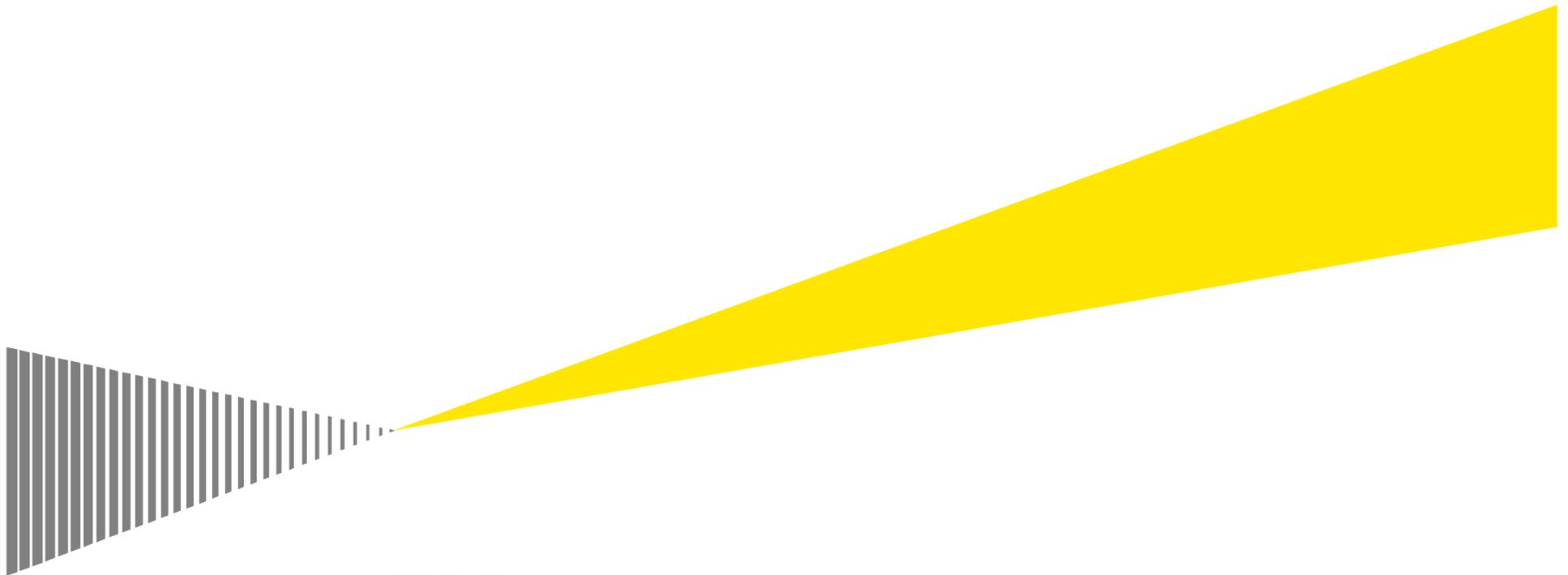


EITI 2012-2013 Scoping Study

22 December 2014



EY

Building a better
working world

Content

- ▶ Understanding your needs
- ▶ Methodology and timeline
- ▶ Evaluation Questions
 - Contextual Assessment & Reconciliation analysis
 - Data Quality Issues
- ▶ Findings & Recommendations
- ▶ Appendices & References

Understanding Your Needs



Understanding Your Needs

Background and Focus of the assignment

Background

- ▶ Extractive Industries Transparency Initiative (EITI) is a global standard for a country's revenue transparency from extractive sectors, including oil & gas, mineral and coal.
- ▶ Currently applied in 44 countries, including Indonesia
- ▶ Indonesia announced the intention to implement EITI in 2008, and formally assumed the candidacy in 2010. Presidential Regulation 26 Year 2010 laid the regulatory foundations for the implementation of the initiative in Indonesia.
- ▶ The current EITI report went for an evaluation on October 2013, and the report would need some improvement to comply with EITI standard (New standard established in 2013).
- ▶ Report covering 2012 and 2013 in accordance to 2013 EITI report standard. Indonesia maintains compliant status and that status will reconsider no later than June 2015.
- ▶ Globally, EY was independent administrators for EITI in Guatemala, Peru, Mongolia, Mozambique, Liberia and other country Reports. EY Indonesia has been already communicating with those relevant countries to ensure smooth delivery of this report.

Focus of the assignment

The Scoping study report examining compliance of 2012 and 2013 EITI reports with the new Standard are the focus of this assignment with points below:

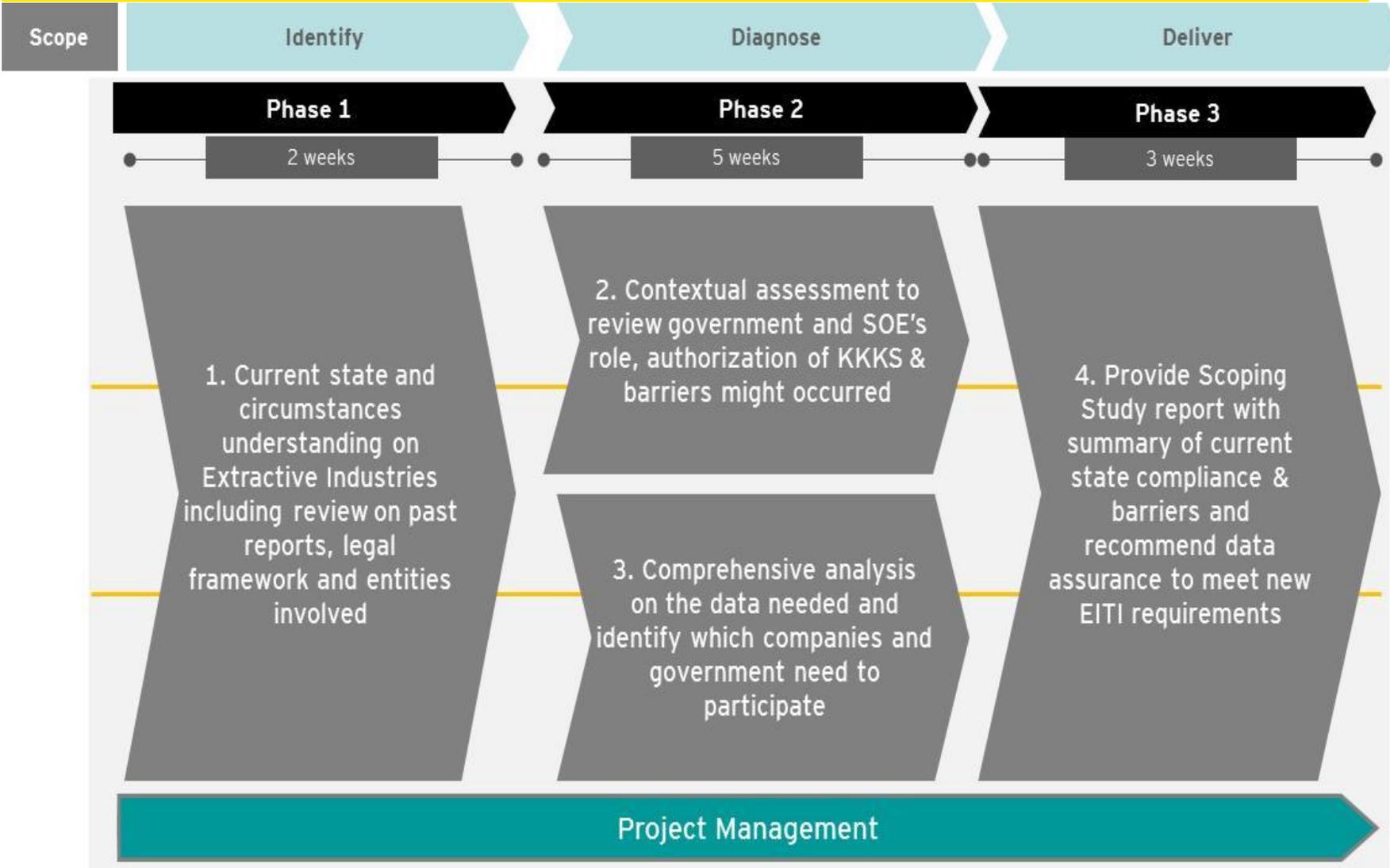
- ▶ Assessment of legal and practical limitation for EITI report establishment in 2012 and 2013
- ▶ Assessment of the materiality threshold for EITI 2012 and 2013 report
- ▶ Establish recommendation on how EITI report will use for the greater benefits of the stakeholders

