# APPROACH AND METHODOLOGY

## Payment Streams

The approach and methodology have evolved over time and are kept under review by the MSG. The MSG decided that the following payment streams should be in scope for the 2017 process.

### Oil and gas sector

The following revenue streams specific to UK oil and gas production are within scope for UK EITI:

* A combined total for Ring Fence Corporation Tax (RFCT) and the Supplementary Charge (SC);
* Petroleum Revenue Tax (PRT), including any Advance Petroleum Revenue Tax (APRT) repayments received (by field);
* Petroleum Licence Fees (by licence);
* the OGA Levy; and
* Payments to The Crown Estate and Crown Estate Scotland (Interim Management) in respect of pipelines operated by companies that are engaged in UK extractive activities.

There are a number of specific issues to note in relation to some of these payment streams.

Larger oil and gas companies pay mainstream CT, RFCT and SC in instalments “in-year” (based on estimates). A number of these instalments will consist of a single payment covering all three taxes, which are allocated only at a later date, too late to be included within the reconciliation which is on a cash basis. All three taxes are taxes on profits so could be treated as a single revenue stream for EITI purposes but mainstream corporation tax paid by oil and gas producers is not related to their UK extractive activities and is therefore out of scope of the UK EITI so should not be reported.

When making their payments to HMRC, companies may elect to confirm the split between in-scope and out-of-scope payments (respectively RFCT and SC on the one hand and mainstream CT on the other).

If a company/group has not tagged its RFCT/SC payments as distinct from its mainstream CT payments under the group payment arrangement (GPA) then they report the total payments made in the period. If tagging has been used, they report only the total tagged RFCT/SC payments.

The MSG decided that PRT should be reported at the project level (i.e. by field). However, in practice, many companies pay the liability for a number of fields in one payment, covering numerous projects. To accommodate the MSG’s decision, HMRC agreed to provide a breakdown of the cash payments received by company and by field and to provide these data to the IA.

### Mining and quarrying sector

The following revenue streams for the Mining and Quarrying sector are included within the scope for UK EITI:

* Corporation Tax;
* Payments to the Coal Authority;
* Payments to The Crown Estate and Crown Estate Scotland (Interim Management); and
* Monetary payments to Local Planning Authorities as part of planning obligations.

As there is no central record of planning obligation payments, the MSG agreed these payments should be reported unilaterally by companies.

### Miscellaneous

For the avoidance of doubt, it is confirmed that the following categories of payment are not present in the context of the UK extractives sector:

* in-kind revenues;
* infrastructure provisions;
* barter arrangements; and
* transportation payments.

The MSG decided that any interest or penalty payments should be included as an element of the payment with which they are associated.

## Government Agencies

The Government Agencies currently to report for UK EITI are:

* Her Majesty’s Revenue and Customs (HMRC);
* The Oil and Gas Authority (OGA);
* The Crown Estate (TCE);
* Crown Estate Scotland (Interim Management) (CES); and
* The Coal Authority.

## Materiality Threshold

The MSG took an early decision to shadow the Reports on Payments to Governments Regulations 2014 where practicable.[[1]](#footnote-1) These regulations implement the 2013 EU Accounting Directive,[[2]](#footnote-2) which requires all EU large and publicly listed extractives companies to publish the payments they make to governments in all the countries where they operate.

For the UK EITI, in line with the above regulations, the materiality threshold is set at £86,000 (€100,000) and will apply to each revenue stream at group level. The threshold applies to the net total of payments and repayments – once the threshold has been reached in a revenue stream, then all individual payments within that stream will be included. This means that individual payments below £86,000 are included within the revenue stream total once the threshold has been reached.

## Data Collection, Completeness and Reliability

### Taxpayer confidentiality

Many countries have taxpayer confidentiality provisions within their legal frameworks. In the UK these provisions are set out in the Commissioners for Revenue and Customs Act 2005. The EITI International Secretariat publishes guidance on how to address the issue of taxpayer confidentiality. In light of this guidance, the MSG determined at an early stage to adopt a standard taxpayer waiver approach in accordance with which voluntarily participating companies provide the Independent Administrator (IA) with confidentiality waivers.

The waivers are drafted to allow for their continued use in subsequent years and remain valid until withdrawn by the company. This means that new waivers are required only for companies that are participating in UK EITI for the first time.

### Identification of in-scope companies

At present, the MSG adopt a two-pronged approach for the identification of in-scope companies, the first relating to the oil and gas sector, the second relating to the mining and quarrying sector.

**Oil and gas companies**

HMRC, TCE and CES provide the IA with a list of oil and gas groups that have made material payments or received material repayments during the reconciliation period relating to their upstream activities.

**Mining and quarrying companies**

Oil and gas production apart, there is no specific tax regime for the minerals sector in the UK. This means that mining and quarrying companies pay mainstream corporation tax on all their profits with no requirement to identify separately the tax paid on their extractive activities. Therefore, HMRC are not able to provide the IA with a list of mining and quarrying companies that make material payments for extractive activities, because the amounts paid to HMRC will often include a significant proportion of taxes on non-extractive activities.

On that basis, the MSG has adopted an approach which identifies:

* companies that made material payments to TCE or CES (as confirmed by TCE or CES);
* companies that made material payments to the Coal Authority (as confirmed by the Coal Authority); and
* companies adjudged by the MPA (the sector’s trade association) as being the largest companies operating in the aggregates sector.
* Guidance and templates were made available on-line on the UK EITI website in May 2018 for companies that self-assessed that they were in-scope for 2017.

### Collection of company payment data

The MSG developed instructions for reporting companies, including templates and guidelines, which can be found here: <https://www.gov.uk/guidance/extractive-industries-transparency-initiative>.

