



Adam Smith
INTERNATIONAL

FINAL REPORT

Validation Report for IEITI

August 8th 2012

Acronyms/Abbreviations

ASI	Adam Smith International
BSA	Board of Supreme Audit
CBI	Central Bank of Iraq
COFE	Committee of Financial Experts
CoMSec	Council of Ministers Secretariat
CoR	Council of Representatives
CPA	Coalition Provisional Authority
CSOs	Civil Society Organisations
DFI	Development Fund for Iraq
DFID	Department for International Development
FRBNY	Federal Reserve Bank of New York
Gol	Government of Iraq
HR	Human Resources
IAMB	International Advisory Monitoring Board
IEITI	Iraq Extractive Industries Transparency Initiative
IMF	International Monetary Fund
IOC	International Oil Companies
ISC	Iraqi Stakeholders Council
KRG	Kurdistan Regional Government
LC	Letter of Credit
MDTF	Multi Donor Trust Fund
MoO	Ministry of Oil
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MSG	Multi-Stakeholders Group
NGO	Non Governmental Organisation
NOC	National Oil Company
PCLD	Petroleum Contracts and Licensing Directorate
PSC	Production Sharing Contracts
PWC	PriceWaterhouseCoopers
RWI	Revenue Watch International
SBA	Stand By Arrangement
SOMO	Iraq Oil Marketing Company
TSC	Technical Service Contracts
TOR	Terms of Reference
WB	World Bank

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A. Introduction

1. Key Features of the Extractive Industries in Iraq

Through its 80 known oil fields, Iraq has approximately 10% of the world's proven reserves (143 billion barrels) and 2% of the world's natural gas reserves, making the country the largest Extractive Industries Transparency Initiative (EITI) implementing country by oil and gas reserves globally. During the reporting period of the first reconciliation report (for 2009), the industry was completely state-owned, with the oil marketing company SOMO selling crude to accredited international companies on behalf of four producing companies, South Oil Company, North Oil Company, Missan Oil Company and Midland Oil Company. In late 2009, the government awarded contracts for the most lucrative acreages, attracting companies such as ExxonMobil, Shell, BP and ENI amongst others. This has led to a jump in production figures from one million barrels per day in 2003 to nearly three million today. BP's rehabilitation of the Rumaila field combined with ExxonMobil's West Qurna Phase 1 together hold more proven oil reserves than the entire United States reserves. The eleven international Technical Service Contracts (TSCs) that have been signed hold the promise of a total production of over 13 million barrels per day. If this figure were ever achieved, Iraq would become the largest oil producer in the world.

1.1. Governance structure

The key governance institution of the sector in Iraq is the Ministry of Oil (MoO), which owns, produces, transports, sells and accounts for all oil produced. By law, the Ministry of Oil and National Oil Companies (NOCs) operations are subject to an external audit by the Board of Supreme Auditing (BSA). Formerly, as noted above, the Ministry of Oil oversaw an entirely state-owned apparatus. With the introduction of the TSCs licenced by the Petroleum Contracts and Licensing Directorate (PCLD), there are now international foreign partners involved in production in the sector. The North Oil Company covers the provinces of Kirkuk, Nineveh, Erbil, Baghdad, Diyala and part of Hilla and Kut, but has no TSC partners. Meanwhile, the South Oil Company is based in Basra. The most important fields under its control are the Rumaila, West Qurna phase 2, Halfaya and Qayara fields. Each of these four fields involves TSCs with international partners. Missan Oil Company has signed contracts with international partners for the Zubair and Majnoon acreages. Other components of the governance/operating structure of the industry include pipeline companies, refineries, exploration and drilling as well as storage and export terminals.

Article 112 of the Iraq constitution allows provinces (governorates) to form semi-independent regions, fully controlling their own natural resources in terms of management and policy formulation:

First: The federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields, provided that it distributes its revenues in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law.

Second: The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment.

Drafting a new oil law was a Bush administration benchmark. However, until today, it has not been possible to pass an oil law, partly because interpretations of this article of the constitution vary widely, specifically in terms of the interpretation of the first line of this article. In February 2007, three consultants drafted an initial law, which was subsequently passed by Cabinet. However, when the draft got to parliament, the bill went to the Shura council (for technical review to ensure there is no contradiction with other laws etc.). The bill came back with substantial amendments. Through the Shura review process, the bill also was circulated more widely and additional concerns were raised. The main issue is that of control and to what degree oil policy management should be granted to central government over and above the governorates.

These disagreements led to a loss of momentum in the passage of the bill. It was agreed that if no law was passed by May 2007, then governorates could proceed to sign contracts. The Kurdistan Regional Government (KRG) started to sign Production Sharing Contracts (PSCs) with International Oil Companies (IOCs). Meanwhile, the MoO began to plan for its own bid rounds. The KRG then passed its own regional hydrocarbons law, claiming (again via its own

interpretation of article 112) that it has the right to set its own laws with no further legislation required to guarantee its contracts. The national government held its first two licensing rounds in 2009, followed by a third in 2010. A fourth bid round is due to take place in May 2012. So far, 11 TSCs have been signed for oil and three TSCs for gas fields.

The question of whether the Iraq Constitution should be interpreted as mandating a centralised governance framework for the oil sector, with the Federal Government taking precedence but consulting with the governorates, or indicates in contrast a decentralised governance structure remains the bone of contention until today, with two different versions of the draft law, one produced by parliament (favouring decentralisation) and the other produced by the cabinet (favouring centralisation) still in circulation.

2. Origins of EITI in Iraq

The Development Fund of Iraq (DFI) is an account (held at the Federal Reserve Bank of New York) originally established by the United Nations Security Council Resolution No. 1483, which was adopted in May 2003 to deposit all the proceeds of export sale of crude oil and petroleum products accrued by the state marketing company SOMO. The former Coalition Provisional Authority (CPA) managed the DFI until June 2004. After this date, the Central Bank of Iraq (CBI) on behalf of the Ministry of Finance has governed the DFI. Any money withdrawn from the DFI Account is authorised via a letter issued by the Ministry of Finance, with two signatures, from the Prime Minister and the Minister of Finance, requesting the CBI to draw down the amount of money required to finance the annual budget or to pay for Letter of Credits (LCs).

The UN resolution created a body called International Advisory Monitoring Board (IAMB) to oversee the DFI. Then, in November 2006, the Government of Iraq (GoI) established the Iraqi Committee of Finance Experts (COFE) to take over the (IAMB) role as soon as the latter was dissolved. COFE took over the IAMB role in January 2011. After deducting 5% from the proceeds of exports of crude oil and petroleum products from Iraq to pay for compensation for the second Gulf War, the 95% balance proceeds are deposited into the DFI.

A reputable international auditing firm audits the DFI Account annually. In an effort to enhance transparency, facilitate good governance and combat corruption in the oil sector, the GoI informed the International Monetary Fund (IMF), when requesting for the second Stand By Arrangement (SBA) in July 2007, that Iraq would sign up to the EITI, with an aim to complete the membership process by March 31st, 2010. Prior to becoming an EITI candidate, the MoO already published all receipts from the sales and export of crude and petroleum products and gas.

3. Calendar of Events for the IEITI

- » 21st February 2008. The Deputy Prime Minister, Dr. Barham Ahmed Saleh, writes a letter to the EITI International Secretariat officially requesting to join EITI
- » February 2009. The Minister of Oil makes an official statement committing to work with all stakeholders in EITI at the Doha Global EITI Conference
- » March 2009. The GoI appoints a senior individual, Mr. Alaa Mohie El-Deen, to lead on the implementation of EITI in Iraq
- » October 2009 – The first Civil Society Organisation (CSO) Workshop takes place
- » December 2009 – The second CSO Workshop takes place
- » 10 – 11th January 2010. IEITI Launch Event. Prime Minister Noor Al Maliki declares Iraq's formal commitment to EITI
- » 10th February – It is announced by the EITI International Secretariat that IEITI is a candidate country
- » 26th January 2010. Cabinet Decree (no12, for 2010) appoints the Secretary General as the Head of the Iraqi Steering Committee and Mr. Alaa Mohie El-Deen as the National Coordinator. The decree also requests various government entities, NOCs, IOCs, CSOs to name their representatives
- » 6-7 June 2010 – IEITI workshop in Dubai
- » 1st August 2010 – Third CSO Workshop takes place at the Ministry of Oil
- » 1st September 2010 – Fourth CSO Workshop takes place at the Ministry of Oil. Members are nominated to join the ISC/MSG
- » 22-23 Sep 2010 – The first minuted Iraqi Stakeholders Committee (ISC) meeting takes place
- » 1st November 2010 – Fifth CSO Workshop

- » 22 Nov 2010 – The second minuted ISC/MSG meeting takes place
- » 10-11 January 2011 – CSO Workshops (sponsored by Revenue Watch International) “Building Civil Society’s Capacity to Strengthen Good Governance of the EI Sector in Iraq”.
- » 24th April 2011 – Third minuted ISC/MSG meeting takes place
- » 10th May 2011 – Fourth minuted ISC/MSG meeting takes place
- » 22nd May 2011 - Committee on Proposals meets to open the bids for the first reconciliation report
- » 7th June 2011 – Fifth minuted ISC/MSG meeting takes place
- » 7th June 2011 – Committee on Proposals meets to assess the proposals for the first reconciliation report
- » 22nd August 2011 – Sixth minuted ISC/MSG meeting takes place
- » 23rd – 25th October 2011 – Workshop for journalists (held in Dubai)
- » 16th November 2011 – CSO discussion on first IEITI report. Members of the secretariat, civil society (7 from the coalition) and PWC in attendance
- » 23rd November 2011 – Seventh ISC/MSG minuted meeting. Materiality was set at 1% of total revenues and the first reconciliation report was approved
- » 5th March 2012 – First Reconciliation Report conference takes place in Baghdad
- » 6th March 2012 – Validation self-assessment workshop (supported by Revenue Watch International)
- » 19th March 2012 – Eighth minuted ISC/MSG meeting takes place
- » 17th April 2012 – Start of validation mission to Iraq
- » 21st May 2012 – Ninth minuted ISC/MSG meeting takes place
- » 29th May 2012 – Second validation trip to Iraq

B. Approach and Methodology

Our approach to the IEITI Validation exercise comprised the following components:

- » Desk study of key documents (the Work Plan, minutes to ISC/MSG meetings and other reports)
- » Consultation with key stakeholders in Baghdad (via two separate missions)
- » Presentation of the initial findings to the National Coordinator
- » Writing of draft report, incorporating the initial feedback
- » Presentation of the draft findings to the ISC/MSG
- » Receiving formal and verbal feedback, and incorporating where appropriate

1. Desk Study of Key Documents

We analysed the following:

- » The first IEITI reconciliation audit (2009)
- » IEITI work plan and ISC/MSG meeting minutes. The Validator's understanding is that while there have been more than eight meetings, only eight of them (at the time of writing) have been minuted. Minutes were only recorded for meetings during which significant decisions were made
- » Stakeholder reports and documents

2. Consultation with Stakeholders in Baghdad

The Validator arrived in country on April 17th, 2012. During the course of the following 7 working days (up to the 25th April), the two consultants met with:

- » Government officials
- » Company representatives
- » Civil Society representatives
- » Donor partners

Note that the full list of consulted stakeholders is in Annex B.