Methodology and Timeline



Methodology and Timeline

Three Phases



Evaluation Questions

Contextual Assessment & Reconciliation analysis



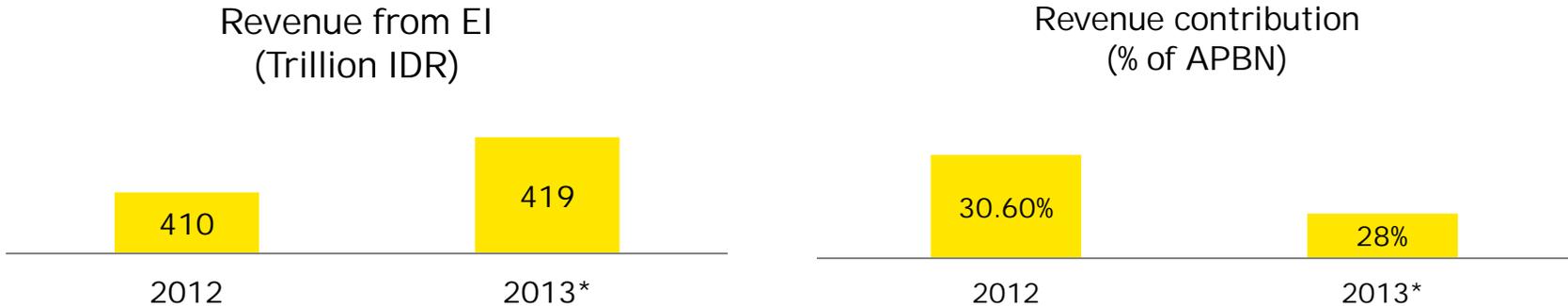
Evaluation Questions: Contextual Assessment

Review on past EITI report

EY undertakes review on the past report and defines some gaps on new EITI standard:

- 1. The review on the regulatory framework was not comprehensive
- 2. Information on production information for each commodity was not extensive
- 3. Size of extractive industries compared to GDP is not present
- 4. Information of export and extractive contribution to Indonesian Export
- 5. Employment dispersion on the extractive industries
- 6. Production concentration of each commodity

Revenues From Extractive Industries



*Estimated Income Tax-Mining

Source: LKPP 2012 & LKPP 2013

Evaluation Questions:

Revenue streams included in the reconciliation process (Oil & Gas)

REVENUE STREAM	TYPE OF REVENUES	2012 (IDR trillion)	2013 (IDR trillion)	INVOLVED ENTITIES	Included in EITI report?
TAX	Oil Income Tax	32.98	32.36	Directorate of Non-Tax Revenues; DG of Tax	√
	Gas Income Tax	50.48	56.38	Directorate of Non-Tax Revenues; DG of Tax	√
	Land and Building Tax	19.79	20.94	DG of Budget; DG of Tax	Unilateral ⁽¹⁾
	Value Added Tax	0	0	DG of Budget; DG of Tax	Unilateral ⁽¹⁾
	Other local tax and retributions/levies	0	0	DG of Budget; DG of Tax; Local Government	Unilateral ⁽¹⁾
	Import tax	0	0	DG of Tax; DG of Custom	X
	NON TAX	Revenue from Oil production	144.72	135.33	SKK Migas; DG of Oil and Gas; DG of Budget
Revenue from Gas production		61.11	68.30	SKK Migas; DG of Oil and Gas; DG of Budget	√
Revenue from Crude oil		12.34	12.94	SKK Migas; DG of Oil and Gas; DG of Budget	√
Signature bonus		Data difficult to obtain	Data difficult to obtain	DG of Oil and Gas; DG of Treasury	Unilateral ⁽²⁾
Production bonus		0.00	0.00	SKK Migas; DG of Oil and Gas; DG of Budget	√
NOC Dividend		7.26	7.80	Ministry of State Owned Enterprise; Ministry of Finance	√
Other Non-Tax	Equipment and service bonuses	0	0	SKK Migas; DG of Oil and Gas; DG of Treasury	X
	Expatriate hire fees	0	0	Ministry of Manpower	X
	Data fees	0	0	DG of Oil and Gas	X
	Join studies	0	0	related University	X
	Training of Indonesian National	0	0	SKK Migas	X
	Scholarship funds	0	0	SKK Migas	X
	Performance bonds	0	0	SKK Migas	X
	General working funds	0	0	SKK Migas	X
	Retirement funds	0	0	BPJS Ketenagakerjaan	X

Note:

(1). Revenue will unilaterally reported by DG of Budget

(2). Signature bonus will unilaterally reported by DG of Oil & Gas

Evaluation Questions:

