

## Timor-Leste's EITI National Working Group

### MINUTES

**10 April 2008**  
**09:30am – 12:00pm**  
**Conoco Phillips Office**  
**Dili, Timor-Leste**

#### Participants

##### *Members\*:*

Mark Sherwill	Country Manager, Conoco Phillips T-L, SA (Chair)
Manuel de Lemos	EITI Coordinator, SERN
Santina Soares	Researcher, La'o Hamutuk
Manuel Mendonça	Communication Officer, SERN
Fernando da Silva Carvalho	Banking and Payments Authority (BPA)
Domingos Lequi Siga Maria	Director of Planning, SERN
Agustinho Ramos	Petroleum Tax Division, MoF
Viriatu Seac	Researcher, La'o Hamutuk
Lisete Mendonça	Woodside
Cesar dos Santos	Woodside

##### *Absent:*

Andrew Caddy,	Finance Director, Timor Sea Designated Authority
Carlos Florindo	Program Coordinator, ETADEP
James Kernaghan	External Relations & Communications Manager, ENI Australia
Cristino Gusmao	Director, Macro Economic Division, MoF
Venancio Alves Maria	Executive Director, Banking and Payments Authority (BPA)

##### *Observers:*

Catherine Anderson	Operations Analyst, Governance, World Bank
Vidar Ovesen	Petroleum Tax Advisor, MoF
Abdur Rahman Khan	Petroleum Tax Division, MoF

##### *Guest speaker:*

Jody Burton	Partner, Assurance and Advisory, Deloitte
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#### **1. Introduction**

The Working Group reviewed the agenda for the meeting and members were introduced for the benefit of new participants. The minutes of the last meeting (31 January 2008) were confirmed.

#### **2. Deloitte presentation on the Petroleum Fund Audit and Timor-Leste EITI Report**

Jody Burton from Deloitte delivered a presentation on the recent Petroleum Fund Audit Report to the Group and circulated two (2) hard copies of materials that it had prepared, i.e., – “Compilation Report to the Ministry of Finance in Respect of EITI Return for the Year Ended 30 June 2007” and “Effective EITI Reconciliation and Reporting” (see attached).For

the Petroleum Fund Audit, Deloitte has adopted the EITI template in accordance with international EITI standards.

In Deloitte's EITI reporting experience (e.g., Azerbaijan, Kazakhstan, and Nigeria), the level of aggregation tends to be higher in countries less familiar with EITI, but often further disaggregates over time.

Important issues for the Timor-Leste Group to consider include:

- How are we going to prepare such report? Note: the WG technically doesn't prepare the report, this is usually done by the Consultant hired to prepare the EITI report Learning from others' experiences? (The new publication, "Implementing the Extractive Industries Transparency Initiative" provides good guidance in this regard; copies are available from the World Bank or at: <http://eitransparency.org/document/implementingtheeiti>)
- Who is going to compile the data? Note: this is usually the Consultant hired to prepare the EITI report
- Which reporting template to use, i.e., the one designed by Government for the Petroleum Fund Report/Audit or a modified/new version designed by the Group?
- What will be the level of aggregation/disaggregation?
- Should the Group seek more detailed information on the volumes of oil/gas to be sold, etc. (e.g., along the lines of the approach taken by Nigeria, which is described in the 'Implementing EITI' guidebook on p. 37-38)

Examples from Azerbaijan and Kazakhstan report: they produce their report only on one sheet of paper followed by discussion papers that elaborate on the numbers presented on that sheet.

Deloitte stressed that the Timor-Leste Petroleum Fund model greatly assists Deloitte to compile the audit reports, etc. because in Timor-Leste all payments and receipts are captured in one place, i.e., the Petroleum Fund. In other countries, many agencies receive the revenues from natural resources making it considerably harder to follow/ track the payments and receipts.

Deloitte responded to several questions from Working Group members on the scope and depth of Petroleum Fund audits – including specifically the ways of collating company receipts and the various ways in which companies do this. The Timor-Leste Petroleum Fund is subject to audit, however an EITI report is also required. The EITI report is not a formal audit (because the numbers it draws on are already audited) but requires that the Petroleum Fund data (i.e., government receipts) are reconciled with company payments. Reconciliation of data involves taking data from government and companies for matching. Testing the data requires testing its underlying assumptions. The Working Group will need to agree the scope of the reconciliation process, including what level of company payment and/or categories of payments should be captured (e.g., by revenue type such as corporate income tax, etc. The EITI guidebook provides some information on this on p.33). The level of materiality should also be agreed ( i.e., the level of size of payments and/or size of companies; in the case of Timor-Leste the decision may be to include all companies operating and thus all payments; in some countries where lots of small companies operate and pay only small amounts to the Government, materiality is more of an issue; this is explained in the EITI guidebook on p. 30).

