Secretariat Office and the MSG.

### 6.2 Objective 2: Contribution of the Extractive Industries to the Economy

To prepare and publish a 2014 EITI Report that contains accurate and complete data, and is able to be validated.

Most of the actions relating to this objective are associated with the publishing of the second EITI report and are therefore included within this scope of work.

Through the delivery of the 2014 EITI report, EY will be focusing on increasing awareness and understanding surrounding the processes and requirements of implementing the EITI 2016 Standard. A focus on early engagement, guidance and training on how to fill out the reporting templates and face to face meetings with reporting entities, including SOEs will help to increase awareness and hopefully improve reporting outcomes for the 2014 EITI Report as well as for future reporting periods.

In relation to the validation of the PNG EITI Report, EY can expand the scope of this project to include a pre-validation "gap analysis" against the 2016 EITI Standard. This process would provide the MSG with a preliminary assessment of any gaps remaining following the analysis of available government and industry data for the 2014 EITI Report.

### 6.3 Objective 3: Improve public understanding

To improve the understanding of provincial governments, local governments, landowners and communities where natural resources are being extracted.

The IA will contribute to improving public understanding of the management of extractive industries through face to face engagement with reporting entities during the data collection and validation stage of the 2014 EITI reporting process. In addition, we could assist the MSG to engage and communicate with these groups by:

- ▶ Preparing information sheets, statements and briefings on PNG EITI activities
- ▶ Preparing a condensed version of the 2014 EITI, targeted specifically at the needs of these groups
- ▶ Developing training materials, and assisting the MSG in running these training sessions

There is also an opportunity to engage members of the EY IA team in stakeholder engagement activities. They could speak as subject matter experts on the issues that have been identified in the previous EITI Report and proposed methods for improving on transparency in the reporting of revenue streams associated with the extractive industries in PNG.

## 6.4 Objective 4: Improve systems and processes

To strengthen systems and processes for revenue collection so that revenues and other benefits are received by the Government as mandated by law.

Many of the recommendations made by the IA in the 2013 report focused on addressing weaknesses in existing systems and processes. We would be pleased to assist the Government of PNG to implement the recommendations set out in the report including, for example:

- ▶ Developing specifications and designing systems and processes for payment systems
- ▶ Developing policies and procedures for revenue collections
- ▶ Undertaking the scoping study to investigate the possibility of implementing the EITI Standard to sub-national governments and landowner associations
- ▶ Drafting legislation and amendments to existing law to enable the full implementation of the EITI Standard
- ▶ Provision of audit services to key government agencies and departments, to enable up to date annual reporting

## 6.5 Objective 5: Stakeholder engagement

To engage stakeholders on issues affecting the extractive sectors in PNG, to enable them to be fully engaged in public debates and discussions.

The 2016 Work Plan identifies a number of mechanisms for engaging with industry, government and society, including workshops, conferences, meetings and media presentations.

EY could work with the MSG to develop and execute a stakeholder engagement plan, including:

- ▶ Identification of key stakeholder groups and individuals from industry, government, civil society and communities
- ▶ Undertake consultations to understand the concerns and interests of each group
- ▶ Develop a broad stakeholder engagement strategy that targets each of these groups
- ▶ Manage the implementation of the strategy

We would also be please to participate in stakeholder engagement forums as required.

## 6.6 Objective 6: Monitoring and Evaluation

To develop an effective monitoring and evaluation system for the MSG to manage the achievement of the Work Program Objectives.

The effective and efficient monitoring, evaluation and reporting of progress against milestones is critical to ensuring that PNG remains on track with achieving the objectives of its 2016 Work Program.

Whilst we acknowledge that no actions were incorporated into the Work Plan for this objective, the development and implementation of a standard project management approach would facilitate the discussion and tracking of each task within the plan. EY would be pleased to develop and implement a project management tool for this purpose.