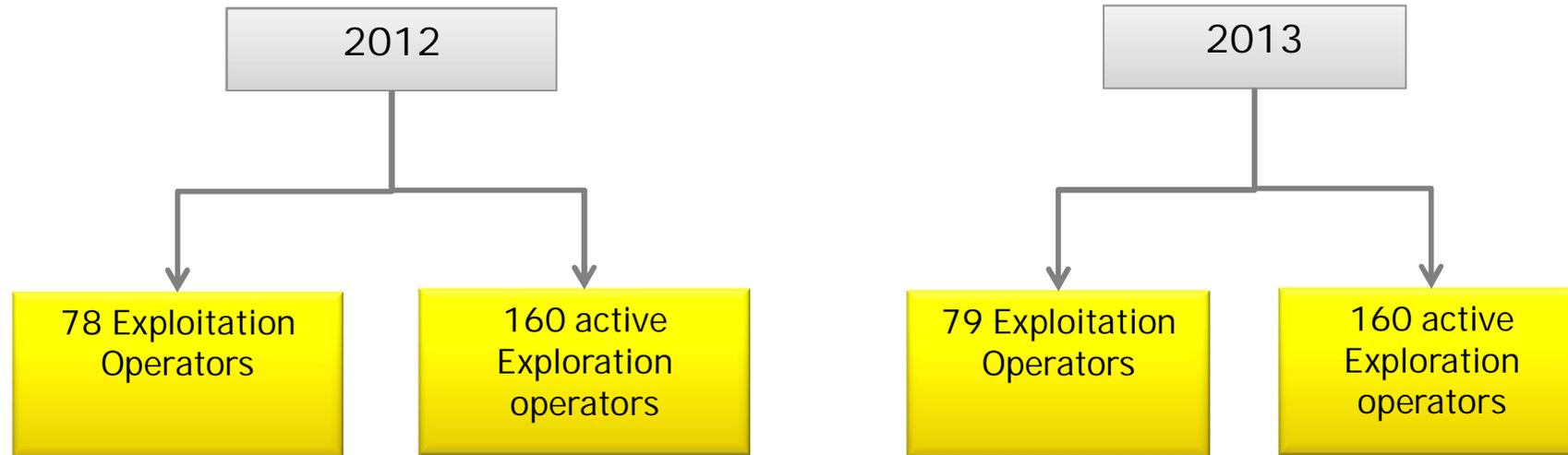
Revenue stream included in the reconciliation process (Mining)

REVENUE STREAM	TYPE OF REVENUES	2012 (IDR trillion)	2013 (IDR trillion)	INVOLVED ENTITIES	Included in EITI report?
TAX	Corporate Income Tax	60.44	Not Available yet	DG of Mineral and Coal; DG of Tax	√
	Land and Building Tax	0.57	0.63	DG of Mineral and Coal; DG of Tax; Local Government	√
	Other local tax and retributions/levies	0	0	DG of Mineral and Coal; DG of Tax; Local Government	Unilateral ^(*)
	Value Added Tax	0	0	DG of Tax	X
	Import tax	0	0	DG of Tax; DG of Custom	X
Non Tax	Royalties	15.52	18.03	DG of Mineral and Coal; DG of Treasury	√
	Dead rent	0.36	0.59	DG of Mineral and Coal; DG of Treasury	√
	Sales Revenue Share	8.14	9.79	DG of Mineral and Coal; DG of Treasury	√
	SOEs dividend	3.61	4.31	Ministry of State Owned Enterprise	√
	Forestry fee	0.47	0.59	DG of Mineral and Coal; DG of Treasury	Unilateral ^(*)
Other Non-Tax	Retirement funds	0	0	BPJS Ketenagakerjaan	X
	Fees for hiring expatriates	0	0	Ministry of Manpower	X
	Exploration licenses	0	0	DG of Mineral and Coal; DG of Treasury	X
	Production licenses	0	0	DG of Mineral and Coal; DG of Treasury	X

Note:

(*) . Revenue will unilaterally reported by Companies

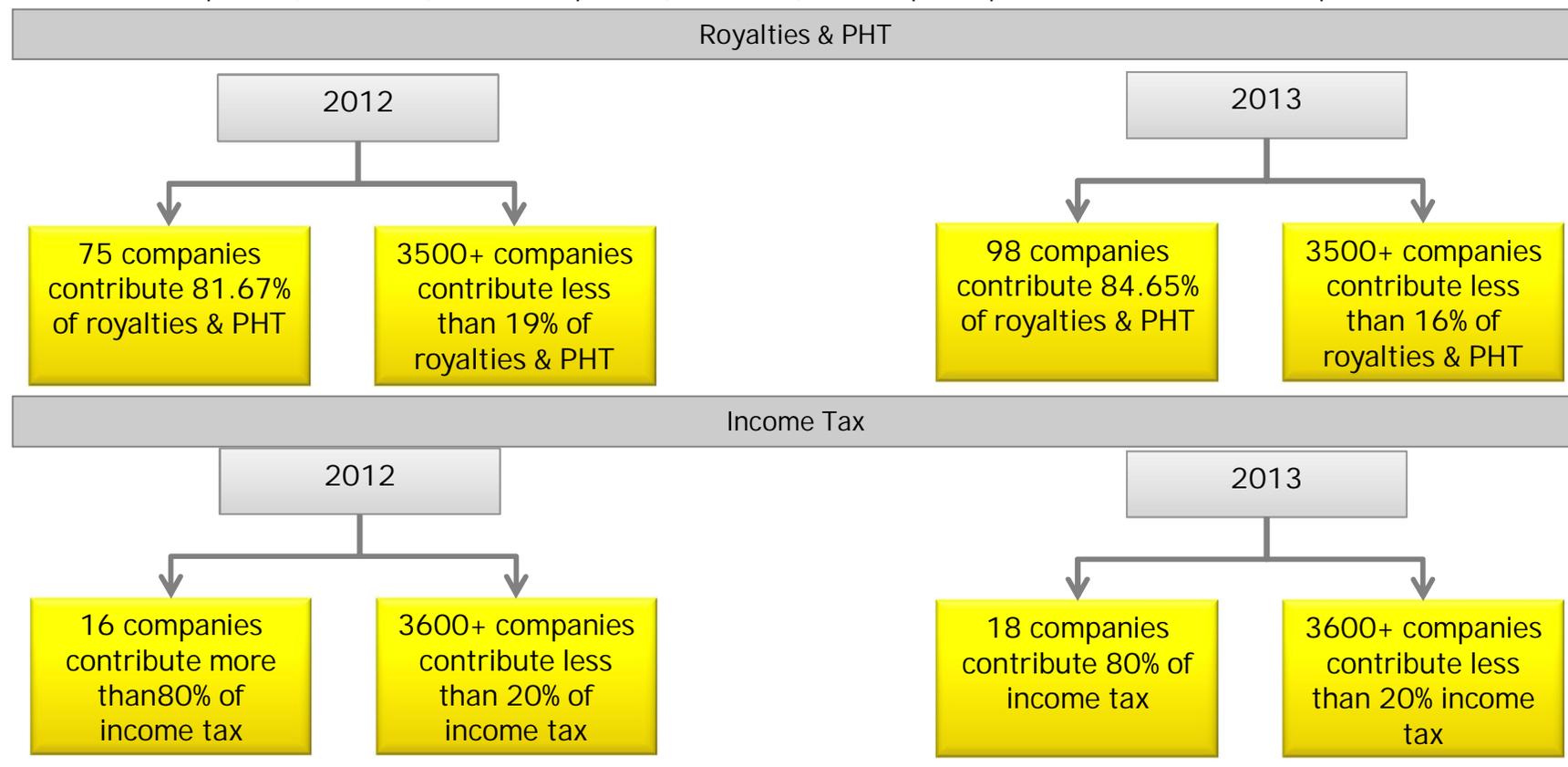
Evaluation Questions: Operators required to report (oil & gas)



- Only exploitation operators will be included in the reconciliation report since the revenue streams that need to be Reconciled only exist in the exploitation activities (please refer to revenue streams table In page 36).
- The only significant payment from exploration operators is the signature bonus. Signature bonus classified unilateral.
- Reported and will not be included in the reconciliation report. (please refer to revenue streams table in page 36).
- Detail of exploitation operators and non-operators that will be participated in the reconciliation report can be seen in the final report. (please refer to list of appendices in final report)