3. Presentation of Initial Findings to the ISC/MSG

After our first mission we presented our initial findings to the National Coordinator in Dubai. This was an opportunity to review and respond to the initial findings and provide follow-up evidentiary documentation. The Validator then returned to Iraq on 29th May to present the draft report and receive final feedback from the ISC/MSG.

4. Requirement Judgements

For each of the 20 validation requirements, we have followed the guidelines in the 2011 EITI Rules closely. For requirements 1-18 are judged to be either 'met' or 'not been met'. Requirements 19 and 20 do not require a 'met' or 'not been met' assessment. The overall result for IEITI is then given in Section F below.

5. A Note On Terminology

The first report on the extractive sector in IEITI reconciled payments made by companies with receipts lodged with the government. The report was therefore not a full audit and for this reason, it is referred to at different times in this report as either the "Reconciliation Report" or as simply the "Report" or the "IEITI Report". These terms should be regarded as inter-changeable. In Section D below, although there were two members of our team, for formal purposes, we refer to ourselves as "the Validator".

C. Progress Against the Work Plan

The first IEITI work plan was approved during the IEITI launch event, which took place 10-11th January 2010. During the time of the first validation mission to Iraq, this work plan was not available to view or download from the IEITI website. There was also no evidence provided that the work plan was published in print, either as an IEITI publication, or in the print media. It was not clear what period the work plan covered; however, the final deadline mentioned in the table is Q4 2010, suggesting that the work plan was intended to cover a 12-month period. Since this first work plan until the time of the validation mission, no further work plans had been produced by IEITI. However, IEITI has periodically produced “Activity Reports” which provide updates on activities. The work plan itself contains no “status” column. Between the first and second validation missions to Iraq, the ISC/MSG prepared and approved a 12-month work plan for 2012 and now plans to prepare annual plans from now on.

Work plan Activity	Validator’s Judgement
Gol issues statement of intention to implement EITI	Completed
Gol commits to work with all stakeholders	Completed
Gol appoints a Champion	Completed
Work plan	Completed
Establish MSG	Completed
Identify funding sources	Completed
Establish secretariat office	Completed
Review of regulatory framework	Not completed*
Workshop on EITI	Completed
Capacity building for CSOs	Completed
Capacity building for Iraqi Oil Companies	Completed
Capacity building for government agencies	Completed
Capacity building for journalists	Completed
Study tour to Azerbaijan	Completed
Develop reporting templates	Completed
Determine materiality	Completed
Determine aggregation level	Completed
Appoint reconciler	Completed
Companies to report on corporate taxes and fees	Not completed**
Completion of first reconciliation report	Completed
Publish and disseminate first report	Completed
Public workshop on first report	Completed
Iraq EITI handbook	Completed

Develop new work plan	Completed
MDTF grant proposal	Completed
Follow-up actions on first report	Completed
EITI validation	Completed
Publication of EITI validation report	Completed

* Note that this review is now being planned via the setting up of a legal committee of the ISC/MSG.

** There were no corporate taxes/fees paid by companies for the first reconciliation report.

D. Progress Against Validation Requirements

1. EITI Requirement 1

The government is required to issue an unequivocal public statement of its intention to implement the EITI.

1.1. Evidence

On 21st February 2008, Deputy Prime Minister, Dr. Barham Ahmed Saleh, wrote a letter to the EITI International Secretariat officially requesting to join EITI. The Economic Committee of the Cabinet of Ministers represented the Gol in the letter. The letter stated, inter alia, that,

“The Iraqi government believes that the transparency is the best way to improve and use the country’s resources, prevent abuse and corruption, and expresses its commitment to transparency and accountability in its political programme and international agreements.”

There are two sets of evidence in favour of this requirement. Firstly, during the fourth EITI Global Conference, which took place in Doha, Qatar, from the 16th – 18th February 2009, the Minister of Oil gave a speech in favour of EITI. Secondly, Prime Minister Noori Al Maliki declared Iraq’s formal commitment to EITI at the IEITI launch event, which took place 10th – 11th January 2010. During his speech, the Prime Minister stated,

I would like to express my deep thanks to all those who have been working hard and constantly to enable Iraq to join this initiative. From this conference, we announce with pride our acceptance to join EITI, hoping all success to be integrated. Though it is an administrative institution focusing on the extractive process but if God wills it, it will be an international institution working alongside with the national institutions to fight corruption and bad people.

I congratulate you for this step and also congratulate the Iraqi people and inform those who talk about the corruption prevailing in Iraq that Iraqis are well-determined to construct, reform and especially to fight terrorism and corruption which are two faces for one coin. Also, corruption and crime are two faces for one coin as well.

1.2. Stakeholder Views

All stakeholders consulted agreed that the Gol has issued an unequivocal statement of its intention to implement the EITI.

1.3. Validator’s Judgement

The requirement has been met.

2. EITI Requirement 2

The government is required to commit to work with civil society and companies on implementation of the EITI.

2.1. Evidence

At the Doha Global EITI conference, the Minister of Oil made an official statement committing to work with all stakeholders in EITI in Iraq.

Presidential Order number 12 (2010) signed on the 26th January 2010 by Acting Secretary General of the Cabinet of Ministers Ali Mohsen Ismail, sets out the membership of the Iraqi Stakeholders Council (ISC) as follows:

- » Four members from the Iraqi government: Ministry of Finance (MoF), MoO, CBI, and BSA
- » Four members from national and international companies: NOCs, American, European and Eastern companies that have contracts with SOMO to buy oil
- » Four members from the civil society organisations

This order also mandates the setting up of a secretariat for IEITI. The order also makes reference to a bylaw for the ISC, which was made available to the Validator. However, the bylaw sets out a different (and larger) composition of the ISC:

- » Three members from the Iraqi government: MoF, MoO, Ministry of Industry & Minerals
- » Three members from the control bodies: Council of Representatives (CoR), BSA, Commission of Public Integrity
- » Three members from the IOCs
- » Three members from the NOCs
- » Three members from the CSOs
- » Three members from business associations: Accountants & Auditors Association, Lawyers Association, Journalist Association

This set of 18 representatives, together with the National Coordinator, Alaa Mohie El-Deen (Deputy Chair of the ISC) and the Chair of the ISC, Ali Al Alaq form the 20 member body of the ISC. It is not clear to the Validator whether this updated composition has been formally recognised by the Gol outside of the bylaw. Annex C lists all members of the ISC.

2.2. Stakeholder Views

All stakeholders consulted agreed that the Gol has committed to work with civil society and companies on implementation of the EITI.

2.3. Validator's Judgement

This requirement has been met.

3. EITI Requirement 3

The government is required to appoint a senior individual to lead on the implementation of the EITI.

3.1. Evidence

Former Minister of Oil, Alaa Mohie El-Deen, was appointed as the senior individual leading on implementation of the EITI in March 2009. His appointment letter is part of the Presidential Order number 12, referred to in requirement two above. In this order, Mr El-Deen is referred to as the "initiative SG".

3.2. Stakeholder Views

All stakeholders consulted agree that Alaa Mohie El-Deen has been appointed as the IEITI "champion". Stakeholders universally agree Mr El-Deen is a respected and trusted figure to lead on EITI implementation in Iraq.

3.3. Validator's Judgement

This requirement has been met.

4. EITI Requirement 4

The government is required to establish a multi-stakeholder group to oversee the implementation of the EITI.

4.1. Evidence

After the formation of the ISC (via Presidential Order number 12), the ISC decided to restructure itself by adding more members as shown in the bylaw (see 2.1 above). The bylaw was approved by the ISC before being published.

The invitation to participate in the ISC took place by the Gol inviting the IOC Forum to select representatives from the IOCs. On the 1st August 2010, the IEITI Secretariat invited CSOs to a workshop at the Ministry of Oil, via an advert on television. In total, 110 CSOs turned up. At this meeting, it was explained that only those CSOs who sent in their formal documentation (certificate of registration and CVs of key members etc.), could be considered for selection onto the ISC. In response, only seven organisations sent their formal documentation. In a follow-up workshop on the 1st September 2010, three NGOs were elected to the ISC. As Annex C shows, three members from separate unions have also been selected to the ISC. In the wider definition of CSOs, these three representatives should also be considered

as civil society members. There is no record in the minutes of all the ISC meetings available that the issue of civil society selection to the ISC has been discussed.

In terms of stakeholder representation, requirement 2 above indicates that there are effectively six representatives from government, six from private sector companies and six CSO members of the ISC, which together with the National Coordinator and the Chair, makes up a 20-member board.

Apart from outlining the membership of the committee, the bylaw for the ISC sets out rules on membership and defines the key activities of the body. In terms of membership rules, eight rules are given:

- » The National Secretariat nominates the chairman of the council and the deputy chairman, presenting them to the Council of Ministers Secretariat (CoMSec) for approval
- » The National Secretariat coordinates with the ISC member groups so that they nominate their representatives and present them to the CoMSec for approval
- » The National Secretariat supervises the selection process of the IOC and CSO representatives, presenting them to the CoMSec for approval
- » The deputy chairman will replace the chairman in his/her absence
- » Alternative members will replace the primary member in his/her absence
- » Council will be chaired by the chairman, and will be held on the basis of a call for a meeting by the chairman, or his/her deputy or by a request of six members or more
- » The council makes its decisions by unanimous vote. In cases where unanimity cannot be reached, the chairman has the casting vote, after consulting members
- » The chairman or his/her deputy or at least six of the members have the right to present a proposal to amend the bylaws of the ISC. The National Secretariat will study the proposal, discuss it, and formulate it then present it to the CoMSec for approval. This amendment will come into force after official approval

The bylaw also outlines ten key tasks of the ISC:

- » IEITI decisions should be in accord with the international principles of EITI
- » To promote the public awareness of EITI principles and the need to apply them in Iraq
- » To approve the contract with the Auditor, reconciler, and validation companies and monitor their work
- » To ensure there is sufficient capacity to implement EITI in Iraq
- » To facilitate the work of the National Secretariat, determine the constraints of its work and try to reduce them
- » Approve both the work plan and the media plan which is currently being prepared by CoMSec
- » Approve the periodical report templates published by the National Secretariat and determine the dates for their publication
- » Support the government, IOCs and NOCs, in their work contributing to EITI in Iraq
- » Ensure that the IEITI reports are published and distributed widely in line with EITI international requirements
- » Monitor and evaluate the work of the National Secretariat, implement the recommendations in the reconciliation reports and review operational procedures to ensure a smooth progression towards attaining the goals of the EITI initiative in Iraq

The attendance record for the eight-recorded meetings is as follows

Organisation	Attendance
Chairman, ISC	8
Deputy Chair, ISC	8
Ministry of Finance	5

Ministry of Industry	3
SOMO	3
South Oil Company	2
North Oil Company	4
Ministry of Oil	5
Missan Oil company	6
Board of Supreme Audit	6
Sho'ooob Foundation	6
Iraqi Journalist Syndicate	6
Iraqi Accounting & Audit Association	7
Woman for Woman Society	6
Al Noor Al Jame'a Institute	6
Public Committee on Integrity	5
Phosphates State Company	6
PetroChina	3
ExxonMobil Iraq Ltd	6
Shell Iraq Petroleum	6

4.2. Stakeholder Views

Stakeholders agree that the government has successfully set up a multi-stakeholder group to oversee the implementation of EITI in Iraq. The new bylaw (see 4.3 below) has ensured that stakeholders feel they are adequately represented and free of undue influence and coercion. The new bylaw also clarifies the manner in which CSOs are elected to participate in the ISC. CSOs participating on the ISC regard themselves as independent of both the government and the private sector.