The reporting package includes:

* Reporting template;
* EITI (Step-by-step) guide;
* Beneficial ownership guide; and
* Confidentiality waiver.

### Data reliability and credibility

The MSG is of the opinion that companies and Government agencies are subject to robust regulatory requirements and that no additional audit and assurance should be requested for EITI purposes.

Extractive companies are asked to have their reporting templates approved by a senior official.

For government agencies, the MSG accepts that rules of government accounting in the UK apply and can be relied upon.

It is for the IA to determine whether the final assessment of the overall comprehensiveness and reliability of reconciled financial data from companies and government agencies tis satisfactory.

## Reconciliation Scope and Methodology

### Analysis of the reconciliation scope

The IA undertakes a preliminary analysis in accordance with their Terms of Reference (ToR) for the purpose of reviewing the scope of the reconciliation exercise each calendar year. This preliminary analysis covers the UK’s extractive industries and related entities (Government agencies and extractive companies).

The analysis includes:

* acquiring a good understanding of the extractive resources and industries of the country;
* reviewing the fiscal regime and other relevant revenue streams applicable to the extractive sector;
* reviewing existing data from the relevant period to determine significant revenue streams;
* reviewing materiality thresholds for revenue streams set by the MSG;
* identifying extractive companies which make material payments within the scope of the agreed material revenue streams;
* identifying Government agencies which collect material revenues within the scope of the agreed material revenue streams;
* reviewing the reporting template to be used; and
* acquiring a good understanding of assurances to be provided by reporting entities to ensure the credibility of the data made available.

### Reconciliation process

The reconciliation process consists of the following steps:

* analysis of the reconciliation scope prepared by the MSG;
* collection of payment data from Government agencies and extractive companies which provide the basis for the reconciliation;
* comparison of amounts reported by Government agencies and extractive companies to determine if there were discrepancies between the two sources of information; and
* contact with Government agencies and extractive companies to resolve the discrepancies.

### Material deviation

The current approach of the MSG is to reconcile differences for any specific company payment or for any revenue stream per company of over 1% or £10,000, whichever is the lower.

### Adjustments to the EITI Reconciliation Scope

The number of in-scope companies may be adjusted slightly during the reconciliation exercise as more information on the materiality of payments emerges.

## Beneficial Ownership

The UK EITI MSG agreed to incorporate beneficial ownership (BO) disclosure from the first report and as an ongoing reporting requirement. Accordingly, companies reporting under the UK EITI are asked to disclose their beneficial owners, that is, the identity of the people who ultimately own and control each company.

The approach to BO for UK EITI is aligned with the related provisions of the Small Business, Enterprise and Employment Act 2015.[[3]](#footnote-3) Since 30 June 2016, companies incorporated in the UK are required to submit information to Companies House on people with significant control (PSC) along with a statement of confirmation.[[4]](#footnote-4) Under the UK EITI, companies that have filed this information at Companies House were permitted to confirm their filing and provide the link to the relevant page at Companies House as a way of disclosing Beneficial Ownership.

Publicly listed companies are asked to confirm their listed status, because they are already required to provide ownership information under stock exchange requirements. Private companies are asked to identify the owners who exercise control or receive economic benefits from the company. This control or benefit could be represented by owners having shareholdings of 25% or more or be exercised through one or more intermediary companies (trusts or company partners) or by other means.

Private companies are also asked to disclose information on any owners who are identified as “politically exposed”, i.e. have political influence, or who, as family members or close associates, have links to senior political figures or government officials in the UK or abroad, and who have a share of 5% or more in the company. A senior company official is required to verify the information provided.

## Nature and extent of IA work

The IA performed that role in accordance with the International Auditing Standards applicable to related services (ISRS 4400 Engagements to perform agreed upon procedures regarding Financial Information).

The reconciliation procedures carried out are not designed to constitute an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements and as a result the IA does not express any assurance on the transactions beyond the explicit statements set out in reconciliation reports.

The IA provides recommendations where they note deviations from the EITI 2016 Standard or where they feel improvements could make the UK EITI reporting process more efficient and assist the MSG in its future reconciliation exercises. These recommendations are catalogued and addressed in the MSG’s Annual Progress Reports.

# Glossary of abbreviations for APPROACH AND METHODOLOGY

|  |  |
| --- | --- |
| APRT | Advance Petroleum Revenue Tax |
| BO | Beneficial ownership |
| CES | Crown Estate Scotland |
| CT | Corporation Tax |
| EITI | Extractive Industries Transparency Initiative |
| EU | European Union |
| GPA | Group Payment Arrangement |
| HM | Her Majesty’s |
| HMRC | Her Majesty’s Revenue & Customs |
| IA | Independent Administrator |
| ISRS | International Standard on Related Services |
| MPA | Mineral Products Association / Mineral Planning Authority |
| MSG | UK EITI Multi-Stakeholder Group |
| OGA | Oil and Gas Authority |
| PRT | Petroleum Revenue Tax |
| PSC | People with Significant Control |
| RFCT | Ring Fence Corporation Tax |
| SC | Supplementary Charge |
| TCE | The Crown Estate |
| ToR | Terms of Reference |
| UK | United Kingdom |

1. <http://www.legislation.gov.uk/uksi/2014/3209/contents/made> [↑](#footnote-ref-1)
2. <https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting> [↑](#footnote-ref-2)
3. <http://www.legislation.gov.uk/ukpga/2015/26/contents/enacted> [↑](#footnote-ref-3)
4. <http://download.companieshouse.gov.uk/en_pscdata.html> [↑](#footnote-ref-4)