Evaluation Questions: Companies required to report (Mining)

- Materiality definition use pareto analysis as the based of calculation
- Pareto analysis is a method to narrow the focus of observation by choosing the biggest contributors in a sample population. Pareto analysis concept believe that in most population, 80% of contribution represented by less than 20% of population.
- Income tax information detail is protected by law, hence consultants define the company by only using 80% percentage of contribution from the biggest payer without reveal any further detail on income tax for each company.
- Total 79 companies (2012 data) & 102 companies (2013 data) need to participate in the reconciliation report



Evaluation Questions:

Government Entities Required to Report | Division of Responsibilities

<u>Entities</u>	<u>TYPE OF REVENUES/Information</u>
Directorate General of Mineral and Coal	Royalties, Sales revenue share, dead rent, production, forestry fee, Production volume, commodity price, mining license holder
Directorate General of Oil and Gas	Non-tax revenue, signature& production bonus, production data; data fee, license holder
SKK Migas	Oil and Gas lifting; Government's share of equity oil; Domestic Market Obligation; production bonus;
Directorate General of Budget	Tax and Non-tax revenue segregation of Government's entitlement
Directorate of Non Tax Revenue	Government's share of equity oil&gas; DMO oil purchased by domestic refineries; over/under lifting; Corporate Tax, Dividend tax; production bonuses; Reduction of the Government's share of equity oil&gas: property tax, VAT, local tax & retribution, DMO fee
Directorate General of Treasury	Received payment of royalties, dead rent, Sales revenue share, forestry fee
Directorate General of Tax	Income Tax, Land & Building tax, VAT, other local tax & retributions
Directorate General of Fiscal Balance	Revenue sharing fund
Center of Statistics	Export information, Employment demography

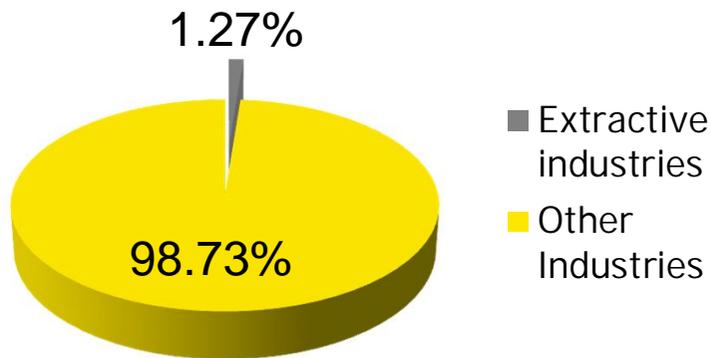
Evaluation Questions:

Commodities overview

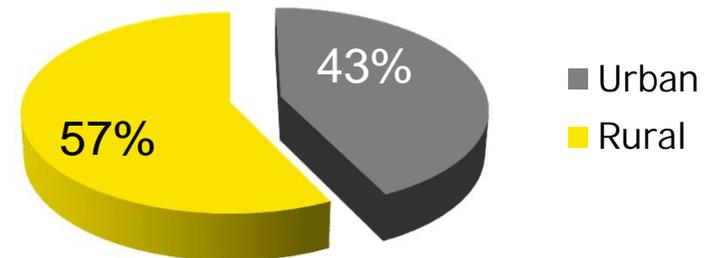
Commodities	Production Volume (2012/2013)	Production Value (2012, in trillion rupiahs)	Key Production Region	Contribution to GDP (2013)
Oil	314/301 barrels (in million)	403	East Kalimantan, West Papua, South Sumatera	3.83%
Gas	70 billion Cubic meters	358	Riau, East Kalimantan	3.40%
Coal	400/450 tons (in million)	361	South & East Kalimantan	4.30%
Tin	31/26 tons	6.2	Bangka Belitung & Riau Island	0.07%
Gold	54/477 tons	64	Papua & North Maluku	2.74%
Bauxite	30/52 tons	8.5	Riau & West Kalimantan	0.17%
Nickel	228/440 tons ('000)	48	Southeast & central Sulawesi and north Maluku	0.46%
Copper	8.7/1.6 tons	34.7	Papua & West Sumatera	1.38%

Evaluation Question: Extractive Industries Employment Demography (Sakernas, 2014)

Employment demography in
Indonesia



Employee dispersion in
Extractive industries



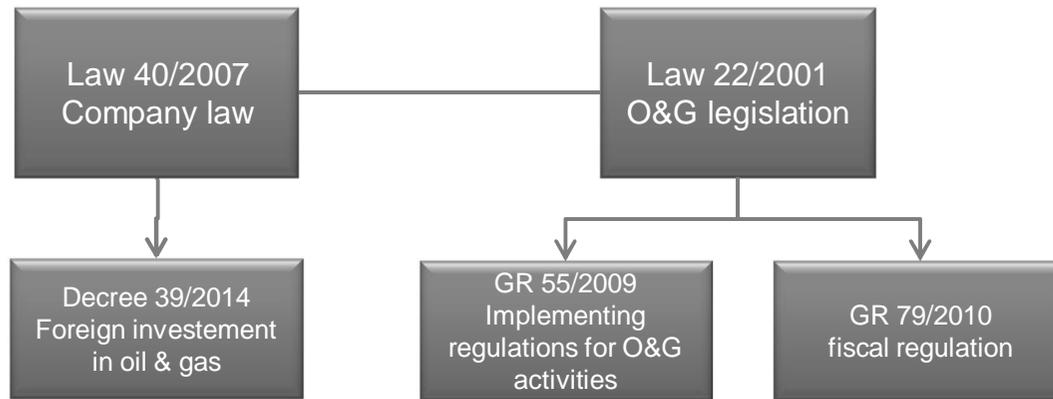
- Despite significant amount of revenue contributed to GOI, the extractive industry do not have high intensity towards to Indonesian employment. The high technology of extractive industry creates less human intervention.
- Due to the nature, more employment on the industries worked in rural area rather than urban area.

Evaluation Question: Regulatory Framework

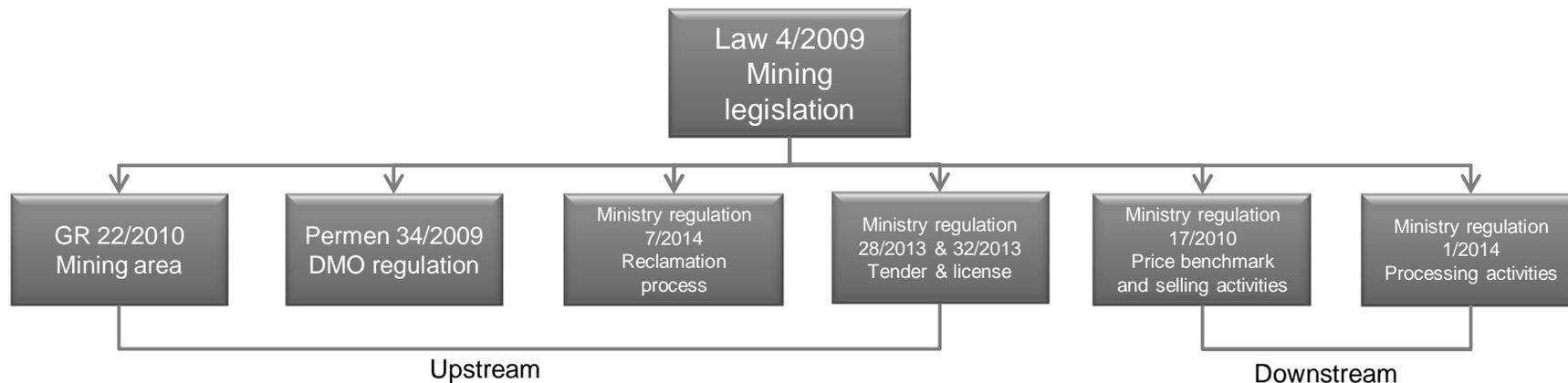
Main Regulatory Framework in extractive industries:

1. Constitution of Republic Indonesia article 33
2. Investment Law number 25 article 10 (Employment)
3. Law 40/2007 (company, investment & Environment)

Sector regulatory framework in oil & gas:



Sector regulatory framework in mining:



- ▶ There is no special regulation for mining income tax
- ▶ Land and building tax for mining regulated by DG tax regulation number 32/2012

Evaluation Question: SOEs contribution to GOI revenue| Percentage of contribution

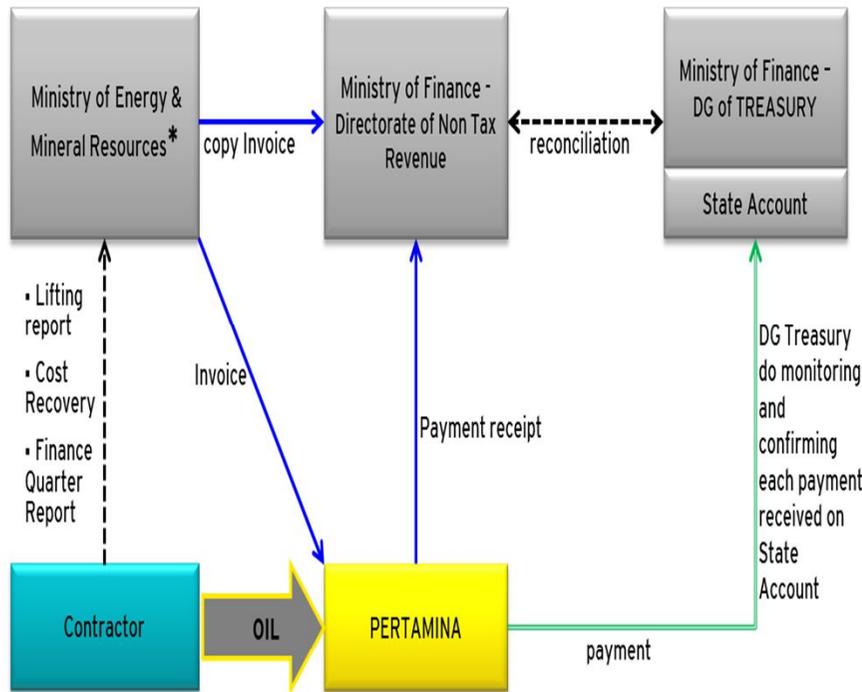
List of SOEs in Indonesian extractive industries

- ▶ Pertamina
- ▶ Sarana Karya (WIKA)
- ▶ Aneka Tambang
- ▶ Bukit Asam
- ▶ Timah
- ▶ Saka Energi (PGN)

Commodities (SOEs combined contribution)	Contribution of SOE's production as a percentage of national share	
	2012	2013
Oil	23%	24%
Gas	7.8%	6.9%
Coal	4%	3%
Gold	5.3%	1%
Tin	94%	46.8%
Nickel	19%	16.5%
Copper	N/A	N/A
Bauxite	0.2%	1%