4.3. Validator's Judgement

This requirement has been met.

In the draft version of this report, the Validator recommended that the bylaw for the ISC be updated, with more clarity and detail provided on corporate governance rules. In particular, it was recommended that the process by which members are selected needed to be tightened up, to ensure that both companies and CSOs are empowered to select their own representatives through an explicitly defined process. In addition, rules on length of tenure, disclosure of interests, disciplinary provisions and rules on the use of alternate representatives were recommended to be considered. After the second Validation mission, a draft new bylaw was prepared by a committee formed which included CSO representatives on the ISC as well as CSOs members outside the ISC, with the head of the committee being from a CSO not currently sitting on the ISC. The committee submitted the draft to the ISC for discussion on 19th June 2012. The approved new bylaw was discussed by the ISC in a meeting held on Wednesday 1st August. Members suggested some amendments to the draft text. The revised bylaw has now been approved by the ISC.

5. EITI Requirement 5

The multi-stakeholder group, in consultation with key EITI stakeholders, should agree and publish a fully costed work plan, containing measurable targets and a timetable for implementation and incorporating an assessment of capacity constraints.

5.1. Evidence

The first IEITI work plan was approved during the IEITI launch event, which took place 10-11th January 2010. During the time of the first validation mission to Iraq, this work plan was not available to view or download from the IEITI website¹. There was also no evidence given to the Validator that suggested that the work plan was published in print, either as an IEITI publication, or in the print media. In addition, it is not clear what period the work plan covers, however, the final deadline mentioned in the table is Q4 2010, suggesting that the work plan was intended to cover a 12 month period. Since this first work plan, no further work plans have been produced by IEITI. However, IEITI has periodically produced “Activity Reports” which provide updates on activities (both completed and prospective) for the ISC to review. On this basis, the lack of an updated work plan did not affect implementation. The work plan itself contains no “status” column. The work plan does not include an activity to assess capacity constraints, although as the analysis in the previous requirement indicates, this activity is included in the Bylaws for the ISC/MSG. The 2010 work plan does include an activity to review all potential obstacles to the implementation of EITI in Iraq, but this activity has not yet been carried out.

5.2. Stakeholder Views

The Validator found a general lack of awareness of the IEITI work plan. The IEITI secretariat was not able to supply either a hard or an electronic copy (the Validator eventually found a copy online after a Google search). Stakeholders within the ISC are more aware of the activity reports which are periodically updated and produced.

5.3. Validator’s Judgement

This requirement has been met.

At the time of the first Validation mission, the IEITI work plan was not publicly available and generally well known. In addition, IEITI had not developed annual work plans beyond the first that was developed in 2010, instead relying on the shorter format activity reports to capture progress. In order for this requirement to be met, it was recommended in the draft report that a work plan for 2012 be drawn up, and annual work plans should be integrated into both the planning process and monitoring process going forwards. It was also recommended that the 2012 work plan be published online and in the media. It was also suggested that the use of two planning and monitoring tools – the work plan and activity reports – be discontinued. Finally, it was recommended that the format of the 2012 work plan should be slightly adapted to include a status column, which captures the findings that are currently recorded in activity reports. In response, the ISC/MSG developed a new 2012 work plan, which incorporates the suggestions above, and has agreed to prepare annual work plans from now on. The 2012 work plan, which was subsequently approved on the 19th June during an ISC/MSG meeting, will also be published online as well as in Al-Sabah, a widely read newspaper in Iraq. The new work plan includes costings, capacity building as well as plans for a second reconciliation report, to be completed by the fourth quarter in 2012. For these reasons, the requirement is now judged to be met.

6. EITI Requirement 6

The government is required to ensure that civil society is fully, independently, actively and effectively engaged in the process.

6.1. Evidence

On the 1st August 2010, the IEITI Secretariat invited CSOs to a workshop at the Ministry of Oil, via an advert on television. In total, 110 CSOs turned up. At this meeting, it was explained that only those CSOs who sent in their formal documentation (certificate of registration and CVs of key members etc.), could be considered for selection onto the ISC. In response, only seven organisations sent their formal documentation. In a follow-up workshop on the 1st September 2010, three NGOs were elected to the ISC. As Annex C shows, three members from separate unions have also been selected to the ISC. In the wider definition of CSOs, these three representatives should also be considered as civil society members. There is no record in the minutes of all the ISC meetings available that the issue of civil society selection to the ISC has been discussed.

¹ As of May 14th 2012, the IEITI website <http://www.ieiti.org.iq/> appears to be down.

CSOs together with the IEITI secretariat and support from international donor organisations have organised numerous training workshops and outreach conferences. Two additional capacity-building workshops are planned in the short-term; a training workshop in Dubai and another in Italy. For their part, CSOs have made extensive efforts with the media to popularise IEITI. Pamphlets on the initiative have been distributed to MPs, local government stakeholders and academics as well as other CSOs and the media.

6.2. Stakeholder Views

Several CSOs who are not members of the ISC have questioned the independence of those civil society members who sit on the board. In a note summarising activities in Iraq, Revenue Watch International (RWI) write,

“In July 2010, RWI made its first survey of Iraqi EITI stakeholders. The RWI mission confirmed the lack of exposure of CSOs to the extractive industry (EI) sector and successfully identified CSOs with the potential to engage in the promotion of transparency and good governance of the EI sector in Iraq. RWI confirmed that Iraqi CSOs have remarkably limited understanding and technical knowledge of on the EI sector and its impact on the lives of average Iraqis. The limited technical and organizational capacity of Iraqi CSOs effectively translated into general disengagement from IEITI. Moreover, it became evident that certain CSOs appointed to the interim MSG lacked independence, potentially carrying political motivations linked to the government.”

During the mock validation exercise (supported by RWI), which took place on the 6th March 2012,

“There were extensive discussions, regarding the establishment and functioning of the MSG – especially with regards the selection process for the civil society representatives – and the efforts to communicate with wider civil society subsequently. It was noted, as a follow-up that a clear mechanism and process needs to be established for the election of the next MSG Council to lead on the second IEITI reporting cycle.”

To buttress these statements, some of those outside the ISC commented to the Validator that CSO representatives on the MSG are perceived as weak and closely aligned with government interests. Some CSO members noted also that the draft reconciliation report prepared by PWC was submitted in English and not Arabic. They further noted that the television advert inviting civil society organisations to the Ministry of Oil was not explicit in indicating why CSOs should attend (i.e. pointing out that the meeting would be the opportunity for CSOs to be formally selected on to the ISC).

However, in response to these views, some members of the government suggest that civil society in Iraq is heavily politicised, and that by pointing to the alleged weakness of CSO members on the ISC, organisations such as RWI are unwittingly getting caught up in Iraqi politics.

On December 20th 2011, the Iraqi Transparency Alliance issued a constructive critique of the first reconciliation report. Their critique included the following assessments:

The first reconciliation report is published in three languages: Arabic, English, and Kurdish. A number of differences were noted between the versions and the terms used in each. Therefore, one of them should be adopted as a reference in case of contradictions for the next reports.

The report notes a wide participation by the civil society in the report discussion. However, the report was only discussed to a limited extent in a single meeting on November 16, 2011. As a matter of fact, the report summary was discussed, and it was not distributed before the meeting. The discussion was thus instant, and did not lead to effective suggestions to develop the report before its issuance.

6.3. Validator’s Judgement

This requirement has been met.

In the draft version of this report and as stated for requirement four, it was recommended that the selection process and rules governing length of tenure on the MSG be reviewed. If the IEITI Secretariat continues to supervise the selection process (as currently mandated in the ISC bylaw), then the advert inviting CSOs to participate in IEITI must explicitly state the purpose of the meeting. It was recommended that this advert be published both on broadcast and in the print media. However, another option given was to empower CSOs to self-organise and nominate their own representatives, via a formalised extractive industry coalition. Both RWI and PWYP could play a role here in helping to support this coalition. One such coalition, the Transparency Alliance for Extractive Industries, has already been set up, with 54 member organisations at present (including the Non-Governmental Organisation (NGO) representatives on the ISC). Care must be taken at all times for those supporting CSOs (especially international partners) to avoid unwittingly supporting political forces at the same time.

The initial eligibility criteria for election to the ISC did not necessarily limit full and active participation in the IEITI process in Iraq. Many of the CSOs lacked the capacity and documentation to be able to apply for ISC membership, while many other CSOs do not specialise in the extractive industry sector and were ultimately not interested in potential participation.

The updated ISC/MSG bylaw, drafted by a committee comprising of mostly CSO members both inside and outside the ISC, approved by the ISC in August 2012, substantively addresses all these issues. CSO members both inside the ISC and outside now feel that the new election process is open and participative. CSO members inside the ISC do not have a sense of coercion by either the government or by the private sector. CSO representatives currently outside the ISC are planning to participate in the new election of ISC members. The election process will start on January 2013, while the election itself will take place in March 2013. The Transparency Alliance was not explicitly mentioned in the new bylaw, in order to give all CSOs the opportunity to be elected to the ISC, instead of only Transparency Alliance members. However, the Validator understands that two members of the Transparency Alliance are to be contracted as advisors to the IEITI Secretariat. The Validator views this as a purposeful attempt to align a diverse range of civil society interests within the multi-stakeholder framework. Finally, the ISC has noted the comments by the Transparency Alliance regarding translations. The Arabic version of the report will be adopted as the reference version in the next report.

7. EITI Requirement 7

The government is required to engage companies in the implementation of the EITI.

7.1. Evidence

There are two types of companies engaged with the implementation of the EITI in Iraq: NOCs and IOCs. As requirement four indicates above, both the NOCs and the IOCs have a good attendance record on the ISC, although the participation of the South Oil Company has tailed off in recent meetings. The IOCs in Iraq all participate in an “IOC Forum” where EITI is a topic, amongst others. For the period covered in the first reconciliation report (2009), IOC involvement was however limited to buying crude oil from SOMO.

A representative of the IOCs on the ISC is a member of the subcommittee responsible to write the TOR for the 2nd reconciliation report. This committee includes also representatives of civil society and the NOCs. The new draft TOR, written by the committee was discussed by the ISC in August 2012. The ISC decided to distribute the draft document to all companies engaged in the Iraqi oil sector for review and comment. In addition, a workshop is scheduled before the end of 2012, in which all the companies will be invited to discuss the 2nd report and to renew (by election) their representation to the ISC.

7.2. Stakeholder Views

During the mock validation exercise, held on 6th March 2012, Shell’s representative Christos Mylonas, pointed out “the need to conduct workshops targeting oil companies which are still unfamiliar with the EITI process.” It was also pointed out that the 2010 report would also need to include KRG revenues.

The Shell representative on the ISC informed the Validator that there is a good and open dialogue within the ISC. He also stated that in the IOC Forum EITI is also discussed. He went on to say,

“At Shell, we are interested in other transparency measures – such as Dodd Frank. We’re very happy with the speed EITI is moving forward in Iraq. The first report was a real achievement, especially in the Middle East where this is not common practice.”