## Appendix A Reference materials

In order to produce this scoping study, the following source documents have been included in our review:

- ▶ 2013 Scoping Study Report (<http://www.pngeiti.org.pg/download/pngeiti-scoping-study-by-deloitte-touche-tohmatsu/>)
- ▶ Outcomes and recommendations from PNG's 2013 EITI report (<http://www.pngeiti.org.pg/download/pngeiti-report-2013/>)
- ▶ The PNG EITI 2015 Annual Progress Report (<http://www.pngeiti.org.pg/download/pngeiti-2015-annual-progress-report/>)
- ▶ 2016 Work Plan (<http://www.pngeiti.org.pg/download/png-eiti-2016-work-plan/>)
- ▶ MSG Meeting Minutes (<http://www.pngeiti.org.pg/msg-meetings/>)
- ▶ EITI Standard (2016) (<https://eiti.org/document/standard>)
- ▶ 2016 National Budget Volume 1 Economic and Development Policies ([http://www.treasury.gov.pg/html/national\\_budget/files/2016/Volume1-Econ&DevPolicies.pdf](http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf))
- ▶ EITI Guidance on Beneficial Ownership (<https://beta.eiti.org/GN22>)
- ▶ EITI - Standard Terms of Reference for an EITI scoping Study June 2016 (<https://beta.eiti.org/TOR-scoping>)

## Appendix B Findings and recommendations from 2013 EITI Report

This section presents the detailed findings, as published in the 2013 EITI Report. These findings were developed through the conduct of our research, stakeholder engagement, data collection and reconciliation. Some of the findings were included to provide the PNG EITI National Secretariat and the MSG with feedback regarding areas that could benefit from process improvements, as identified by our procedures. Other findings were presented to provide feedback in relation to leading practice. The priority rating that we assigned to our findings is set out in Table 4, below.

Table 4: Definitions of priority rankings for findings

Priority	Explanation
μμμ = Key	Implement actions in the short term, as the finding identified may materially affect the integrity and robustness of the EITI report, and may impact on the outcome of the validation process for PNG's EITI report for the 2014 calendar year.
μμ = Important	Implement actions in the medium term, as: <ul style="list-style-type: none"> <li>• The finding identified may affect the verifiability of the reported amounts; and/or</li> <li>• The finding relates to a requirement of reporting 'in accordance' with the EITI standard.</li> </ul>
μ = Discretionary	Implement actions in the long term, as: <ul style="list-style-type: none"> <li>• The finding relates to better practice for the calculation and reporting of EITI contextual information or data; and/or</li> <li>• The finding relates to leading practice that goes beyond EITI compliant reporting.</li> </ul>

We recommended that the PNG EITI National Secretariat and the MSG takes action to address the 'key' findings prior to the commencement of the 2014 EITI report as this key finding could potentially impact the validation of the 2014 report. The 'important' findings should be addressed over the next year, and the 'discretionary' findings relate to leading practice advice and should be addressed in the longer term.