Deloitte noted that there may be gaps between what an auditor does (for example Deloitte performing an audit of the Petroleum Fund) and what an EITI ‘administrator’ does since EITI is not usually a traditional audit, but simply a reconciliation of numbers that have already been audited. This can create a gap in the understanding by many stakeholders of what the EITI ‘administrator’ is expected to produce. Thus, the Working Group will need to have a clear understanding itself of the role of the EITI ‘administrator’ (sometimes called ‘auditor’) and then be able to explain that to the population if questions arise.

*Key learning:*

- The Working Group should try to minimize the ‘expectations gap’ by agreeing appropriate procedures and scope and clearly communicating this in the terms of reference for the EITI ‘administrator’.
- In the first instance, the Working Group may wish to focus on using what is already available (i.e., start with data in the Petroleum Fund Report, but nothing less than what is already shown in the audit of the Petroleum Fund, which may mean revising the EITI template in line with the detail in the Petroleum Fund Report) and then learn lessons from this for subsequent reports since this is an iterative process. Start with an understanding of the objectives of EITI, which this should lead to the desired level of aggregation and other details.

On the process, currently Deloitte requests GoTL to issue letters to companies asking them to provide Deloitte with the relevant information for the audit. Deloitte also visits the Timor Sea Designated Authority (TSDA) to collect data on deductible expenses (where an audit has already occurred); Deloitte has confidence in that process. For EITI, training companies on how to complete the EITI reporting template (whatever the final version may be) could be helpful (this has been done in other countries).

Issues of confidentiality may also arise in this process and need to be handled carefully, but auditors (who typically prepare EITI reports) are used to handling this issue. Knowing the objectives of EITI reconciliation and the information to be provided to the community is also very important for the EITI Working Group to be aware of. In line with requirements in each country and company, EITI respects confidentiality.

In responding to a member’s question on how long will it take to produce reports, Deloitte noted that in Timor-Leste it would be easiest to prepare the EITI report concurrently with the Petroleum Fund audit. It would also likely be less cost since production of the EITI report could simply be added to the terms of reference for the Petroleum Fund auditor (since the auditor is internationally competitively recruited).

Deciding the appropriate level of aggregation/disaggregation for the Working Groups is going to be very hard. (However, the level of disaggregation in the Petroleum Fund audit may serve as a guide.) In terms of the reconciliation the Working Group should keep in mind the two “key learnings” as mentioned above.

Information gaps tend to arise under the 3<sup>rd</sup> level of EITI reporting which involves testing of data (attached presentation refers).

### **3. EITI Secretariat Letter Regarding Timor-Leste EITI Candidate Country Confirmation and Validation Requirements.**

The Group discussed the letter received from the international EITI secretariat announcing Timor-Leste is an EITI candidate country. It is now the task for the Working Group to ensure that an EITI report is produced before validation takes place. And later, SERN will come up with a list of validators.

The Working Group needs to produce its first EITI report as soon as possible, hopefully by the end of the year. Timor-Leste will be subject to EITI **validation by 9 March, 2010** after fulfilling the criteria for validation processes, etc. (this includes production of the EITI report, proper involvement of civil society, etc. All validation criteria are spelled out in the Validation Guide, which is available in Tetun, including on the EITI web site:<http://eitransparency.org/document/validationguide>).

The Working Group needs to appoint the TL-EITI secretariat to work on its behalf to help make sure that the EITI report is prepared and validation is undertaken in the timeframe available. The proposal for the EITI Multi-Donor Trust Fund (MDTF) also needs to be approved by the Working Group as soon as possible. While the MDTF grant can pay for the costs of the EITI report, countries are themselves expected to pay for the costs of validation per decisions taken and endorsed by the international EITI Board.

The cost of validation will be at least 50,000 USD. TL-EITI's readiness from validation very much depends on the objectives of reconciliation (including the type of information and level of detail to be passed on to the communities). If Timor-Leste goes for a straight reconciliation of data in its existing Petroleum Fund EITI report, this would not necessarily involve much work i.e. simple confirmation and verification of data already available for the Petroleum Fund report/audit. As mentioned above, the Working Group can also improve reports over time through lessons learned.