Members representing the South Oil Company and PetroChina made similarly enthusiastic statements about company involvement in IEITI.

7.3. Validator’s Judgement

This requirement has been met.

It was recommended in the draft version of this report that the IEITI strive as hard as possible to include KRG revenues from oil and gas in subsequent reconciliation reports. In addition, in line with Christos Mylonas suggestion, the IEITI Secretariat will need to reach out to companies unfamiliar with EITI in good time for subsequent reconciliation reports to ensure that they understand and comply with the reporting process.

After the Validation mission, a meeting was arranged and hosted in Paris by the World Bank and attended by representatives of the GoI, members of the KRG, IEITI, and EITI to discuss KRG participation in the IEITI. Both governments agreed to include KRG oil activities in a separate chapter of the 2nd report, and a MOU was issued at the end of the meeting.

8. EITI Requirement 8

The government is required to remove obstacles to the implementation of the EITI.

8.1. Evidence

As noted in Section A above, the issue of a new hydrocarbons law in Iraq is a sensitive one, bringing up a key dilemma: whether governance of the sector should be centralised and controlled by the federal government, or whether it should rather be decentralised, with a greater control devolved to the governorates. Until there is consensus on this issue, efforts to pass new legislation are likely to fail.

However, the model contract between SOMO and oil buyers was changed (in April 2012) to include a clause on EITI:

“Without prejudice to the General Terms and Conditions of this contract, the Buyer will be committed to the requirements of the Extractive Industries Transparency Initiative (EITI) by confirming the price paid for crude oil under this agreement and taking such other reasonable measures as may be agreed between the parties.”

Meanwhile, line number eight of the 2010 work plan refers to a “Review of the Regulatory framework to identify potential obstacles to EITI implementation”. The specific action was to be:

- » Appoint legal consultant to undertake legislative audit on relevant laws and regulations & Public Relations Communication Consultant & CSO Certifying
- » Draft amendments to relevant laws and regulations (where necessary) and present to IEITI

It is the Validator’s understanding that this review has yet to be implemented. However, the new 2012 work plan includes this activity and specifies a time frame for the work to be completed as the fourth quarter, 2012.

8.2. Stakeholder Views

In the “Lessons learned from this reconciliation” section of the first reconciliation report, the authors (PWC) note some of the issues they faced in accessing data from reporting entities,

The governmental entities did not receive detailed reporting instructions until September 2011. Despite the extended deadline of 6 October 2011, several companies were still unable to meet the deadline. The last entity reported on 20 October 2011.

Approximately two thirds of the entities reported within the original deadline. After the deadline expired, follow-up was undertaken and missing data was received from governmental entities through follow up by H.E the Minister of Oil represented again an instructions to SOMO to follow up on data requests, which was actioned by SOMO sending two consecutive letters to oil buyers who did not respond.

Significant delays have been encountered as only 11 buyers were able to provide required information on or before the deadline. It required extensive efforts from the reconciler and IEITI to reach 27 responses while it required the intervention of H.E the Minister of Oil by sending a letter to the oil buyers who did not respond to reach the level of 34 companies.

Follow up with different parties through coordination made by the IEITI National Secretariat in relation to data requested from Federal Reserve Bank of New York (FRBNY), this included two reminders being sent to FRBNY by the CBI and letters being sent to both the MoF and the CBI by H.E the Minister of Oil.

Late reporting creates challenges in relation to the reconciliation work and the follow-up of discrepancies. Recommendation:

It is recommended that the importance of keeping to the reporting deadline be emphasized upfront when issuing next year’s reporting forms. A strict follow up mechanism should be put in place to limit any delays to a minimum.

Government stakeholders ascribed the delays referred to by PWC above as a result of unfamiliarity with EITI in Iraq among reporting entities in both government and the private sector.

8.3. Validator’s Judgement

This requirement has been met.

The key obstacle to implementation of EITI in Iraq so far has been the delays described by PWC in completing the first reconciliation report. In the draft version of this report, it was stated that in order for this requirement to be met, the Validator recommends that IEITI commission an assessment of obstacles and potential constraints on EITI implementation in Iraq in line with the 2010 work plan. This assessment should also include an analysis of options for strengthening the legal framework for EITI in Iraq. The ISC/MSG subsequently formed a committee to assess the potential constraints on effective implementation of EITI, following on from a decree from the GOI authorising the setting up of this committee. This committee will shortly begin this work, with an initial meeting on the 17th June 2012. The decision by the ISC to send the draft TOR for the second report to all companies in the oil sector in Iraq is a further

sign that any potential obstacles to implementation will be mitigated. The Validator therefore is satisfied that IEITI will soon have completed a review of all potential obstacles, which should include addressing the administrative obstacle identified above.

9. EITI Requirement 9

The multi-stakeholder group is required to agree a definition of materiality and the reporting templates.

9.1. Evidence

On 22nd August 2011, the ISC discussed and approved nine draft templates, for the following reporting entities

- » Ministry of Oil Licensing Department
- » Ministry of Oil Technical Department
- » Ministry of Finance
- » North Oil Company
- » South Oil Company
- » SOMO Form 1
- » SOMO Form 2
- » SOMO Form 3
- » Buyers

The ISC effectively had identified all reporting entities (both for government and the companies) during this meeting. The ISC agreed that the reporting period would be for 2009 only. Neither specific revenue streams nor the level of aggregation/disaggregation of data were explicitly recorded in the ISC meeting minutes.

During the same meeting, the ISC had discussed the level of significant discrepancy acceptable for reporting the 2009 data (the minutes refer to the accepted “margin of difference”), but the decision of fixing the level at 1% of total crude oil sales was only approved at the ISC meeting held on 23rd November 2011 (the same day the 2009 report was approved). There was no discussion of attempting to reconcile sales and receipts from the KRG in either meeting. This was because there was no oil production in the region in 2009. Again, there was no discussion of excluding domestic crude flows from the first report. This is because there were no actual transactions for domestic crude consumption in 2009. State-owned local refineries and power generation plants consumed all domestic with no payments for crude being made. The products of the refineries and the electricity generated by the power plants were distributed locally via a subsidised tariff.

According to the UNSCR 1453 of year 2003 all the proceeds of the export of crude oil and petroleum products and gas should be deposited in the DFI Account, after deducting 5% for the compensation payment. Therefore the NOCs only reported on the crude oil delivered for export. The buying companies pay no taxes to the GoI. Therefore, the only forms of materiality available to measure in 2009 are the crude oil flows from the NOCs to SOMO, and payments and receipts between SOMO and the IOCs.

9.2. Stakeholder Views

In line with the voting rules set up in the ISC bylaw, members of the ISC were unanimous in their decision to fix materiality at 1% of total crude oil sales.

On December 20th 2011, the Iraqi Transparency Alliance issued a constructive critique of the first reconciliation report. Their critique included the following assessments on materiality:

The report mentions that only data on the 2009 Iraqi crude oil exports and their revenues was covered, without including the oil marketed inside Iraq. The latter actually constitutes large quantities that are very important for the Iraqi economy, as many of its aspects are prone to data inaccuracy and financial and administrative corruption. This requires them to be included in future reports.

The value of the payments received by the State (Central Bank of Iraq) is not indicated due to a lack of information from the Federal Reserve Bank of New York. The statement for the Iraq Development Fund was not yet sent until the issuance of the report. This in our opinion, is a very important matter, as it may indicate a third party involved in the auditing of Iraq's oil revenues.

The report includes the quantities of oil extracted by the South Oil Company (SOC) and the North Oil Company (NOC) in 2009. The data was reconciled with that of the Ministry of Oil and SOMO. The report never mentions evidence or reports on the KRG oil exports that year that was exported in tank trucks by land. We stress the importance of including these oil quantities in the future, in accordance with the constitutional principle that stipulates that “oil and gas are owned by all the Iraqi people”.

The report does not give any clarification on the sale and export contacts and mechanisms, or on the conditions of the special oil prices granted to Jordan. This shrouds a considerable quantity of the Iraqi oil with mystery, and should be clarified in the following reports.

Some CSO stakeholders expressed the view that materiality should have been determined in fixed-level rather percentage terms. They also suggested that an audit of industry costs should have been considered, as well as an assessment of pricing. Finally, the issue of reporting on domestic consumption of locally produce crude was raised, as a form of materiality that should be included in future reports.

9.3. Validator’s Judgement

This requirement has been met.

It is unfortunate that the ISC meeting minutes do not include a detailed review of discussions on materiality, including revenue streams that may be included, the level of aggregation or disaggregation and so on. Given the relatively simple industry structure at the time (national oil companies selling crude to IOCs), it was perhaps assumed to be an obvious issue.

It is therefore recommended that materiality is discussed by the ISC and defined in advance in the TOR for future reconciliation reports, and that this discussion is captured in detail in meeting minutes. The definition of materiality may best be achieved by commissioning a report on materiality, especially given the oil and gas sector has changed in complexion since 2009 with the addition of TSCs and producing international partners.

There appears to be some confusion on the process of defining materiality. Materiality refers to defining the flows of information (both physical and financial) that will be reported on, such as quantities of crude, taxes, royalty payments, levies and other fees. The level of significant discrepancy, on the other hand, refers to the size (often captured in percentage terms) of the difference between payments and receipts as captured by the EITI reporting process. The latter is used to determine which sets of templates need to be further investigated, and which lie within the limits of an acceptable difference in value. In the case of the first EITI reconciliation report, materiality appears to have become slightly confused with the discrepancy margin. The Validator understands that there was a lack of clarity on how to define materiality within the ISC at the early stages of the development of the first report, with a decision made by the ISC to keep discussing materiality while the appointed reconcilers continued their work. To avoid all confusion, it is recommended that the materiality threshold is set via a fixed monetary value (for example, by minimum revenue size of company) rather than a percentage of total sales in future reconciliation reports. Despite the confusion, even if the “1%” is clearly understood as a reference to materiality threshold (as the Validator understands was intended), no other payments apart from shipments of crude to Jordan (see 11.2 below) were excluded from the report. The licensing rounds that took place in 2009 did not involve payments (for signature bonuses etc.) that were also made in 2009 (these payments were made in 2010). Again, no sub-national barter/infrastructure provisions accrued in Iraq during 2009, and therefore this definition of material flows was not included in the first report.

In the case of the first report, the reconcilers in fact assessed all payments and receipts between the NOCs and SOMO and the IOCs and SOMO. Given the state-owned nature of the sector in 2009 (and the absence of taxes or royalties in the system), materiality in the first report could only be defined in relatively simple terms.

10. EITI Requirement 10

The organisation appointed to produce the EITI reconciliation report must be perceived by the multi-stakeholder group as credible, trustworthy and technically competent.

10.1. Evidence

During its meeting on the 24th April 2011 meeting, the ISC reviewed and approved the Terms of Reference and the Request for Proposals for the first reconciliation report. The ISC also approved the short-list of candidate firms.

On the 10th May 2011, the ISC approved the list of those who would participate in the tender evaluation committees.

On the 7th June 2011, the ISC reviewed the evaluation report of the proposals made by the 3 bidding firms, which had been reviewed by the WB with no objections on the recommendations.