Table 5 Detailed findings and recommendations from 2013 EITI Report

EITI Requirement	Status	Finding	Recommendation
<p>1. Effective oversight by the multi-stakeholder group</p>	<p>μμ</p>	<p>Breadth of companies, government agencies and CSOs participating in the MSG</p> <p>In preparing the report, we drew heavily on the support, guidance, and networks of the MSG. Members of the MSG were engaged in the EITI reporting process, and recognised the importance of enhanced transparency for the extractives sector. Members of the MSG provided information to us in a timely manner, and supported us in our role as the independent administrator.</p> <p>A number of reporting entities were not members of the MSG. These included some government departments, mining companies and oil and gas companies. Through engaging with these entities during the conduct of our procedures, we noted that non-MSG members were, in general, less supportive of the reporting process, required much more follow-up from the independent administrator, and took longer to respond to requests for information.</p> <p>Importantly, we note that no SOEs were members of the MSG during the reporting period. Whilst Ok Tedi, Petromin and the NPCP were engaged and supportive of the data collection process, we had considerable difficulty engaging with Kumul Consolidated Holdings (IPBC) and MRDC. These entities often failed to respond to information requests, and provided out-of-date and conflicting information. As SOEs who manage the State's investment in the extractive industries on behalf of the people of PNG, the quality and accuracy of information provided by the Kumul Consolidated Holdings and MRDC is critical to this report.</p> <p>Their lack of prior engagement in the EITI process may have been a factor in their low level of support for the first EITI report.</p>	<p>In order to enhance the engagement of key reporting entities in the reporting process, we recommend that the PNG EITI National Secretariat considers inviting key SOEs to participate in the MSG.</p> <p>If membership of the MSG is not possible for these reporting entities, we recommend that the MSG identifies appropriate ways to maintain a dialogue with these entities regarding the EITI reporting process, including, for example:</p> <ul style="list-style-type: none"> <li>• Providing regular communication of the EITI process, reporting updates, and key meetings to these organisations</li> <li>• Inviting these companies to participate in major EITI meetings or events, such as the EITI report launch.</li> </ul> <p>Further, we recommend that the government of PNG considers implementing a legislative penalty regime for entities that do not cooperate with EITI reporting requirements.</p>

EITI Requirement	Status	Finding	Recommendation
<p>2. Timely publication of EITI Reports</p>	<p>μμ</p>	<p>Time lag between reporting period and preparation of the EITI Report</p> <p>The reporting period selected for PNG's first EITI Report was the 2013 calendar year. However, preparation of the EITI for the 2013 period commenced in August 2015, with publication of the report in February 2016, more than two years after the end of the reporting period. Over this period of time there were significant changes that impacted on the ability to collect and report information relating to the reporting period, including:</p> <ul style="list-style-type: none"> <li>• Changes to the companies participating in the sector, including through acquisition, divestment and closure</li> <li>• Changes to key management personnel</li> <li>• Changes to the structure of SOEs</li> <li>• Amendments to legislation</li> <li>• Implementation of new systems and processes subsequent to the reporting period, requiring data to be extracted from legacy (and sometimes unsupported) systems</li> </ul> <p>Due to these changes subsequent to the reporting period, we were unable to collect some information.</p> <p>Also, in compiling information related to the national budget process, we noted that figures for a range of key economic indicators and revenue streams published by Treasury in the budget papers were not finalised until the release of the 2016 budget papers. There is a risk that delays in obtaining final budget data from Treasury may impact on the accuracy of data reported in the EITI Report.</p>	<p>Following the validation of PNG's 2014 report, we recommend that the MSG develops and implements a long-term project plan such that preparation of EITI reports is conducted in the first half of the calendar year directly following the reporting period. To achieve this, it would be necessary to arrange for two reports to be prepared concurrently. This could involve, for example, both the 2015 and 2016 EITI Reports being prepared in the first half of 2017.</p> <p>However, we note that in order to action the above changes, consideration would need to be made to the availability of actual budget figures from Treasury.</p>

EITI Requirement	Status	Finding	Recommendation
3. EITI Reports that include contextual information about the extractive industries	μμ	<p>Assistance in collecting and analysing contextual information</p> <p>In collecting contextual information, we relied on both public reports and information provided directly by government, companies and CSOs. However, we were unable to access reliable information for some key elements of the contextual data including, for example:</p> <ul style="list-style-type: none"> <li>• Licence allocation and registration</li> <li>• State-owned entities</li> <li>• Sub-national transfers</li> </ul> <p>These are addressed individually below.</p>	
	μμ	<p>Mining licence allocation and registration</p> <p>The licence registry for the mining industry is maintained by the MRA, which maintains an online cadastre of mining licenses. The register fulfills all EITI requirements except for commodity produced. The MRA website includes information on the different types of licenses and the application process. However, we did not receive any formal documented evidence from MRA of the assessment of financial and technical criteria as outlined above. Nor is there disclosure of non-trivial deviations from the applicable regulatory regime in awarding licenses. There is no public information relating to transfer of licenses, nor could we obtain information from the MRA.</p>	<p>To address these gaps, we recommend that the MRA:</p> <ul style="list-style-type: none"> <li>• Updates their cadastre to include information on the commodity produced.</li> <li>• Provides publicly available information on the transfer of licences, either via the cadastre, or on their website.</li> <li>• Formalises the technical and financial criteria used for assessing licence applications (if not already formalised), and communicates these to the Independent Administrator for future reporting periods.</li> <li>• Provides information to the Independent Administrator on non-trivial deviations from the regulatory regime applied in rewarding licences.</li> </ul>