Evaluation Question: Revenues and Information flow of Oil & Gas Industries

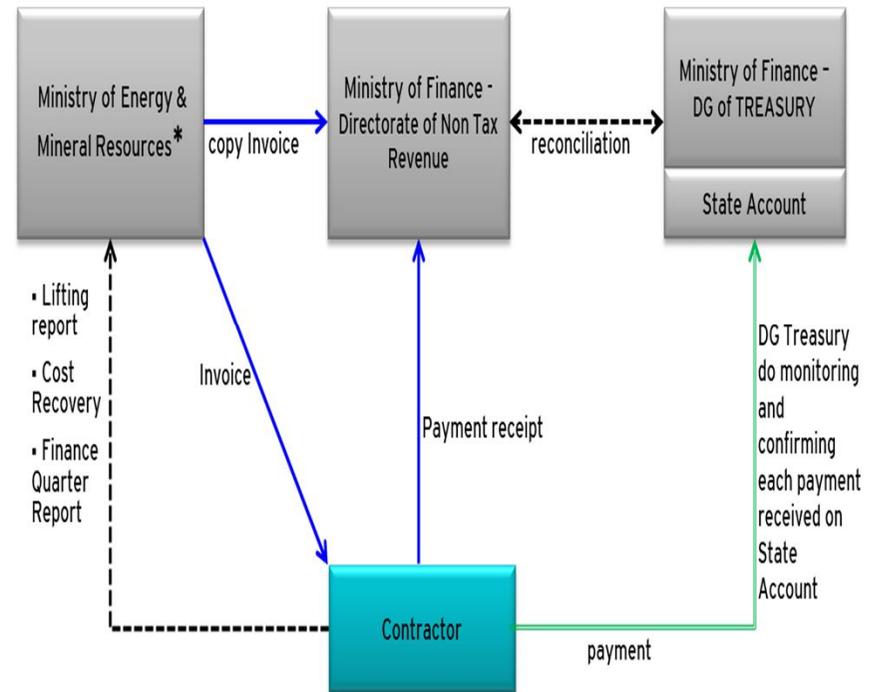
Domestic transaction – in kind



*) the function is held by SKK Migas

- Cash
- Document
- - - - Information / report

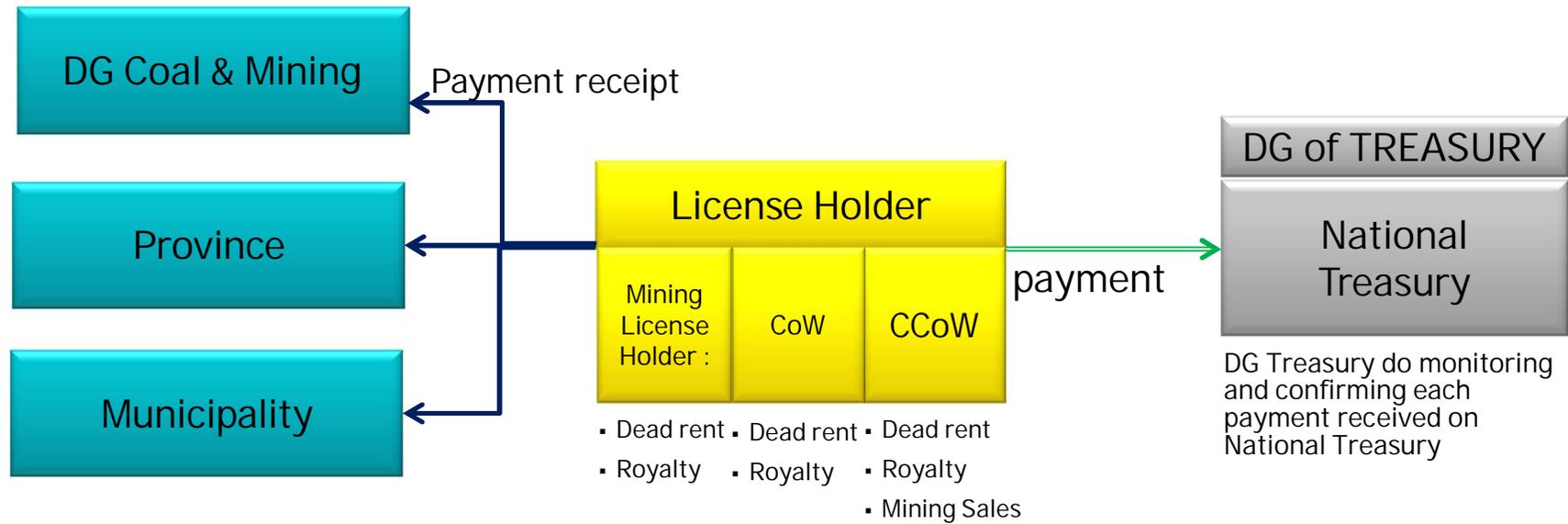
Export transaction



*) the function is held by SKK Migas

- Cash
- Document
- - - - Information / report

Evaluation Question: Revenues and Information flow of Mining Industries

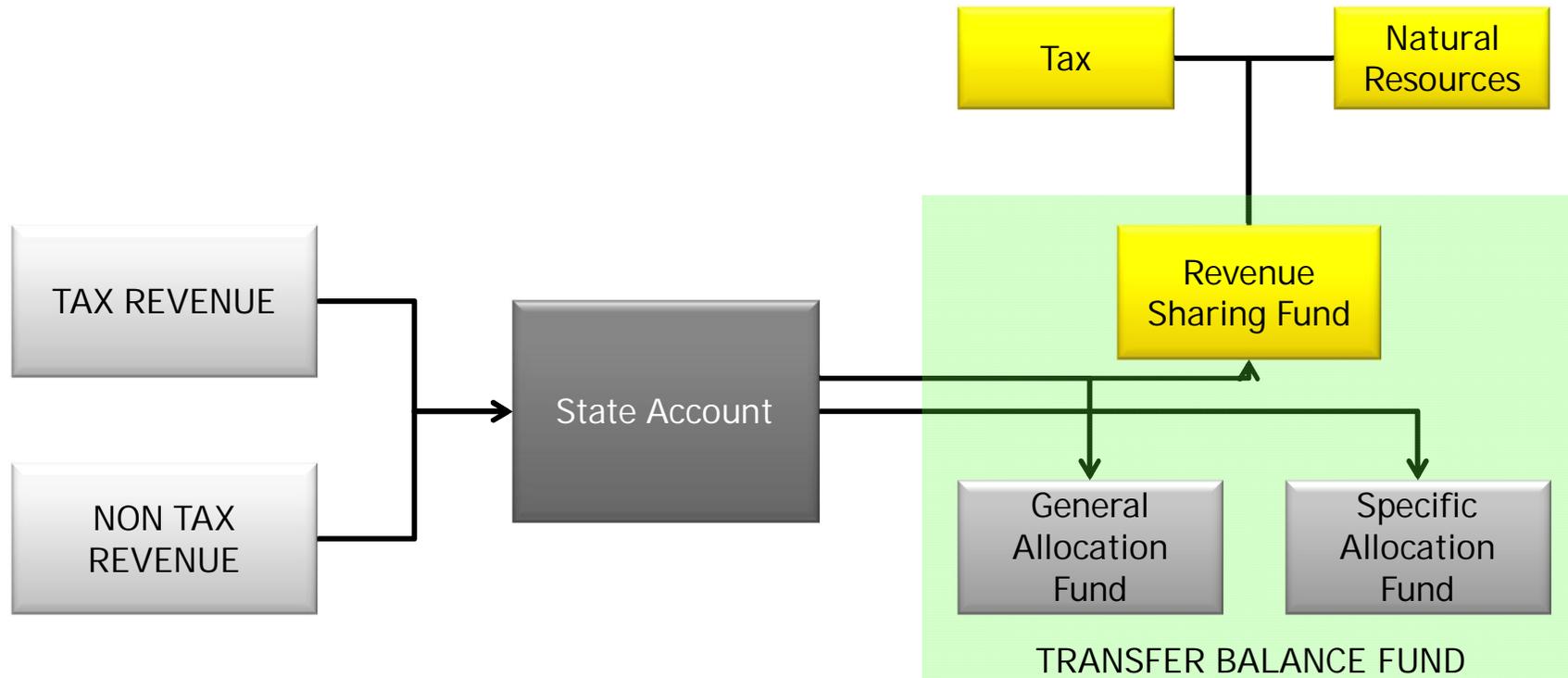


Each level of License Issuer will do reconciliation of Company Payment receipt through Quarterly Meeting which organized by DG Coal & Mining.

Company will send the Payment Receipt to the Licenses issuer, thus it can be Central, Province, or Municipality government.

- Cash
- Document

Evaluation Question: Distribution Revenues from Extractive Industries



- Local government's portion which determined by Minister of Finance regulation (PMK) in the beginning of Fiscal Year is aligned with the transparency spirit of EITI

Evaluation Question

Data Quality issues



Data Quality issues:

Schedule and regularity of data generation from GOI

Schedule and Regularity of Data Generation and reporting:

EITI reconciliation report should be available annually. Independent administrator would need to regularly collect data from government agencies & companies. In government agencies, LKPP is primary report and data generation established maintain by the ministry of finance consisting of all monies collected and spent to & from GOI.

Government:

- The Central Government Financial Report (LKPP) is a compilation from various government agencies. LKPP for 2012 is established in June 2013, publicly available in MOF website in July 2013. LKPP for 2013 is established in June 2014, publicly available in the MOF website in August 2014. Consultants repute that the regularity of the LKPP are in a good manner. Hence, the regularity of reporting by GOI is at sufficient standards.
- However, the annual report at the Directorate Generals particularly DG Oil & Gas, DG Mining, DG budgeting and DG fiscal balance is not publicly available. In order to enhance extractive industries transparency, DG level reporting should be publicly available on a regular basis.
- In our interviews, DG at the ministries submit report annually, however standard template/format of reporting is not available.

Industry:

- Public listed companies: reports on operations & financial performance are captured in the annual and financial reports. Extractive companies should provide their operations data to the DG Oil & Gas and DG Mining.
- DG Oil & Gas provide public information regarding operations in oil & gas industries such as production, lifting, export, list of companies in their website. However, production information are not maintained properly. For example, the latest production information available in the website are from 2012 production.
- In coal & minerals: production data is publicly available until 2014, however, specific to coal production. The data does not have full listing of companies in coal and minerals. One root cause of lack of mining transparency is the decentralize license disposal mechanism, granted by minister/governor/mayor. It is not consolidated in Central GOI.
- In order to have updated data in mining, DG construct standard template to be filled by companies in cooperation with local government but have difficulty enforcing it. Cooperation with local government is crucial since supervision of the mining operations is in the local jurisdiction.