The ISC Chair announced the results of both technical and financial proposals. While Ernst & Young scored higher on their technical proposal, PWC's bid was more cost effective. Meanwhile, KPMG did not achieve the minimum technical score and was ruled out. A contract was subsequently signed with PWC.

10.2. Stakeholder Views

Stakeholders within the ISC regard the appointed auditors, PWC, to be credible, trustworthy and technically competent.

10.3. Validator's Judgement

This requirement has been met.

11. EITI Requirement 11

The government is required to ensure that all relevant companies and government entities report.

11.1. Evidence

During the ISC/MSG meeting on the 22nd August 2011, the ISC agreed with the appointed reconcilers, PWC, to translate the nine templates and send them to reporting entities by 25th of August 2011. Seven government agencies and 34 oil companies were identified as being required to report in 2009. The deadline for receiving completed templates from reporting entities was set for 25th September 2011. The template and copies of the regulations and guidelines were sent out electronically via email on 22nd of August 2011 according to the instructions of the ISC. Three government entities had reported by 15th September. South Oil Company reported on 10th of October 2011. Following on from SOMO providing the reconciler with the contact details of the buyers on 26th September, 11 of the 34 buyers had reported by 6th October 2011. It is not clear why it took the reconciler a month to request for contact details. The remaining companies finally reported on 13th December 2011.

As noted in Section A2 above, the Development Fund of Iraq (DFI) is an account (held at the Federal Reserve Bank of New York) originally established by the United Nations Security Council Resolution No. 1483 to deposit all the proceeds of export sale of crude oil and petroleum products accrued by the state marketing company SOMO. The former Coalition Provisional Authority (CPA) managed the DFI until June 2004. After this date, the Central Bank of Iraq (CBI) on behalf of the Ministry of Finance has governed the DFI. Any money withdrawn from the DFI Account is authorised via a letter issued by the Ministry of Finance, with two signatures, from the Prime Minister and the Minister of Finance, requesting the CBI to draw down the amount of money required to finance the annual budget or to pay for Letter of Credits (LCs).

The UN resolution created a body called International Advisory Monitoring Board (IAMB) to oversee the DFI. Then, in November 2006, the Government of Iraq (GoI) established the Iraqi Committee of Finance Experts (COFE) to take over the (IAMB) role as soon as the latter was dissolved. COFE took over the IAMB role in January 2011. After deducting 5% from the proceeds of exports of crude oil and petroleum products from Iraq to pay for compensation for the second Gulf War, the 95% balance proceeds are deposited into the DFI.

A reputable international auditing firm audits the DFI Account annually. In an effort to enhance transparency, facilitate good governance and combat corruption in the oil sector, the GoI informed the International Monetary Fund (IMF), when requesting for the second Stand By Arrangement (SBA) in July 2007, that Iraq would sign up to the EITI, with an aim to complete the membership process by March 31st, 2010. Prior to becoming an EITI candidate, the MoO already published all receipts from the sales and export of crude and petroleum products and gas.

On 22nd September, the CBI requested that the Federal Reserve Bank of New York (FRBNY) provide details related to cash receipts on the DFI account to PWC in order to reconcile the data received from reporting entities with DFI data. No data was received from this request. The FRBNY was then asked again by the CBI to comply with the request, and again, no response was received. PWC finally notified IEITI of this blockage and requested that IEITI ask to help, but again nothing received until the date of PWC report. PWC did not reconcile their 2009 report with the KPMG audit of the DFI account for the same year. As this was not in their terms of reference, they cannot be criticised for failing to do so.

11.2. Stakeholder Views

Stakeholders agree that all relevant companies and government entities did report. However, some CSO stakeholders pointed to the discrepancy between the PWC reconciliation report and the KPMG report, and raise the question of why this reconciliation was not included in the terms of reference. The main source of the discrepancy has been explained by PWC as the non-inclusion of shipments of crude to Jordan, which come under a special pricing agreement. As these shipments are below the agreed 1% of total crude sales materiality threshold, there was no contractual requirement for PWC to assess this data.

11.3. Validator's Judgement

This requirement has been met.

Although access to DFI data would have strengthened the first report, it was not part of the reconciler's TOR to do so and did not affect the quality of the report. However, in order to reconcile data obtained through the EITI reporting process with the annual audit of the DFI account and perhaps also directly with FRBNY data, it is recommended that IEITI prepare and sign a formal agreement (such as an MOU) with COFE. In addition, this internal reconciliation of reports should be included in future terms of reference. In addition, *all* export sales (including those via a special price agreement with Jordan) should be included in subsequent reports.

12. EITI Requirement 12

The government is required to ensure that company reports are based on accounts audited to international standards.

12.1. Evidence

The CSOs members of the ISC insisted that all government entities and IOCs (crude oil buyers) must sign their report template and attach their audited financial statements along with their completed templates. This was subsequently agreed by the ISC (although not captured in the minutes).

Both the state-owned companies and the IOCs submitted their report templates to the reconciler without being signed by an authorised signatory, although some of the IOCs attached their audited financial accounts along with their completed templates.

As the table in Annex G shows:

Status of The International Oil Companies Submission	Total
Number of Companies Signed and Stamped their template	16
Number of Companies that Signed but did not Stamp their template	2
Number of Companies that Neither Stamped nor Signed their template	16
Number of Companies that provided its Audited Statements with their template	5
Number of Companies that did not provided its Audited Statements	29

According to a government order, all government entities (including state-owned companies) should prepare their financial accounts according to the Unified Accounting System developed in 1980. This system has been reviewed and modernised periodically. The BSA has a legal mandate to apply International Accounting and Auditing standards in the absence of Iraqi Accounting and Auditing standard, which was confirmed in a letter from the BSA on the 19th June.

In an earlier letter, issued on the 28th May 2012, the Board of Supreme Audit wrote to IEITI and made the following two points:

“1. In regard to the accounting standards:

Iraq has a Council of Accounting and Control Standards led by the head of the Supreme Audit (BSA President), Dr. Abdul Basit Turki Saeed, and (18) members representing different authorities. This Council holds regular and emergency meetings to review the international and local standards adopted in the audit work to ensure their compatibility with the valid national laws and the changes happen to them. The Board issued (14) standards (local standards) so far. Also, work teams of the above mentioned Council members are formed constantly to review, develop and update the

adopted accounting standards constantly. The modification of (4) standards (local standards) has been completed so far based on the international standards in accordance with the laws. The most recent of these standards is the accounting standards (local standard) of construction contracts which the Council approved its amendment in its last meeting on 21/6/2011. Enclosed are copies of the above-mentioned accounting standards (local standards).

2. In regard to the accounting standards used in the oil industry:

A higher joint Committee including the Board of Supreme Audit, Ministry of Oil, Ministry of Finance and Central Bank of Iraq has been formed. The mission of this Committee is to review the accounting system for the current accounts of the Oil Marketing Company (SOMO). This Committee was formed before signing the contracts of developing oil fields. Also, the Board is working on preparing accounting treatments for the development of oil fields and has completed many of them and it is waiting to discuss them with the Ministry of Oil.

The Board of Supreme Audit, being the main supervisory body in Iraq, is working on building the capacity of workers in the financial control bodies in charge of auditing (the oil sector). It organised (8) workshops outside Iraq which were attended by (83) employees. Specialised experts in the Board are about to finish the preparation of accounting treatments for all stages of the oil industry.”

In addition, Accounting Standard number six and seven were submitted to the Validator from the BSA. Standard number six on the disclosure of information related to financial statements and accounting policies is applicable from December 2012, whereas number seven, on cash flow, came into effect in July 1996. Neither standard makes reference to international accounting standards.

There is no record in the ISC/MSG minutes of the question being raised about why the NOCs and IOCs did not have their completed templates signed and certified by an authorised signatory (in the case of the companies, the Chief Executive Officer or the Chief Financial Officer), and why some also did not include their audited financial accounts along with their completed form.

12.2. Stakeholder Views

In the “Lessons learned from this reconciliation” section of the first reconciliation report, the authors (PWC) note that the BSA’s accounting standards are not based on contemporary international standards.

Due to the current regulatory context in Iraq and the structure of the oil and gas industry, the oil companies are audited by the Iraqi Board of Supreme Audit (BSA) based on local Iraqi accounting standards. These Iraqi standards, when originally developed in the 1980’s, were based on International Accounting Standards (IAS). However, they were not updated for over 20 years. Accordingly they will create an understanding gap between reporting by the oil companies and industry practices.

Recommendation:

Oil buyers should be advised to provide their audited financial statements to SOMO on an annual basis. Moreover, national oil companies should be audited based on internationally accepted auditing and accounting standards, in order for all involved to be at the level of industry best practices.

After submission of the draft validation report, the ISC sent a letter to the Validator stating that all members of ISC are satisfied with the data recorded in the completed company templates, and confirming that this data is reliable and has been reconciled with both SOMO figures and DFI records, and that the differences between the KPMG report on DFI and the IEITI report have been both explained and resolved.

12.3. Validator’s Judgement

This requirement has been met.

The Validator understands that the ISC is now working with both the MoO and SOMO to add clauses to both the oil sales contract and to the production contracts to make compliance with IEITI requirements obligatory.

13. EITI Requirement 13

The government is required to ensure that government reports are based on accounts audited to international standards.

13.1. Evidence

The CSOs members of the ISC insisted that all government entities and IOCs (crude oil buyers) must sign their report template and attach their audited financial statements along with their completed templates. This was subsequently agreed by the ISC (although not captured in the minutes).

Seven government entities reported as part of the 2009 reconciliation report: SOMO, the Ministry of Oil, North Oil Company, South Oil Company, the Ministry of Finance, the Central Bank of Iraq and the Ministry of Industry and Minerals. As the BSA has clarified since the first Validation Mission, international accounting standards are applied in the absence of specific local standards. At the same time, the BSA has also clarified that a higher Joint Committee comprising of the BSA, the Ministry of Oil, the Ministry of Finance and the Central Bank of Iraq is currently reviewing accounting system used by SOMO and for developing oil fields.

In line with rules and criteria approved by SOMO's board and the MoO, SOMO are responsible for marketing the crude oil and oil products, including contracting with IOCs (Buyers), determining the price, allocation of crude to each regional market and the issuance of buyer orders for shipment. SOMO is also responsible for tracking the shipment to its destination and recording the payments of proceeds from sales. However, SOMO does not receive the actual revenue from sales proceeds. All the proceeds of sales of crude oil and oil products are credited to the DFI account after deducting 5% for compensation. SOMO completed a template for the reconciliation report on behalf of the DFI as SOMO has all requisite information on oil volumes and prices. Shipments are only signed off once the DFI confirms that all the money owed has been received.

13.2. Stakeholder Views

After submission of the draft validation report, the ISC sent a letter to the Validator stating that all members of ISC are satisfied with the data recorded in the completed government templates, and confirming that this data is reliable and has been reconciled with both SOMO figures and DFI records, and that the differences between the KPMG report on DFI and the IEITI report have been both explained and resolved.

13.3. Validator's Judgement

This requirement has been met.

In addition, future EITI reports from government entities in Iraq must require an authorised signature and audited financial accounts in order for the template to be deemed valid.

14. EITI Requirement 14

Companies comprehensively disclose all material payments in accordance with the agreed reporting templates

14.1. Evidence

Despite delays, all state-owned companies (NOCs) and IOCs disclosed all material payments in accordance with the agreed reporting templates. The data included in the KPMG audit of the DFI which led to the discrepancy between the IEITI report and the KPMG report – shipments to Jordan via a special price agreement – were below the agreed materiality threshold.