EITI Requirement	Status	Finding	Recommendation
(3 Continued)	μμμ	<p>Petroleum licence allocation and registration</p> <p>The DPE maintains the license registry for the petroleum industry. Through discussions with DPE, we established that the official register of oil and gas licenses is maintained by the DPE in handwritten ledgers entered in date order. Further, the current storage facilities, represent a fire hazard and a risk of loss of data within the register.</p> <p>The handwritten ledgers were used to record licence type, location, JV partners and interests, and payment information. In the process of transcribing these registers (which can be found at Error! Reference source not found.), we identified a number of potential inconsistencies, such as incorrect licence type (PDLs being recorded as APDLs), and JV partner interests that were out of date. The nature of these hand-written documents means that there are likely other inconsistencies that were beyond the scope of the Independent Administrator to detect.</p> <p>The department does not have a website, and there is currently no publically available information on the technical and financial criteria used to award licenses or non-trivial deviations from the applicable regulatory regime in awarding licenses. The process and criteria were obtained for this report.</p> <p style="text-align: right;">PNG EITI Scoping Study for the 2014 EITI Report</p>	<p>DPE must urgently implement a reliable electronic registry system, to supersede the current paper ledger system. The system should be designed with regard to OGA and EITI requirements, including:</p> <ul style="list-style-type: none"> <li>• Names of licence holders</li> <li>• Coordinates of the licence area</li> <li>• Date of application, date of award and duration of the licence</li> <li>• In the case of production licences, the commodity being produced</li> </ul> <p>In addition, the register should be designed to enable tracking of payments made by licence holders and their JV partners. The register should be available to the public online.</p> <p>To improve the security of data and personnel within the DPE, we recommend that the DPE considers moving to a modern office facility with improved safety, security, data storage and work flows.</p> <p>All DPE staff should be trained on and apply the OGA in daily business.</p> <p>DPE should establish a website and make public the process for allocating and transferring licences, and:</p> <ul style="list-style-type: none"> <li>• Formalise the technical and financial criteria used for assessing licence applications (if not already formalised), and communicates these to the Independent Administrator for future reporting periods.</li> <li>• Provide information to the Independent Administrator on non-trivial deviations from the regulatory regime applied in rewarding licences.</li> </ul> <p>The government should ensure that DPE is adequately funded to implement the above recommendations.</p>

