



MARGIN OF VARIANCE

Application Discussion

February 24 - 25, 2015

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Margin of Variance in the EITI Standard

As part of the USEITI process, the Independent Administrator (IA) must reconcile the data submitted by companies and the government. The EITI Standard states:

5.3 a)

In accordance with the Terms of Reference, the Independent Administrator should prepare an EITI Report that comprehensively reconciles the information disclosed by the reporting entities, identifying any discrepancies.

“ comprehensively reconciles [...] identifying any discrepancies ”

5.3 c)

The EITI Report should include an assessment from the Independent Administrator on the comprehensiveness and reliability of the data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided. Based on the government’s disclosure of total revenues as per Requirement 4.2(b), the Independent Administrator should indicate the coverage of the reconciliation exercise.

“ [...] distinguish those discrepancies above the margin of error established by the MSG ”

IA Terms of Reference (TOR): 3.2

The Independent Administrator will comprehensively reconcile the information disclosed by the reporting entities and prepare an initial reconciliation report based on the reported data and the agreed scope for consideration by the MSG. The report will identify all discrepancies (including offsetting discrepancies) and distinguish those discrepancies above the margin of error established by the MSG.

Benchmarking to Other Countries

KAZAKHSTAN

“The percentage of unidentified discrepancies does not exceed 1 % of all the receipts to the budget, and is inessential.”

NIGERIA

“The aggregate unresolved difference are within the permissible margin of error for aggregate value of all revenues and investments flows set at zero point five percent (0.5% of the annual total) and does not require further investigation.”



GHANA

“All discrepancies were identified and resolved where possible within the time constraints.”

TANZANIA

“We were not required to investigate discrepancies if the aggregate value of such discrepancies within an individual financial flow is less than TzS 5 million of the value of the flow.”

SÃO TOMÉ & PRINCIPE

“Identification of significant differences or discrepancies”

IA Takeaway: There is no one defined international standard

Margin of Variance Considerations

SIZE OF THE MARGIN OF VARIANCE

- Absolute dollars
- As a percentage
- A hybrid approach

APPLICATION OF THE MARGIN OF VARIANCE BY LEVEL

- Company level
- Government payee level
- Revenue stream level
- A hybrid approach

POTENTIAL BARRIERS

1

Reconciling certain revenue streams:

- Payments made by company p-cards
- Payments of bonuses and royalties paid together and not separated

2

Percentage allows scaling for the size of the company; absolute value will not

Potential values to use for the percentage Margin of Variance with related dollar amounts assuming a reported value of \$1 million:

0.5%	\$5,000
1.0%	\$10,000
1.5%	\$15,000

Potential Applications for Discussion

Application of a hybrid approach for both the size and level application:

- Percentage threshold used for the company (TOTAL) level and government payee level
- Dollar value **or** percentage threshold at the revenue stream to account for potential reconciliation concerns

Government Payee	Revenue Streams	Threshold (USD \$)	Difference (%)
Payments to Office of Natural Resource Revenue (ONRR)	Royalties		(%)
	Rents		(%)
	Bonuses		(%)
	Other Revenues		(%)
	Offshore Inspection Fees		(%)
	Civil Penalties	Absolute \$ Value	
	Total		(%)
Payments to Bureau of Land Management (BLM)	Bonus and First Year Rentals		(%)
	Permit Fees		(%)
	Renewables	Absolute \$ Value	
Total		(%)	
Payments to The Office of Surface Mining, Reclamation and Enforcement (OSMRE)	AML Fees including Audits and Late Charges		(%)
	Civil Penalties including Late Charges	Absolute \$ Value	
	Total		(%)
Internal Revenue Service (IRS)	Corporate Tax Payments to Internal Revenue Service (IRS)		(%)
All Government Payments	TOTAL		(%)

Percentage threshold set specifically for each revenue stream as determined appropriate

Absolute dollar value set for certain revenue streams where determined appropriate

Proposed Application for Discussion

Hybrid approach with the following specifications:

- 0.5-1.5% threshold used for the company (TOTAL) level and government payee level
- Dollar value or percentage threshold at revenue stream level to account for potential reconciliation concerns

Government Payee	Revenue Streams	Threshold (USD \$)	Difference (%)	
Payments to Office of Natural Resource Revenue (ONRR)	Royalties		0.5%-1.5%	Use % for larger revenue streams
	Rents		0.5%-1.5%	
	Bonuses		0.5%-1.5%	
	Other Revenues		0.5%-1.5%	
	Offshore Inspection Fees		0.5%-1.5%	
	Civil Penalties		\$100,000	
	Total		0.5%-1.5%	Use \$ Value for smaller streams to avoid de minimis analysis
Payments to Bureau of Land Management (BLM)	Bonus and First Year Rentals		0.5%-1.5%	
	Permit Fees		0.5%-1.5%	
	Renewables	\$50,000		
	Total		0.5%-1.5%	
Payments to The Office of Surface Mining, Reclamation and Enforcement (OSMRE)	AML Fees including Audits and Late Charges		0.5%-1.5%	
	Civil Penalties including Late Charges	\$50,000		
	Total		0.5%-1.5%	
Internal Revenue Service (IRS)	Corporate Tax Payments to Internal Revenue Service (IRS)		0.5%-1.5%	
All Government Payments	TOTAL		0.5%-1.5%	Use % at company level

Margin of Variance Applied: Sample Template Results

The below table shows a completed template example and margin of variance application. The highlighted rows show those revenue streams where the threshold was surpassed:

Government Payee	Revenue Streams	Reported per Company (USD \$)	Reported per Bureau (USD \$)	Difference (USD \$)	Difference (%)	Threshold
Payments to Office of Natural Resource Revenue (ONRR)	Royalties	\$135,000,000	\$133,000,000	\$2,000,000	1.50%	1.00%
	Rents	8,242,000	8,222,000	20,000	0.24%	1.00%
	Bonuses	6,148,430	6,112,440	35,990	0.59%	1.00%
	Other Revenues	2,150,000	2,115,500	34,500	1.63%	1.00%
	Offshore Inspection Fees	2,146,500	2,149,500	(3,000)	-0.14%	1.00%
	Civil Penalties	978,900	848,400	130,500	15.38%	\$100,000
	Total	151,764,300	152,686,500	(922,200)	-0.60%	0.50%
Payments to Bureau of Land Management (BLM)	Bonus and First Year Rentals	2,120,225	2,123,225	(3,000)	-0.14%	1.00%
	Permit Fees	537,240	547,240	(10,000)	-1.83%	1.00%
	Renewables	-	-	-	0.00%	\$50,000
	Total	2,650,400	2,670,400	(20,000)	-0.75%	0.50%
Payments to The Office of Surface Mining, Reclamation and Enforcement (OSMRE)	AML Fees including Audits and Late Charges	7,525,800	7,505,000	20,800	0.28%	1.00%
	Civil Penalties including Late Charges	10,400	9,900	500	5.05%	\$50,000
	Total	7,533,000	7,515,200	17,800	0.24%	0.50%
Internal Revenue Service (IRS)	Corporate Tax Payments to Internal Revenue Service (IRS)	9,800	9,900	(100)	-1.01%	0.50%
All Government Payments	TOTAL	\$161,964,700	\$162,880,000	(\$915,300)	0.56%	0.50%

The government payee is out of variance but no commodity is out of variance

A specific revenue stream can be out of variance, while the government payee is not

Company payment total is dependent on payments and size