14.2. Stakeholder Views

All stakeholders agree that companies did comprehensively disclose all material payments in accordance with the agreed reporting templates.

14.3. Validator's Judgement

The requirement has been met.

Through further engagement with the ISC after the submission of the draft report, the Validator now understands that the materiality threshold of 1% of total crude sales was in fact intended to be a materiality threshold, and not the minimum discrepancy margin.

15. EITI Requirement 15

Government agencies comprehensively disclose all material revenues in accordance with the agreed reporting templates

15.1. Evidence

Again, the 100% state-owned nature of the oil and gas industry in 2009 means that the distinction between government and company dissolves in the case of Iraq. Therefore, the same analysis of evidence from 14.1 above applies here.

15.2. Stakeholder Views

All stakeholders agree that government agencies did comprehensively disclose all material payments in accordance with the agreed reporting templates.

15.3. Validator's Judgements

The requirement has been met.

However, future reconciliation reports will include data from IOCs now producing in Iraq via TSCs. As per the recommendation in 9.3 above, the Validator recommends a review of all possible forms of materiality is commissioned in advance of the next reconciliation report, and that the definition of materiality is specified in the terms of reference for the report.

16. EITI Requirement 16

The multi-stakeholder group must be content that the organisation contracted to reconcile the company and government figures did so satisfactorily.

16.1. Evidence

The ISC/MSG approved the first report in its meeting on the 23rd November 2011. While the materiality threshold was defined (as 1% of total crude oil sales, effectively US\$400m) during this meeting, PWC had already assessed all 34 buying companies and reconciled against SOMO receipts. Therefore, to an extent, the agreement of the 1% threshold was academic, except insofar as it justifies after the fact the exclusion of the shipments to Jordan (which resulted in the discrepancy between the KPMG and IEITI reports).

16.2. Stakeholder Views

Stakeholders within the ISC/MSG are satisfied with the first reconciliation report, which they regard as a 'learning exercise'. However, some CSO members outside of the MSG feel that there was insufficient time given to discuss and review the draft report. On December 20th 2011, the Iraqi Transparency Alliance issued a constructive critique of the first reconciliation report. Their critique included the following assessment:

The first reconciliation report is published in three languages: Arabic, English, and Kurdish. A number of differences is noted between the versions and the terms used in each. Therefore, one of them should be adopted as a reference in case of contradictions for the next reports.

16.3. Validator's Judgement

The requirement has been met.

However, it is recommended that more care is placed on the quality of translation of the report so that there is greater consistency between Arabic, English and Kurdish versions.

17. EITI Requirement 17

The reconciler must ensure that the EITI report is comprehensive, identifies all discrepancies, where possible explains those discrepancies, and where necessary makes recommendations for remedial actions to be taken.

17.1. Evidence

The first report covered all transactions between NOCs and IOCs in 2009 and identified and explained all discrepancies. Section 4.4 of the reconciliation report states that a major source of discrepancy was the price differential between the booking of a shipment and the date of the invoice. Another source of discrepancy was the difference between invoices

issued in 2009 but actually shipped in 2010. However, the report failed to account for the discrepancy between its findings and the KPMG report, which has subsequently been clarified as resulting from missing information regarding the transactions with Jordan under special pricing arrangements. However, the activity of reconciling the EITI report with the KPMG report was not required of the auditor in their terms of reference. In addition, the shipments of crude to Jordan were below the agreed 1% of total crude sales materiality threshold agreed by the ISC/MSG.

The first report does not include the following:

- » Any data on the mining sector, although the report includes some initial details on the nature of the mining sector in Iraq
- » Any information on signature bonus payments. Although the TSCs with IOCs were signed in late 2009, in fact, payments were not made to the Gol until 2010, and therefore would not have been included in the first report. However, the reconciler did not mention signature bonuses, or explain this point
- » No taxes were paid in 2009 given the 100% state-owned nature of the industry at that time. Buyers are not subject to any form of taxation in trading with Iraq
- » Local consumption of crude oil data. Again, this was not in the terms of reference, however, the reconciler may have made note of this missing form of data, despite local consumption not being declared material by the ISC/MSG

Finally, the first report did include a lessons learned section, which has been referred to at various instances above.

17.2. Stakeholder Views

Stakeholders agree that given the terms of materiality as defined, the first report is comprehensive, identifies and explains all discrepancies and includes an outline of remedial actions.

17.3. Validator's Judgement

The requirement has been met.

As recommended above, a review of all possible forms of materiality should be commissioned in advance of the next IEITI report. Since the writing of the draft report, the ISC has now produced a lessons learned report which responds to all remedial actions listed by both the reconciler and by civil society. Section 20.1 below itemises each remedial action and assesses whether they have been addressed in either the new work plan or the lessons learned report.

18. EITI Requirement 18

The government and multi-stakeholder group must ensure that the EITI report is comprehensible and publicly accessible in such a way as to encourage that its findings contribute to public debate.

18.1. Evidence

The first IEITI report was officially launched at an event on the 5th March, 2012. The report is available in Arabic, English and Kurdish and available for download from the IEITI website.

The Validator was sent a number of links to IEITI in online media in Iraq, but did not receive any scanned press clippings from the print media. The report has also been discussed on Iraqi television across a series of broadcasts. In the new 2012 work plan, activity number 15 on "outreach and informational activities" includes discussions on press releases, newspaper articles and websites, workshops in rural areas and the production of information brochures and articles, with US\$20,000 allocated for this activity.

The transparency alliance coalition is planning a series of workshops on the back of the publication of the first report, supported by RWI.

18.2. Stakeholder Views

While stakeholders within the ISC/MSG consider there has been sufficient exposure to the EITI report, **some** CSO members outside of the board feel that there is very little awareness of the findings of the report.

18.3. Validator's Judgement

The requirement has been met.

The first IEITI reconciliation report is publicly available, comprehensive and comprehensible and has contributed to public debate. There were some translation difficulties in the Kurdish report. But, after consultations with Kurdish language

experts and some Kurdish civil society activists, the ISC concluded that these difficulties were due to poor translation that did not however affect the substantive understanding meaning of the text and tables. The ISC has made arrangements with those linguistic experts and the KRG to avoid these difficulties in the 2nd report.

However, it is recommended that IEITI commission and conduct a baseline awareness assessment survey, in order to measure increased levels of awareness of EITI in Iraq against this survey.

19. EITI Requirement 19

Oil, gas and mining companies must support EITI implementation.

19.1. Evidence

All 34 buying companies completed their EITI reports, after some delays obtaining contact details. However, as Section E below shows, only four out of the 34 buying companies submitted self-assessment forms as part of the Validation exercise. The Validator repeatedly requested the IEITI Secretariat for all companies to submit their self-assessment forms, however, it was not possible to obtain the missing 30 forms.

19.2. Stakeholder Views

While those companies that sit on the ISC/MSG are enthusiastic supporters of EITI in Iraq, it is less clear to what extent other companies (for instance, the other 30 buying companies that did not submit self-assessment forms) are engaged with the process. It is also not clear to what extent all companies who have signed TSCs with SOMO in the past three years have been engaged.

19.3. Validator's Judgement

Section 4.4 of the 2011 EITI Rules states that the Validator does not need to judge whether this requirement has been met.

However, it is recommended that IEITI engages with all buying and producing companies throughout Iraq through a series of workshops to engage them fully in EITI reporting and activities.

20. EITI Requirement 20

The government and multi-stakeholder group is encouraged to take steps to act on lessons learnt, address discrepancies and ensure that EITI implementation is sustainable. Implementing countries are required to submit Validation reports in accordance with the deadlines established by the Board.

20.1. Evidence

The first appointed reconciler, PWC, included a Lessons Learnt section in their report. In addition, the civil society coalition Transparency Alliance has produced a constructive critique of the first report (see requirement 16 above). Meanwhile, following on from the second Validation mission, the ISC/MSG **has now produced** a lessons learnt document that identifies areas of remediation. A second reconciliation report is now planned and included in the 2012 work plan, with a completion date of the fourth quarter, 2012. The Validator was not given a terms of reference for the second IEITI reconciliation report. The following table lists all the remedial actions recommended by both the reconciler and civil society.

	Remedial action	Addressed in 2012 work plan/Lessons Learned Report?
	Reconciliation Report recommendations	
1	Reporting template should have an FAQ	yes
2	Emphasis on reporting deadlines & follow-up mechanism	yes
3	Earlier communications with reporting entities on confidential information disclosure	yes

4	Provide clarification on “other payments”	yes
5	Provide guidelines on signing templates	yes
6	Oil buyers should provide their audited financial statements to SOMO on an annual basis	yes
	Transparency Alliance recommendations	
7	Ensure report is adequately translated and there are no discrepancies between Arabic, Kurdish and English versions	yes
8	Reconcile domestic crude in future reports	Yes
9	Ensure there is reconciliation with Federal Reserve Bank/IDF data in future reports	yes
10	Include KRG exports (including by truck/land) in future reports	yes
11	Future reports should provide clarification on export contracts/pricing mechanisms	yes

20.2. Stakeholder Views

CSOs outside of the ISC/MSG have developed an extensive list of recommendations (beyond those identified in requirement 16 above), which are yet to be addressed.

20.3. Validator’s Judgement

Section 4.4 of the 2011 EITI Rules states that the Validator does not need to judge whether this requirement has been met.

Meanwhile, it appears that plans for the 2010 report are on hold pending the validation exercise. It is recommended that the reconciliation reporting process is de-linked from the validation exercise, and that overall plans for the 2010 report are drawn up as soon as possible. Finally, it is recommended that IEITI strive to reduce the gap between the publication of the reconciliation report and the end of the financial year to six months maximum.

E. Company Implementation

The Company Self-Assessment forms were given to all 34 buying companies initially selected for reconciliation, as well as the four NOCs. However, only four IOCs responded with completed forms. The Self-Assessment forms asks **five** questions:

Question 1: Has the company made public statements in support of the EITI process in this country?

Question 2: Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g. laws and MOUs) and, where appropriate, meeting with stakeholders?

Question 3: Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?

Question 4: Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?

Question 5: Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?

Summary of Company Validation forms

Company	Questions					Comments
	1	2	3	4	5	
ExxonMobil Iraq Ltd.	Yes	Yes	Yes	Yes		<p>Q1. ExxonMobil has spoken internationally in support of EITI.</p> <p>Q2. ExxonMobil Iraq disclosed material payments in compliance with IEITI reporting templates. As we have previously expressed to the ISC, in our view, the reporting of certain data in the report in a disaggregated company-by-company form was not in compliance with the Terms of Reference covering data reporting that had been agreed by the ISC</p> <p>Q5. This question is not applicable to Exxon Mobil Iraq, as no queries were made.</p>
Lukoil						
PetroChina						
Shell Iraq Ltd.						

F. Overall Assessment

Since the appointment of the National Coordinator, Mr. Alaa Mohie El-Deen, in March 2009, IEITI in Iraq has made tremendous progress in challenging circumstances. The first IEITI reconciliation report is a remarkable achievement and creates momentum for the initiative to strengthen and deepen in the coming years. As the industry structure has changed from entirely state-owned in 2009 to one which includes substantial involvement from International Oil Companies, the challenge will be for IEITI to produce reports that improve year on year in step with the increasing complexity of the sector in Iraq.