EITI Requirement	Status	Finding	Recommendation
(3 Continued)	μμμ	<p>State-owned enterprises</p> <p>In preparing the contextual information for the SOEs, we had difficulty obtaining current and complete material on some entities. Information on the SOEs' websites was often incomplete or out of date, particularly for the IPBC, or non-existent in the case of the MRDC.</p> <p>The SOEs showed varied levels of capacity and transparency; Ok Tedi, Kumul Petroleum Holdings (NPCP) and Petromin provide plentiful information online, and were responsive to our queries, while Kumul Consolidated Holdings (IPBC) has been described as having 'systemic lack of transparency', and we struggled to extract outdated data from the MRDC. Given the significant public funds managed by the MRDC and Kumul Consolidated Holdings (as administrator of the GBT), this is of particular concern; it denies the government and people of PNG adequate information about their interests, and leaves considerable scope for misappropriation.</p> <p>This has resulted in some relevant contextual data being out of date, conflicting with other sources of information, or unavailable to include in the report.</p>	<p>Since SOEs play a key role in managing and distributing PNG's wealth, the transparent disclosure of their processes for managing funds, and transferring to beneficiaries (landowners, subnational governments, etc) is critical to a comprehensive EITI report.</p> <p>To improve the quality, accuracy and timeliness of information provided by the SOEs, we recommend that measures are undertaken to engage them in the EITI reporting process. This could include, for example, inviting representatives of the SOEs to participate in the MSG.</p> <p>Further, we recommend that the MSG conducts EITI training for the SOEs, which specifically addresses:</p> <ul style="list-style-type: none"> <li>• The importance of EITI reporting as a tool for improving governance and transparency</li> <li>• The information required to be reported under the EITI on an annual basis, including trust funds and beneficiaries</li> <li>• The provision of contextual data templates, with detailed explanation of each revenue stream</li> <li>• Quality assurance of contextual information</li> </ul>

EITI Requirement	Status	Finding	Recommendation
(3 Continued)	μμμ	<p>Mining production data</p> <p>Mining companies provide production data to the MRA on a monthly basis as a part of the monthly royalty return lodgment process. The production data provided for the reporting period was both incomplete and inconsistent. Materially different data sets were provided by the MRA at different times, and both sets showed information gaps. These gaps were acknowledged by the MRA, who said they were updating their records and working with companies to address the issue.</p> <p>We note that production data is now captured directly into the MRA's digital cadastre. Future EITI reports will show whether the cadastre system addresses these shortcomings.</p>	<p>To address the inconsistencies in production data, we recommend that the MRA:</p> <ul style="list-style-type: none"> <li>• Adopts standard units of measurement for reporting of each mineral commodity</li> <li>• Requires mining companies to provide data to them in consistent units of measurement, to mitigate any need for conversions to be applied</li> <li>• Conducts a detailed review of data within the digital cadastre prior to the next EITI reporting process to identify and address risk areas.</li> <li>• Considers implementing regular independent audits of production data and related payments, to ensure that regulatory compliance is being maintained.</li> </ul>
	μμ	<p>Oil and gas production data</p> <p>Oil and gas companies report production data to DPE on a monthly basis. DPE is not currently performing detailed reviews or audits of production data.</p> <p>Oil Search was the only company actively producing during the reporting period. We compared the DPE figures with those reported by Oil Search in their annual report, and found them materially consistent. However, it is our belief that this is largely a reflection of having only one producing company, which limits opportunity for misstatement. As the industry expands over the coming years, existing systems are likely to be inadequate to maintain this performance.</p>	<p>To address the risk of inaccurate reporting of oil and gas production data in future reporting periods, we recommend that the DPE:</p> <ul style="list-style-type: none"> <li>• Develops and implements a digital database or cadastre to record licence details, periodic production data, and related payments</li> <li>• Develops reporting templates for monthly production reports to the DPE, including standardised units of measurement, to mitigate any need for conversions to be applied</li> <li>• Considers implementing regular independent audits of production data and related payments, to ensure that regulatory compliance is being maintained.</li> </ul>