Data Quality issues:

Availability data | Oil and Gas

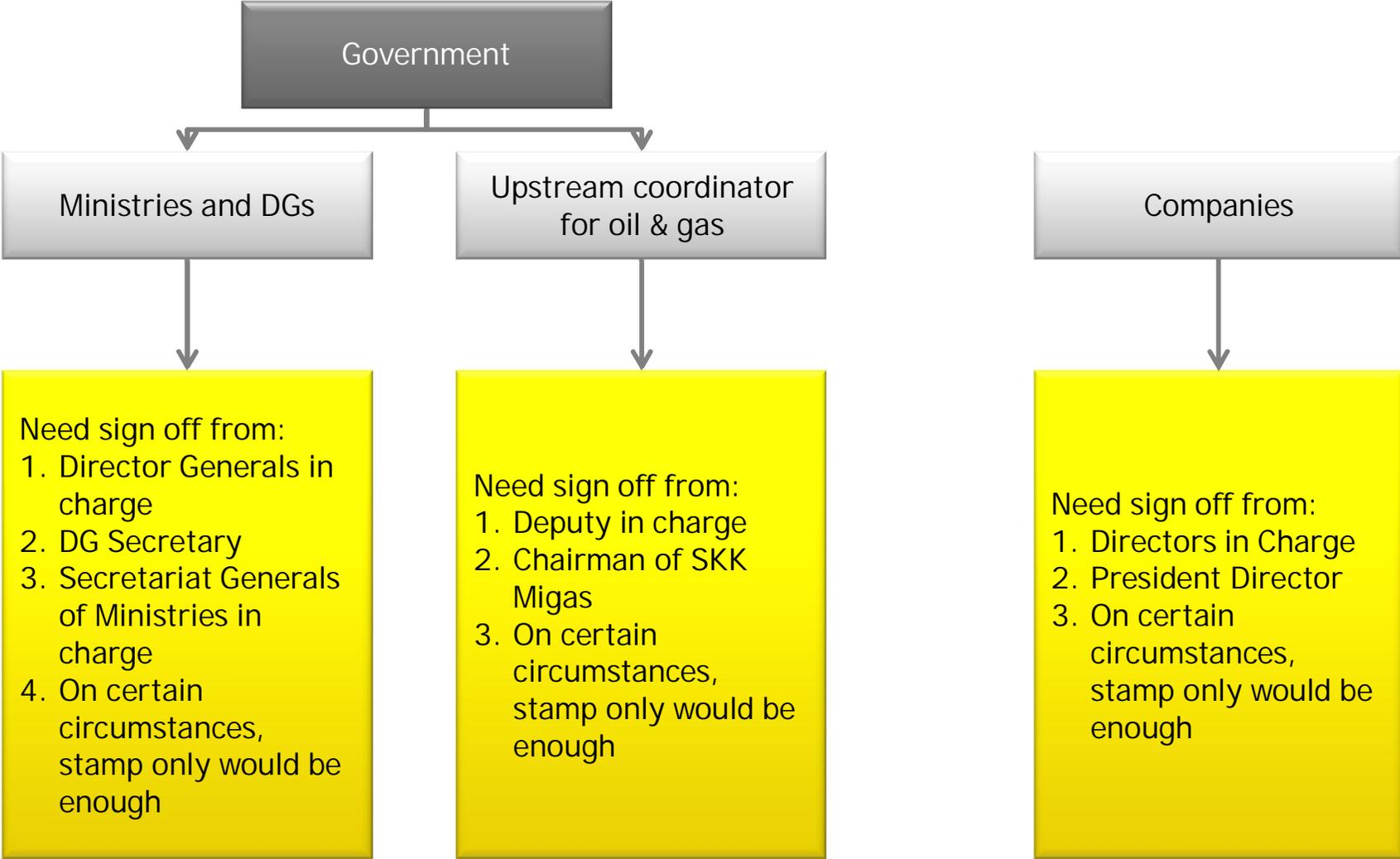
REVENUE STREAM	TYPE OF REVENUES	Data available in LKPP (ref: Account No#)	Data available in LKPP but not independently	Data not available in LKPP
TAX	Oil Income Tax	√ 411111		
	Gas Income Tax	√ 411112		
	Land and Building Tax	√ 411316		
	Value Added Tax		√	
	Other local tax and retributions/levies			√
	Import tax		√	
NON TAX	Revenue from Oil production	√ 421111		
	Revenue from Gas production	√ 421211		
	Revenue from Crude oil	√ 423132		
	Signature bonus			√
	Production bonus			√
	NOC Dividend	√ 422121		
Other Non-Tax	Equipment and service bonuses			√
	Expatriate hire fees			√
	Data fees			√
	Join studies			√
	Training of Indonesian National			√
	Scholarship funds			√
	Performance bonds			√
	General working funds			√
Retirement funds			√	

Data Quality issues:

Availability data | Coal and Mining

REVENUE STREAM	TYPE OF REVENUES	Data available in LKPP (ref: Account No#)		Data available in LKPP but not independently	Data not available in LKPP
TAX	Corporate Income Tax			√	
	Land and Building Tax	√	411315		
	Other local tax and retributions/levies				√
	Value Added Tax			√	
	Import tax			√	
Non Tax	Royalties	√	421312		
	Dead rent	√	421311		
	Sales Revenue Share	√	423113		
	SOEs dividend	√	422121		
	Forestry fee	√	421441		
Other Non-Tax	Retirement funds				√
	Fees for hiring expatriates				√
	Exploration licenses				√
	Production licenses				√

Data Quality Issues: Assurances Method Proposed



Summary

Findings and Recommendations

No.	Issue	Recommendations	PIC
1.	The gap on availability of companies income tax hinders Indonesia from achieving compliance towards the EITI new standards	It is recommended that the Ministry of Finance support the availability of income tax of companies to enable more transparency of State revenue from Extractive Industries	DG Tax, Ministry of Finance
2.	Limited availability of data on mining industries other than coal, particularly production and clustering (coordinates) Mineral needed to ensure transparency	It is recommended that the Ministry of Energy and Mineral Resources (DG Minerals and Coal) provide more update and transparent data for public consumption. The PNB value of cadaster data is immaterial to the annual ESDM budget.	DG Mineral and Coal, Ministry of Energy and Mineral Resources
3.	Limited Reconciliation Duration	Our assessment recommend scoping feasible by independent administrator with limitation of time (6 months)	Independent Administrator - EITI National Secretariat
4.	Sharing Fund mechanism (Dana Bagi Hasil / DBH)	It is recommended that percentage of local government on Sharing Fund can be made publicly available.	DG Fiscal Balance, Ministry of Finance
5.	The Central Government Financial Report (LKPP) does not cover all of the revenue stream required by the new EITI Standards	It is recommended LKPP provide additional details to ensure compliance to the new EITI Standards	Director of Accounting and Financial Reporting, Ministry of Finance