1. Sign-up (requirements 1-5)

All sign-up requirements are now met, following on from the development of a redrafted bylaw for the ISC/MSG and a 2012 work plan and the plans to publish the work plan both online and in the print media.

2. Preparation (requirements 6-13)

All preparation requirements are met. There is an ambiguity around international accounting standards and the Board of Supreme Audit. According to the reconciler, the BSA's standards are based on international standards from the 1980s, whereas the BSA states that international standards are followed in the absence of internationally-compliant local standards. For the 2009 report, there was not 100% consistency in terms of signing and stamping completed templates as well as for companies to attach their audited financial statements.

3. Disclosure (requirements 14-17)

All disclosure requirements are met. Given the 100% state-owned structure of the oil and gas sector in 2009, disclosure was a simple matter of reconciling crude oil flows between the National Oil Companies and the government oil marketing agency SOMO as well as payments and receipts between SOMO and the international oil companies buying crude.

4. Dissemination (requirement 18)

The dissemination requirement is met. However, IEITI appears not to have a communication strategy to plan and coordinate its communications activities. There was however a successful initial launch of the first report in March 2012, and outreach and dissemination activities are now being implemented.

5. Review (requirements 19-20)

Those IOCs on the ISC/MSG – Shell, ExxonMobil and PetroChina – are enthusiastic supporters of IEITI. However, it is not clear the extent to which other companies have been engaged. The difficult political issue of the Kurdistan Regional Government (KRG) means it is unlikely that oil companies contracted through the KRG will be included in the next reconciliation report. The ISC/MSG has now produced a lessons learned report, which feeds into plans for the second reconciliation report.

²

G. Narrative Report

1. The Impact of EITI in Iraq

Iraq's budget is 90% financed by oil revenue. The national budget is used to develop the country, build critical infrastructure, provide essential services and raise the living standards of the Iraqi people. Implementing EITI in Iraq provides data and analysis on the extractive industries, and in particular the oil sector. More specifically, IEITI provides information on the volume of crude oil production, how prices are set, the allocation of crude to different buyers and markets, and the oil revenue accrued to the country. The impact of this information is that it raises the awareness of both the Iraqi people and CSOs about oil revenue and oil sector data. It encourages both the public and CSOs to monitor national and local government and to assess how oil revenues are spent. In this way, increased sector information fosters a spirit of transparency and accountability, encouraging good governance and supporting the eradication of corruption. Furthermore, IEITI encourages sector experts and researchers to make suggestions on how to redirect oil revenues for the benefit of the Iraqi people, for economic development and the provision of essential services. IEITI also helps build trust and confidence between the Iraqi public and the government, at the same time as encouraging dialogue between national and local government. Finally, the implementation of EITI in Iraq helps to give confidence to foreign investors to invest in the country.

2. The Sustainability of the EITI process in Iraq

Civil society, in coordination with the ISC and the Government of Iraq are planning a draft EITI law to make participation in the initiative mandatory for all core stakeholders. IEITI has already introduced clauses in the oil sales and service contracts to ensure compliance with IEITI. IEITI is also developing a mid-term strategy to ensure the sustainability of IEITI.

3. Innovations and Actions that Exceed EITI Requirements

The GoI is planning, in the second reconciliation report, to include a reconciliation of domestic crude, despite the challenges outlined in this report (the non-transactional nature of domestic crude flows). In addition, the second report will include production data and reconciliation from the KRG, which will be a landmark achievement.

H. Conclusions and Recommendations for Future Implementation

The following are recommendations *not* required in order to achieve compliance with EITI. However, they are recommendations the Validator proposes the ISC/MSG considers in order to strengthen the implementation of EITI in Iraq.

1. Open Data

- » Minutes to ISC meetings should be published online
- » Minutes need to include more detailed reference to the points of discussion

2. Corporate Governance

- » ISC meetings should be in Arabic and there should be a stress on reports being delivered in Arabic first
- » Decision-making within the ISC changed to majority voting

3. EITI Value Chain

- » The ISC/MSG should consider extending its transparency and accountability oversight to include contract transparency – ensuring that all variations from the model contract (for Technical Service Contracts) are published

4. Sustainability and Institutional model

- » The ISC/MSG should consider the long-term future of IEITI, in terms of its funding model and institutional model (government agency, autonomous public body or otherwise)

Annexes

A. Validation Grid

Requirement	Validator's Comments	Validator's Judgement
1. Public statement on EITI	The Minister of Oil committed to signing up to EITI at the Doha conference 16 th – 18 th February 2009. In addition, the Prime Minister gave a speech in support of EITI at the IEITI launch event, in January 2010.	Met
2. Government commitment	Presidential Order number 12 (2010) signed on the 26 th January 2010 is the formal foundation for the Iraq Stakeholders Council (ISC) – the MSG in Iraq.	Met
3. EITI champion	Former Minister of Oil, Alaa Mohie El-Deen was appointed the National Coordinator of EITI in Iraq in March 2009.	Met
4. Establish MSG	Corporate governance rules for the ISC/MSG set down in the bylaw for the body have now been updated, with stronger guidance on member selection and rules on length of tenure, disclosure of interests and disciplinary measures included.	Met
5. Work plan	An annual work plan for 2012 (including a status column) has now been drawn up and published online and in newspapers.	Met
6. Civil Society engagement	The ISC/MSG has now reviewed of how CSOs are selected onto the board, with new, more inclusive rules included in the updated ISC/MSG bylaw.	Met
7. Company engagement	IOCs operating in Iraq discuss EITI within the “IOC Forum.” At present, companies operating in the Kurdistan Regional Government are not participating in EITI in Iraq.	Met
8. Obstacles to implementation	The ISC/MSG has now commenced reviewing the regulatory/legal constraints with options analysis on a legal framework for IEITI, as originally planned in the 2010 work plan.	Met
9. Materiality/Reporting templates	Materiality was set at 1% of total crude sales on the same day the first reconciliation report was approved. It is recommended that a review of all possible forms of materiality is commissioned as part of preparations for the second reconciliation report.	Met
10. MSG approval of the reconciler	All stakeholders agree that the appointed reconciler (PWC) is trustworthy, credible and technically competent.	Met

11. Ensuring companies report	All companies did report (albeit after a delay). However, it is recommended that the Terms of Reference for the next reconciliation report includes a reconciliation with the audit of the DFI account. An MOU or other form of partnership with COFE may be considered in this regard.	Met
12. Company reporting standards	The model marketing contract should be amended to include an explicit requirement to submit audited accounts along with the completed template, as well as the company stamp and authorised signature. The same should be added for Technical Service Contracts/Production Sharing Contracts with the IOCs.	Met
13. Government reporting standards	Government templates must have an authorised signature in order to be deemed valid and completed.	Met
14. Disclosure of payments	Despite delays, all state-owned companies (NOCs) and IOCs disclosed all material payments in accordance with the agreed reporting templates. The data included in the KPMG audit of the DFI which led to the discrepancy between the IEITI report and the KPMG report – shipments to Jordan via a special price agreement – were below the agreed materiality threshold.	Met
15. Disclosure of receipts	As in 2009 the industry structure was 100% state-owned, the same analysis applies here as to requirement 14.	Met
16. MSG views on reconciliation	The ISC/MSG are satisfied with the first report. However CSOs outside of the MSG need more time to review draft findings for future reconciliation reports.	Met
17. Identification of discrepancies/ recommendations	While the first report does identify all discrepancies under the terms of the materiality threshold set, there were significant payments underneath the materiality threshold that led to a discrepancy between the IEITI report and the KPMG audit of the DFI. The audit of the DFI should be reviewed as part of the Terms of Reference for all future reconciliation reports.	Met
18. Dissemination	The ISC/MSG has now planned a series of outreach events where the 2009 report will be disseminated and discussed. It is recommended that IEITI now commission a baseline awareness survey.	Met

19. Company support	All companies involved in the oil and gas sector who were required to report did so in the 2009 report. However, as the industry structure has changed since then (with private sector IOCs involved in production) the IEITI will need to engage with these new companies to develop their awareness and understanding of EITI in Iraq.	Met
20. Acting on lessons learnt	The ISC/MSG is now preparing a review of the 2009 reconciliation report (taking inputs from CSOs and other stakeholders), as a preliminary exercise in advance of a new TOR for the 2010 report.	Met

B. Stakeholders Consulted

Name	Position	Organisation
Alaa Rasoul Mohee Eldin	Deputy Chair	Government
Hilal A. Ismaeel	Inspector General	Ministry of Oil
Asem Jihad	Officer	Ministry of Oil
Murtada Nouri	Officer	Ministry of Oil
Abdul Hadi H Farhan	Vice President	Board of Supreme Audit
Faten Hindary	Officer	SOMO
Imad Husam Aldeen	Officer	SOMO
Dia'a Ja'ifer Hacham	Director General	South Oil Company
Yahia Abd Ali Taher	Deputy Director General	Missan Oil Company
Haitham Elboukhary	Auditor	PWC
Ismail Maraqa	Auditor	PWC
Patricia Karam	Middle East and North Africa Regional Coordinator	Revenue Watch Institute
Haidar Essa	Project Coordinator	Revenue Watch Institute
Hans Nijkamp	Country Manager	Shell, Iraq
Xu Zhanfeng	Country Manager	PetroChina
Ben Van Heuvelen	Reporter	Iraq Oil Report
Jonny West	Founder	Open Oil
Amrit Naresh	Staff	Open Oil
Saeed Yaseen Mousa	Executive Director	Shaub for Democracy Culture foundation
Ibtisam Zaki Khammas Al Shamary	Executive Director	Woman For Supporting Woman Association
Ishtar Ali	Officer	IEITI
Kefah Al-Jawahiri	Member	Transparency Alliance for Extractive Industries
Ali Naama	Member	Transparency Alliance for Extractive Industries
Adnan Bhaya	Member	Transparency Alliance for Extractive Industries

C. The Iraq Stakeholders Council

Name	Organisation	Stakeholder Group
Ali Al-Allaq	Chair	Government
Alaa Rasoul Mohee Eldin	Deputy Chair	Government
Falah Jasim Al-amery	SOMO	Government
Hameed Alsa'idy	North Oil Company	Company
Dheya Jafer Hajim	South Oil Company	Company
Ai Ma'irij	Missan Oil Company	Company
Helal Ali Ismaeil	Ministry of Oil	Government
Ryadh Aziz Kareem	Phosphates Company/Ministry of Industry	Company
Salem Boles Ibraheem	Ministry of Industry	Government
Farook Tobeya Toma	Ministry of Finance	Government
Sameer Faraj Mohamed	Integrity Office	Civil Society
Moayad aziz al-lamy	Journalist's Union	Civil Society
Abdul Saheb Najim	Accounting and Auditor's Union	Civil Society
Mohamed Al-Faisal	Lawyer's Union	Civil Society
Saeid Yaseen Mosa	Sho'ob Foundation for Democracy	Civil Society
Ibtesam Zaky Al-Shemary	Woman For Supporting Woman Association	Civil Society
Ahmad Jassam	Al Noor Al Jame'a Institute	Civil Society
Christos Mylonas	Shell Iraq	Company
Paul T. Dubetz	ExxonMobil	Company
Xu Zahafeng	PetroChina	Company