EITI Requirement	Status	Finding	Recommendation
(3 Continued)	μμμ	<p>Implementation of DPE compliance review</p> <p>Over the past year, the DPE has been conducting a compliance review. Early findings from this review revealed a 50 per cent rate of failure to comply with requirements including:</p> <ul style="list-style-type: none"> <li>• adherence to reporting requirements</li> <li>• validity of work programs being implemented</li> <li>• payment of license fees.</li> </ul> <p>At the time of writing, it is unclear whether the compliance review has been finalised, and whether the DPE is in the process of implementing the recommendations provided.</p>	<p>We strongly recommend that the DPE finalises its compliance review, and commences implementing the recommendations as soon as possible, as the findings relate to key elements of a compliant EITI Report.</p>
4. The production of comprehensive EITI reports that include full government disclosure of extractive industries revenue, and disclosure of all material payments to government by oil, gas and mining companies	μμ	<p>Barriers to comprehensive disclosure of revenue streams</p> <p>Through conducting the research for the EITI report, we identified a number of barriers to publishing a comprehensive EITI report, including:</p> <ul style="list-style-type: none"> <li>• No legal imperative for the identified reporting entities to participate in the EITI process</li> <li>• Confidentiality of many revenue streams is protected under PNG law</li> <li>• Lack of information in relation to transfers and payments to sub-national entities</li> <li>• Some EITI definitions and indicators had no equivalent definition in PNG law</li> </ul>	

EITI Requirement	Status	Finding	Recommendation
(4 Continued)	μμμ	<p>Adequate controls to monitor movement of funds</p> <p>Cash and cheque payments remain in use. we did note through our discussions that some agencies had few or absent controls over receipts from the extractive industries. Whilst examination of controls relating to cash receipts and accounting were beyond the scope of this engagement, we observed that payments were still often made via cash or cheque, with manual processes for issuing receipts. The absence of a robust system for managing payments leaves the system vulnerable to fraud, corruption, and human error.</p>	<p>We recommend that government entities engage in a project to modernize payment systems globally. This should include, for example:</p> <ul style="list-style-type: none"> <li>• Payments being made by EFTPOS for all transactions</li> <li>• Implementing segregation of duties, and management oversight of cash processes</li> <li>• Implementing a rigorous audit program to regularly assess fraud risks.</li> <li>•</li> </ul>

EITI Requirement	Status	Finding	Recommendation
	μμ	<p><b>Budget process</b></p> <p>In preparing this report, we requested data from many government agencies. Key amongst these was Treasury, which provided information on the budget process for this report, and technical review of information related to the regulatory regime supporting the extractive industries. We appreciate the time and effort invested by Treasury in supporting the preparation of this report.</p> <p>However, we note that the process could have been streamlined if information relating to the Treasury budget process was publically available.</p> <p>Further, through our research we identified that the Budget tables do not always list underlying assumptions or methodologies. Nor were the units of measurement always defined, or consistent with those used by other government agencies (e.g. production data).</p> <p>Finally, Budget actuals show significant lag, with some 2013 figures (e.g. GDP) remaining as 'estimate' in the 2015 Budget.</p>	<p>To streamline future EITI Reports, and to provide more accessible information to stakeholders, we recommend that:</p> <ul style="list-style-type: none"> <li>• Treasury should publish clear, accessible information on the budget preparation process, preferably on its website</li> <li>• Tables in budget documents should clearly and comprehensively list relevant assumptions and basis for calculation.</li> <li>• Units of measurement should be standardised between government departments, particularly with respect to production data.</li> <li>• Treasury considers options to fast track the availability of Budget actuals, to enable more timely completion of annual EITI Reports.</li> </ul>
(4 Continued)	μμμ	<p><b>Inter-agency collaboration and standardisation</b></p> <p>Reliable reporting on EITI requirements depends in turn on robust systems for collecting and sharing data; for example production data and export data as well as revenue streams. Data reported to us from different agencies – or in some cases even from the same agency at different times – did not match, which obscures whether correct payments have been made.</p>	<p>Systems should be established to enable productive sharing of information between government agencies. This should include establishing common units for measure, conversion factors and foreign exchange rates.</p>