Summary

Data unavailable to the public

No.	Data	Government entities responsible	Description
1.	production volume (Mining)	DG Coal & Mineral	Data is not reliable and updated in public domain
2.	Commodity price (Mining)	DG Coal & Mineral	Data is not available in public domain
3.	Size of Extractive Industries	DG Coal & Mineral DG Oil & Gas SKK Migas	No direct data in public domain
4.	Key Regions of Production	DG Coal & Mineral DG Oil & Gas SKK Migas	Data is not available in public domain
5.	Income tax	DG Tax	Data is prohibited to shared with public
6.	Information on oil & gas participating interest, license & commodity on each area	DG oil & gas SKK Migas DG Coal & Mineral	Data is not available in public domain
7.	Coordinates of the license area	DG oil & gas DG Coal & Mineral	Information is not shared with public
8.	Contracts	DG oil & gas DG Coal & Mineral	Information is not shared with public

Thank You

Appendices and References



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Methodology Work Plan

Timing	<div style="display: flex; justify-content: space-between; width: 100%;"> Oct 6-24 Oct 27- Nov 14 Nov 10-28 Nov 24 - Dec 12 </div>			
Stage	1. Project Inception	2. Contextual assessment	3. Reconciliation analysis	4. Recommendations & Transition requirements
Overview	Confirm objectives and roles, prepare review plan	Understand current state, objectives, performance and key issues	Analyze short list of future state options and current state against key criteria to identify preferred options	Validate preferred option, identify transition process, and key next steps
Approach	<ul style="list-style-type: none"> ➢ Examine the MSG's existing work plan and provide advice on revisions necessary to make it compliant with the new Standard and other options for improvement. ➢ Undertake a review of past EITI reports and Validation reports to gain an understanding of the current scope and state of the EITI reporting processes in Indonesia and assess areas where further improvement is needed. ➢ Provide a descriptive overview of the extractive sector (EITI Requirement 3.3); and in accordance with EITI Requirement 3.4, prepare a summary of the contribution of the extractive industries to the economy. ➢ Identify sources of information about production data and comment on the quality and reliability of the data with a view to inform the MSG's approach to EITI Requirement 3.5. ➢ Review and summarize the legal framework surrounding the extractive industries (EITI Requirement 3.2). ➢ Provide an explanation of how revenue payments are computed (formulas and bases for computation of payments). 	<ul style="list-style-type: none"> ➢ Investigate the role of state-owned companies in the extractive sector and suggest an approach for reporting on financial relationships (requirement 3.6). ➢ Propose a framework for reporting on revenue allocations and distribution of revenues and identify differences with EITI Indonesia in its 2009 report (EITI Requirements 3.7 and 3.8). ➢ Review the currently available information about license registers and license allocations, and propose a mechanism for reporting and disclosure in accordance with EITI requirements 3.1 and 3.10. ➢ Provide recommendations on how Indonesia without open source mining cadasters can fulfil the requirement 3.9 in its EITI report. Provide recommendations on how mining information, can be acquired from the Directorate General of Minerals and Coal. ➢ Identify any legal, regulatory, administrative or practical barriers to comprehensive disclosure, and if necessary, set out options and make recommendations for addressing these barriers, including obtain tax information that meet Indonesia's disclosure policy. 	<ul style="list-style-type: none"> ➢ Undertake a comprehensive analysis of the payments and government revenue streams related to the extractive sector in accordance with EITI Requirement 4.1(b), (c), (d), (e), and (f). ➢ Review cadaster and revenue data from 2012 and 2013 and assist EITI on which tax payments and government revenues streams should be considered material for the purposes of EITI reporting. ➢ Develop a preliminary list of the companies that make material payments and should be covered in the EITI Report. ➢ For each extractive industry company with permission to explore and/or produce, identify: <ul style="list-style-type: none"> ➢ Sector and phase of operation, i.e. exploration, production, oil, gas, mining etc. ➢ Type of license(s) held and the license number(s). ➢ Identify which government entities will be required to report revenue information in accordance to EITI requirement 4.2.b. ➢ Identify whether sub-national government entities receive direct or indirect revenue in accordance with Requirement 4.2(d). ➢ Identify any legal, administrative, regulatory, or practical barriers to the disclosure of the contextual information and make recommendations for addressing these barriers. 	<ul style="list-style-type: none"> ➢ Provide a summary of funds established and/or mandated by existing rules and regulations for the extractive industries (e.g. mine rehabilitation fund, contingent liability rehabilitation fund, etc.) ➢ Provide information on the schedule and regularity of data generation and reporting of government agencies and industries. ➢ Review previous approaches for addressing data quality, including any recommendations by the reconciler or validator for strengthening the process. ➢ Examine the audit and assurance procedures in companies and government entities that are likely to participate in the EITI reporting process (EITI Requirement 5.2(b).). ➢ Propose assurances to be provided by reporting entities to the Independent Administrator (EITI Requirement 5.2(c).).
Work Product	<ul style="list-style-type: none"> ➢ Inception Report 	<ul style="list-style-type: none"> ➢ First Draft Presentation 	<ul style="list-style-type: none"> ➢ Written Report and presentation on contextual information 	<ul style="list-style-type: none"> ➢ Written report and presentation on reconciliation process ➢ Final Report and Presentation

Timeline

Detail work timeline

No.	Activity ¹	Months ²												
		Sept '14	Oct '14				Nov '14				Dec'14			
		W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
1 Project Inception														
1.1	Examine the MSG's existing work plan													
1.2	Undertake a review of past EITI reports and Validation reports													
1.3	Provide a descriptive overview of the extractive sector													
1.4	Identify sources of information and comment on the quality of the data													
1.5	Review and summarize the legal framework EITI													
1.6	Provide an explanation of how revenue payments are computed													
2 Contextual Assessment														
2.1	Investigate the role of state-owned companies in the extractive sector													
2.2	Propose a framework for reporting on allocations and distribution of revenues													
2.3	Review available information about license registers and license allocations													
2.4	Review context: Indonesia w/o open source mining cadasters fulfil EITI requirement													
2.5	Identify legal, regulatory, practical barriers to comprehensive disclosure													
2.6	First draft presentation													
3 Reconciliation analysis														
3.1	Undertake a comprehensive analysis of EITI Requirement 4.1(b), (c), (d), (e), and (f).													
3.2	Review cadaster and revenue data from 2012 and 2013													
3.3	Preliminary list of the companies that make material payments													
3.4	Identify company with permission to explore and/or produce													
3.5	Identify which government entities will be required to report revenue													
3.6	Identify whether sub-national government entities receive direct or indirect revenue													
3.7	Identify legal, administrative, or practical barriers to the disclosure contextual info.													
3.8	Written Report and presentation on contextual information													
4 Recommendations														
4.1	Summary of funds established and/or mandated by existing rules for extractive ind.													
4.2	Schedule and regularity of data generation & reporting of govt agencies & industries													
4.3	Review previous approaches for addressing data quality													
4.4	Examine the audit and assurance procedures in companies and government entities													
4.5	Propose assurances to be prov. by reporting entities to the Independent Administrator													
4.6	Written report and presentation on reconciliation process													
4.7	Final Report and Presentation													

Natural Resources Sharing Fund in Transfer mechanism