Empowering capacity building will help minimize the cost and make the process more robust over time as the level of understanding by all stakeholders of the EITI process grows.

The Working Group should review the reports being completed for the Petroleum Fund and identify areas for improvement. To do that, the Working Group needs to identify what has or has not been done or is not covered by the Petroleum Fund report that the Working Group may wish to include in a first EITI report.

### **4. Status of MDTF Proposal and EITI Budget**

Members reviewed the documents prepared, at the request of the Group, by the observers from the IMF/World Bank on the EITI budget revision. Members also reviewed the current draft of the MDTF grant proposal.

#### **Budget**

Budget revisions reflected changes to the work plan and GoTL's financial commitment to EITI in the 2008 State Budget. Specifically, it had been agreed that GoTL will finance the local Secretariat, renting a car, and a portion of the capacity building activities. (see left hand

column of the attached budget) while the EITI MDTF will finance remaining areas (see the right hand column of the attached budget)) In line with the salary structure in Timor-Leste, the Working Group agreed a salary ceiling of USD \$1500 / month for the EITI Coordinator position.

Budget estimates for internet connection and maintenance fees are to be clarified by Manuel de Lemos. Industry is to check on the possibility of donating a car to the local EITI secretariat.

The Working Group has to secure budget approval as soon as possible as it can take up to three months for the World Bank to process the MDTF grant. ENI and civil society members of the Group need to review and approve the budget before the MDTF proposal is sent formally to the World Bank. The Secretary of State for Natural Resources needs to review and approve the MDTF before it is formally sent to the Bank.

### ***EITI MDTF Proposal***

The Working Group reviewed and discussed the Timor-Leste EITI Multi-Donor Trust Fund (MDTF) proposal. The Working Group agreed to changes:

Validation and publication costs for the validation report → changed from proposed 10,000 USD to 50,000 USD.

For the MDTF grant, members agreed that the implementing agency is the Working Group, while SERN is the principal MDTF partner, and the Ministry of Finance will sign off on behalf of GoTL. The new recruits to the local Secretariat will manage the MDTF working together with the Director of Administration and Finance, SERN and the Director of Treasury, Ministry of Finance, as Ministry of Finance must be the signatory on behalf of GoTL.

### **5. EITI Secretariat Status (Recruitment, Equipment & Office)**

Recruitment ads are now in the newspaper with a closing date of 18 April, 2008. The Working Group “recruiting team” will go through the process of selections and should be completed before the next EITI meeting.

*Schedule for Recruitment.* The new EITI secretariat staff are expected to come on board during the final two weeks of May 2008. The Working Group “recruiting team” will meet during the week of 28 April to evaluate and select candidates. The following week, 5 May, will be set aside for interviews. Week of 12 May, candidate selection and EITI meeting for that week. Week of 19 May offer the job, sign the contract. Domingos will circulate the template for the contracts for EITI Secretariat officers.

*Equipment and Office:* PCs are already allocated for the new EITI Secretariat Office and the office is currently under construction in the rear of Xanana Reading Room.

## **6. Membership Mailing List**

The mailing list of all members to be prepared by the secretariat (Outreach Coordinator and Finance and Admin Officer) as soon as they join the TL-EITI Working Group and running the secretariat in June/July 2008.

## **7. Status of the Petroleum Resource Center**

During the previous EITI Working Group meeting, the Working Group appointed a Petroleum Resource Centre “PRC” Team to prepare a PRC concept paper. This will be discussed during the next TL-EITI meeting on 15 May 2008. The concept paper may then be endorsed and discussions on possible funds to resource the PRC can follow.

## **8. Other Items**

The ConocoPhillips Office opening is scheduled for 8 May 2008 at 5:30pm – all are welcomed.

The World Bank briefly explained to the group the meaning of a new EITI term – **EITI<sup>++</sup>** (announced at the World Bank/IMF Spring Meetings in April 2008) – that it looks at the whole value chain of petroleum sector activities. Detailed information on **EITI<sup>++</sup>** will be made available in TL-EITI’s next meeting on 15<sup>th</sup> May 2008.

*Next EITI meeting, 0930am, 15 May 2008, at Conoco Phillips Office.*