EITI Requirement	Status	Finding	Recommendation
	μμ	<p>Development of a legal framework to support EITI reporting</p> <p>This document is PNG's first report under the EITI, and as such, formal processes and procedures were either non-existent, or in their infancy. Further, companies and government entities had no legal obligation to participate in the EITI process, which resulted in difficulty obtaining the required information in some instances.</p>	<p>To formalise the EITI reporting process within government, and to provide reporting entities with a regulatory requirement to cooperate with the reporting process, we recommend that the PNG Government develops and implements new legislation to enshrine EITI reporting requirements in law. Specifically, this legislation should include, for example:</p> <ul style="list-style-type: none"> <li>• Criteria for identification of reporting entities</li> <li>• Materiality thresholds</li> <li>• Details of revenue streams required to be reported, and by which entity</li> <li>• Details of production data required, including standardised units of measurement</li> <li>• Time frames for reporting</li> <li>• Audit and assurance requirements</li> </ul> <p>Alternatively, the PNG Government may consider incorporating disclosures for EITI reporting in sectoral legislation, such as the MA, OGA or implementing regulations. We recommend that the PNG Government seeks advice from other EITI compliant countries in developing any legislation.</p>

EITI Requirement	Status	Finding	Recommendation
(4 Continued)	μμ	<p>Access to confidential information</p> <p>Some information that is required for EITI reporting was protected by confidentiality agreements, disclosure restrictions within the laws of PNG, or other restrictions including:</p> <ul style="list-style-type: none"> <li>• Tax payments made to IRC</li> <li>• Contracts between extractives industry and the government (e.g. no details of social payments)</li> </ul> <p>In order to obtain the information, we were required to either implement labour-intensive work-arounds (such as confidentiality waiver letters), or obtain information directly from the source. In some cases, we were unable to source information from any source due to these confidentiality restrictions.</p> <p>These restrictions limit opportunities for transparent reporting, and for additional verification and checking by the Independent Administrator of the obtained information.</p>	<p>We recommend that the Government of PNG amends legislation to enable information required for EITI reporting to be disclosed to the Independent Administrator, for the purpose of reporting in the EITI report.</p> <p>We also recommend that the Government of PNG considers removing confidentiality clauses from contracts with the resources industry, where information is required for EITI reporting. This could be limited to certain aspects of the contracts such as:</p> <ul style="list-style-type: none"> <li>• Social payments</li> <li>• Special tax rates</li> <li>• State interest in the project</li> </ul>
		<p>Social expenditure</p> <p>Mandatory social expenditures are agreed on a case-by-case, and these agreements are not disclosed. The MSG indicated that only Ok Tedi made mandatory social payments during the reporting period, and these were all publicly disclosed.</p> <p>Some companies also disclosed voluntary social expenditures, which ranged from zero to millions of kina.</p>	<p>Disclosure of both agreements and payments should be encouraged. When agreements are confidential, there can be no way for interested parties to ensure that payments are being made in accordance with those agreements.</p> <p>Companies should be encouraged to disclose their social expenditure, including beneficiaries and evidence of outcomes.</p>

EITI Requirement	Status	Finding	Recommendation
(4 Continued)	μμμ	<p>Sub-national transfers</p> <p>Information relating to sub-national transfers and payments was difficult to obtain. Some benefits to regions impacted by extractives are set out in law via royalties, equity stakes, dividends and compensation arrangements. Others are included in memoranda of understanding on a case-by-case basis. However, these agreements are in most cases not public, and accountability mechanisms vary significantly.</p> <p>Royalties and levies, particularly those received for oil and gas, are held in trust. The category, number and balance of trust accounts in use could not be reliably identified, even by the Auditor General. Additionally, Trust Account Spending has not been incorporated into State Budget Expenditure. Again, this situation leaves significant scope for abuse.</p> <p>In collecting the information, we referred to the NEFC 2013 Budget and Fiscal Report. However, the information collected by the NEFC does not currently align to the EITI reporting requirements, such as differentiating between payments and transfers.</p> <p>Auditing of government accounts is challenging due to under-resourcing and lack of capacity both of the Auditor-General's office itself and the entities reporting to it. Recent audit reports indicate serious gaps and inconsistencies, particularly with respect to provincial and local-level governments.</p>	<p>We recommend that the MSG engages the Department of Finance in a detailed review of subnational payments and transfers prior to the next EITI reporting process. The review should specifically identify all recipients of payments, account details, nature of payments or transfers being received, and itemised payments during the period. Importantly, details of the payer (whether national government or extractive industry company) should be noted.</p> <p>Further, we recommend that the NEFC considers amending future Budget and Fiscal Reports to collect information on subnational payments and transfers in line with the EITI requirements.</p>

