APPROACH AND METHODOLOGY

1. Payment Streams

The UK EITI approach to and methodology for reconciliation have evolved over time and are kept under review by the MSG.

The approach to and methodology for the collection and publication of information on extractive-related payments to the UK government in 2021 were the same as for 2019 and 2020.

1.1. 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 TCE and CES 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 based 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 companies make their payments to HMRC, they 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 this data to the Independent Administrator (IA).

1.2. Mining and quarrying sector

The following revenue streams for the mining and quarrying sector are included within the scope for UK EITI:

- Corporation Tax (CT);
- Payments to TCE and CES; 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.

1.3. Miscellaneous

The MSG confirmed that the following categories of payment are not present in the context of the UK extractives sector:

- in-kind revenues;[1]
- infrastructure provisions and barter arrangements;[2] and
- transportation payments.[3]

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

2. Government Agencies

The Government Agencies included within the scope of UK EITI are:

- Her Majesty's Revenue and Customs (HMRC);
- The Oil and Gas Authority (OGA);[4]
- The Crown Estate (TCE); and
- Crown Estate Scotland (CES).

3. Materiality Threshold

The MSG took an early decision to shadow the Reports on Payments to Governments Regulations 2014 where practicable.[5] These regulations implement the 2013 EU Accounting Directive,[6] which requires all EU large and publicly listed extractives

[1] For more information, please refer to the EITI Guidance on the sale of the state's share of production or other revenues collected in kind (Requirement 4.2), including commodity trading: https://eiti.org/guide/in-kind
[2] For more information, please refer to the Guidance on infrastructure provisions and barter arrangements (Requirement 4.3): https://eiti.org/guide/infrastructure-barter
[3] For more information, please refer to the EITI Guidance on transportation revenues (Requirement 4.4): https://eiti.org/guide/transportation-revenues
[4] On 21 March 2022, after the period covered here, the Oil and Gas Authority (OGA) adopted the trading name of North Sea Transition Authority (NSTA).
[5] http://www.legislation.gov.uk/uksi/2014/3209/contents/made
[6] https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting

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.

Additionally, the reconciliation included companies that paid a total in excess of £1 million to the OGA, even if the company did not make any payment/repayment above the threshold (£86,000) to HMRC, TCE or CES. This means that the companies/groups that did not make material payments to either HMRC, TCE or CES but the total of their payments/repayments to the OGA exceeded £1 million were included in the reconciliation scope but only for the payments of petroleum licence fees or the OGA Levy.

4. Data Collection, Completeness and Reliability

4.1. 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 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.

4.2. Identification of in-scope companies

Due to taxpayer confidentiality, the MSG adopted a two-pronged approach for the identification of in-scope companies, the first relating to the oil and gas sector and the second relating to the mining and quarrying sector.

Oil and gas companies

The initial scope for oil and gas companies for the 2021 EITI reconciliation process included the 39 companies that participated in the 2020 EITI process.

Ten companies were added during the reconciliation process as follows:

- three companies that did not participate in the 2020 reconciliation process;
- three companies identified by HMRC as having made or received payments above the materiality threshold of £86,000 in 2021: and
- four companies identified by the OGA as having made payments above the materiality threshold of £1 million in 2021.

Based on the above, reporting templates were dispatched to 49 oil and and gas companies. Following the analysis of data collected, the list of companies initially selected was adjusted as follows:

- two companies merged in April 2021 and the new parent entity submitted a combined reporting template. Accordingly, this reduced the number of in-scope companies;
- Four companies confirmed not having made or received payments in 2021 above the materiality threshold of £86,000 to either HMRC, TCE or CES. This was confirmed by those Government Agencies. Accordingly, these companies were excluded from the reconciliation process; and
- two companies declined to participate in the reconciliation process.

Mining and quarrying companies

The reporting templates for the 2021 EITI process were dispatched to the 16 mining and quarrying companies who participated in the 2020 EITI process.

Two companies that did not participate in the 2020 reconciliation process were added.

Based on the above, reporting templates were dispatched to 18 mining and quarrying companies.

Following the analysis of data collected, the number of in-scope companies reduced as three companies declined to participate in the reconciliation process.

Guidance and templates were made available on-line on the UK EITI website in March 2022 for companies that self-assessed that they were in-scope for 2021.

4.3. Collection of company payment data

The MSG developed instructions for reporting companies, including templates and guidelines, which can be found at the following link: https://www.ukeiti.org/reporting-guidance.

The reporting package includes:

- Reporting templates.
- Guidance on EITI reporting (Step-by-step) guide;
- Beneficial ownership guide; and
- Confidentiality waiver.

4.4. 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 have been requested 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.

5. Reconciliation Scope and Methodology

5.1. 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 that make material payments within the scope of the agreed material revenue streams;
- identifying Government agencies that 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.

5.2. 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.

5.3. 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.

6. 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.[7] 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.[8] 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.

7. Nature and extent of IA work

This IA engagement was performed 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 a review in accordance with International Standards on Auditing or International Standards on Review Engagements and as a result the IA does not express any assurances on the transactions beyond the explicit statements set out in reconciliation reports.

The IA provides recommendations where they note deviations from the EITI 2019 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.

[7] http://www.legislation.gov.uk/ukpga/2015/26/contents/enacted
[8] http://download.companieshouse.gov.uk/en_pscdata.html

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
HMRC	Her Majesty's Revenue & Customs
IA	Independent Administrator
ISRS	International Standard on Related Services
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