EITI Requirement	Status	Finding	Recommendation
<p>5. A credible assurance process applying international standards</p>	<p>μμμ</p>	<p><b>Quality assurance</b></p> <p>Requirement 5.2 of the EITI standard specifies that reporting entities should provide quality assurances in relation to the data provided, where required by the MSG and the Independent Administrator.</p> <p>Due to limited time available for preparing this first report, the MSG and the Independent Administrator agreed that reporting entities would need to have submissions signed by an authorised company representative. This is a very low level of quality assurance, as no audit or review of the reported amounts was requested or obtained.</p>	<p>For future reporting periods, we recommend that reporting entities be required to obtain independent assurance or review of the reported amounts.</p> <p>We recommend that the MSG considers a staged approach to increasing the level of quality assurance over the data. The MSG could consider aligning this approach to the three levels of assurance outlined in EITI Standard requirement 5.2 (c), including:</p> <ul style="list-style-type: none"> <li>• Sign off from a senior official of the reporting entity</li> <li>• Confirmation letter from the entity's external auditor to confirm that the reported amounts are consistent with their audited financial statements</li> <li>• A letter of certification as to the accuracy of the disclosures from the entity's external auditors.</li> </ul> <p>In the future, the MSG could consider moving to a more rigorous audit program, to enhance the quality and completeness of data, through adoption of a staged approach, such as:</p> <ul style="list-style-type: none"> <li>• First reporting period: Agreed-upon procedures over the reported amounts, conducted by the reporting entity's independent auditor.</li> <li>• Second reporting period: Independent limited assurance statement in relation to the reported amounts, conducted by the reporting entity's independent auditor.</li> <li>• Third reporting period: Independent reasonable assurance over the reported amounts.</li> </ul>

EITI Requirement	Status	Finding	Recommendation
<p>6. EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate</p>	<p>μ</p>	<p>Launch event, with wide circulation list</p> <p>The MSG has demonstrated a strong commitment to ensuring that its first EITI report is both readable and accessible to a wide audience. These measures include, for example:</p> <ul style="list-style-type: none"> <li>• Scheduling a launch event, with invitees across sectors and geographies</li> <li>• Providing access to the report both online and in hard copy.</li> </ul> <p>At the time of finalising this report, we had not been advised whether the report would be translated into either Tok Pisin or Hiri Motu, the second and third official languages of PNG, after English. Further, we were not aware of whether a PNG sign language translator would attend the launch event.</p>	<p>We commend the MSG on its efforts to ensure that its first EITI Report is publicised and widely circulated.</p> <p>For future reporting periods, and in line with leading practice, we recommend that the MSG considers whether further measures to circulate the report would be appropriate. This could include, for example:</p> <ul style="list-style-type: none"> <li>• Publicising a summarised EITI Report in both Tok Pisin and Hiri Motu, if appropriate.</li> <li>• Arranging for a PNG sign language translator to attend the launch event.</li> </ul>
<p>7. The multi-stakeholder group to take steps to act on lessons learned and review the outcomes and impact of EITI implementation</p>	<p>μμμ-</p>	<p>MSG keen focus on recommendations, including providing suggestions to us for inclusions</p> <p>Based on discussions with the MSG, we have found that key members of the group are very keen to understand the issues identified through our research, and our recommendations and next steps.</p>	<p>We would strongly encourage the MSG to implement the recommendations provided in this report. In order to do this, we suggest that the MSG integrates key actions into the PNG EITI work plan, allocates persons responsible, and tracks progress against these.</p>

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