D. Company Forms



Attachment 4 – EITI Company self-assessment form

COMPANY: *EXXON MOBIL IRAQ LTD.* COUNTRY: *IRAQ*

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g. laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

Q1. *EXXON MOBIL HAVE SPOKEN INTERNATIONALLY IN SUPPORT OF EITI*
 Q2. *EM IRAQ LTD DISCLOSED MATERIAL PAYMENTS IN COMPLIANCE WITH EITI REPORTING TEMPLATES. AS WE HAVE PREVIOUSLY EXPRESSED TO THE STAKEHOLDER COUNCIL, IN OUR VIEW, THE REPORTING OF CERTAIN DATA IN THE REPORT IN A DISAGGREGATED COMPANY-BY-COMPANY FORM WAS NOT IN COMPLIANCE WITH THE TERMS OF REFERENCE COVERING DATA REPORTING THAT HAD BEEN AGREED BY THE STAKEHOLDER COUNCIL.*
 Q5. *THIS QUESTION IS NOT APPLICABLE TO EMIL, AS NO QUERIES WERE MADE.*

THE VALIDATION GUIDE

EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

Attachment 4 – EITI Company self-assessment form

COMPANY:

COUNTRY:

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g. laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:



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EITI COMPANY SELF-ASSESSMENT FORM COUNTRY-LEVEL

Attachment 4 – EITI Company self-assessment form

COMPANY:

COUNTRY:

Mark indicators below with a ✓

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), including abiding by government EITI-related directives (e.g.laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?
 Yes No
5. Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?
 Yes No

Narrative opinions

If any indicators above are marked "No", please provide an explanation:

Any other comments:

PetroChina International Iraq FZE Iraq Branch

18, Apr. 2012

EITI RULES 53

THE VALIDATION GUIDE
 EITI COMPANY SELF-ASSESSMENT FORM / COUNTRY-LEVEL

Attachment 4 – EITI Company self-assessment form

COMPANY: *Hans Nijkamp* COUNTRY: *Trinidad*
Vice President Iraq + Country Chairman
 Mark indicates below with a ✓ *Royal Dutch Shell*

1. Has the company made public statements in support of the EITI process in this country?
 Yes No
2. Has the company committed to support and cooperate with implementation of the Country EITI Work Plan (as agreed by the multi-stakeholder group), in order to identify government EITI-related directives (reg laws and MoUs) and, where appropriate, meeting with stakeholders?
 Yes No
3. Have all material payments been disclosed to the organization contracted to record figures and produce the EITI report as per agreed EITI reporting templates and pursuant to agreed timelines?
 Yes No
4. Was the data that was submitted to the organization contracted to record figures and produce the EITI report taken from accounts independently audited to international standards?
 Yes No
5. Has the company agreed to provide to the organization contracted to record figures and produce the EITI report to assist in the reconciliation of country payments with government receipts to accordance with EITI reporting templates?
 Yes No

Write the opinions

If any 'No' values above are marked 'No', please provide an explanation:

P.P. View Period

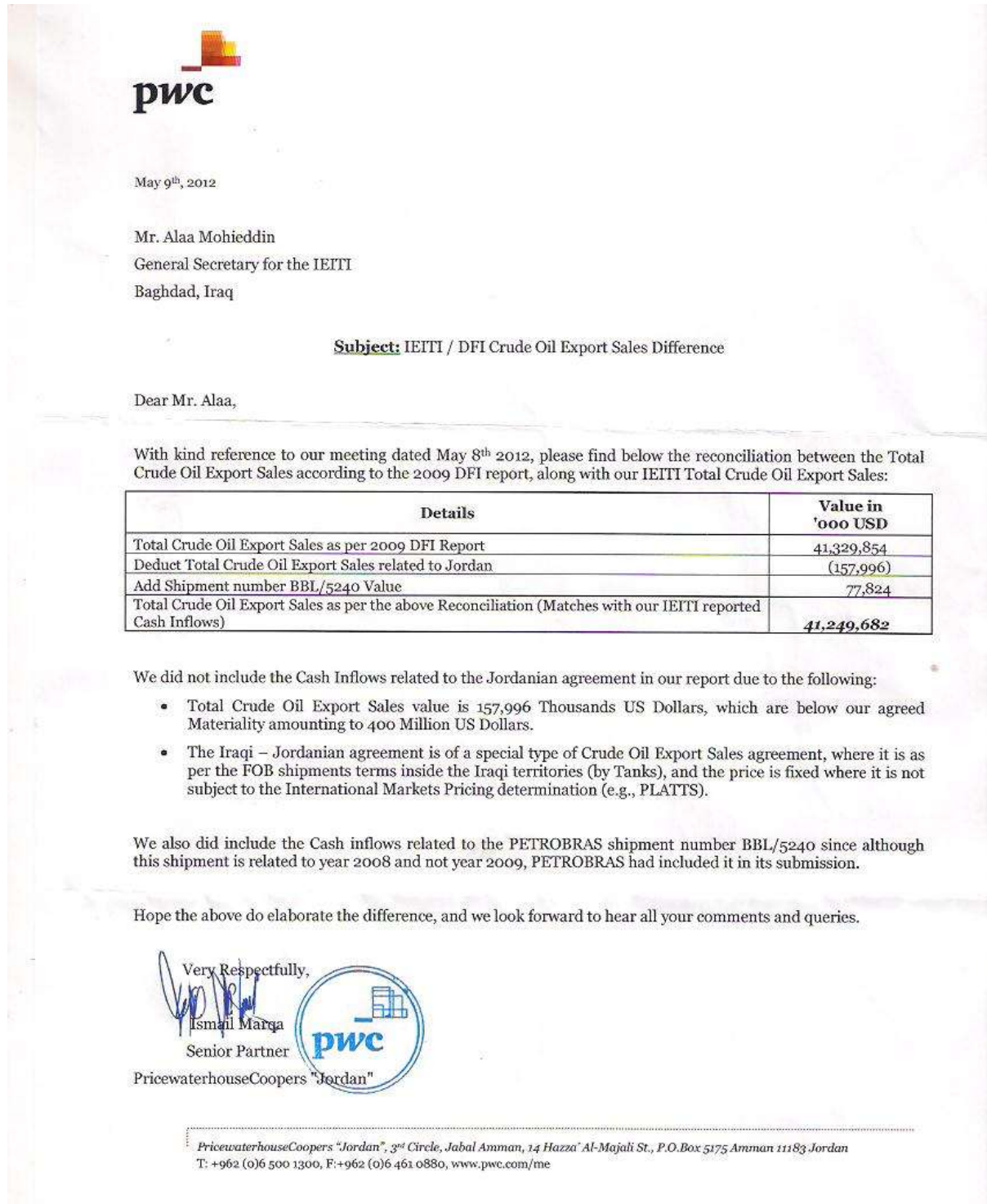
Any other comments:

E. Key Documents

The following are the key documents that were reviewed during the course of the validation exercise:

- Bylaw for the Iraq Stakeholders Council (the MSG)
- Cabinet Decree Number 12
- Company Self-Assessment Forms (taken from the 2011 EITI Rules document)
- Development Fund for Iraq Financial Statements (the KPMG audit for 2009)
- IEITI Activity Report
- IEITI Handbook
- IEITI Reconciliation Report for 2009 Terms of Reference
- IEITI MSG Meeting Minutes (eight documents)
- IEITI Reconciliation Report 2009 (written by PWC)
- IEITI Work Plan 2010 (downloaded from the internet)
- Iraq and the Kurds: the High Stakes Hydrocarbon Gambit, International Crisis Group report no. 120, 19th April 2012
- Iraqi Transparency Alliance for Extractive Industries' "Remarks on the IEITI's Reconciliation Report for 2009"
- Mock Validation meeting notes (produced by Revenue Watch International)
- Model Contract between SOMO and crude oil buyers
- Iraq report, Open Oil
- Prime Minister Noori Al-Maliki's speech, 1st October 2010

F. Source of the discrepancy between the PWC and KPMG Reports



G. Company Report Submissions to PWC

Company's Nationality	#	Company Name	Status	Stamped	Signed	Audited Reports Provided
EUROPE	1	REPSOL REPSOL YPF TRADING Y TRANSPORT S.A.	Received	No	No	No
	2	SARAS SARAS S.P.A. - ITALY	Received	No	No	No
	3	IPLM IPLM SPA ,REFINERY IN BUSALLA - GENOA - ITALY	Received	Yes	Yes	No
	4	TOTAL TOTAL INTERNATIONAL LIMITED - FRANCE	Received	Yes	Yes	No
	5	BP BP OIL INTERNATIONAL LIMITED - LONDON	Received	No	No	No
	6	API OIL APIOIL LIMITED	Received	No	No	Yes
	7	SAMIR SOCIETE ANONYME MAROCAINE DE L'INDUSTRIE DU RAFFINAGE (SAMIR)	Received	No	No	No
	8	LUK OIL LUKOIL INTERNATIONAL TRADING AND SUPPLY COMPANY	Received	Yes	Yes	No
	9	CEPSA COMPANIA ESPANOLA DE PETROLEOS, S.A. (CEPSA)	Received	No	No	No
	10	MOTOR OIL MOTOE OIL (HELLAS)	Received	Yes	Yes	No
	11	SHELL SHELL INTERNATIONAL EASTERN TRADING COMPANY LIMITED	Received	No	No	No
	12	ERG ERG REFFINERIES MEDITERRANEE S.P.A. - GENOA / OTALY	Received	No	No	No
	13	TUPRAS TURKISH PETROLIUM REFINERIES CORP. (TUPRAS) - TURKEY	Received	No	No	No
	14	PETROGAL PETROGAL S.A. LISBON - PORTUGAL	Received	Yes	Yes	Yes
	15	ENI ENI COMPANY	Received	Yes	Yes	No

USA	16	KOCH	KOCH SUPPLY AND TRADING LP	Received	No	Yes	No
	17	VALERO	VALERO SUPPLY AND MARKETING COMPANY	Received	No	No	No
	18	PETROBRAS	PETROLIO BRASILERIO S.A. - PETROBRAS	Received	No	No	No
	19	CHEVRON	CHEVRON PRODUCTS COMPANY	Received	No	No	No
	20	CONOCO PHILIPS	COMCOPHILIPS INTERNATIONAL TRADING PTE. LTD.	Received	Yes	Yes	Yes
	21	EXXONMOBIL	EXXONMOBIL SALES AND SUPPLY LLC. U.S.A	Received	No	No	No
FAR EAST	22	TOYOTA	TOYOTA TSUSHO CORPORATION	Received	No	No	No
	23	ZHENHUA OIL	CHINA ZHENHUA OIL CO. LTD.	Received	Yes	Yes	No
	24	MITSUBISHI	MITSUBISHI CORPORATION	Received	Yes	Yes	Yes
	25	NIPPON OIL	JX NIPPON OIL & ENERGY CORPORATION	Received	Yes	Yes	No
	26	BHARAT	BHARAT PETROLEUM CORPORATION LTD.	Received	No	Yes	Yes
	27	HINDUSTAN	HINDUSTAN PETROLEUM CORPORATION LTD. - INDIA	Received	Yes	Yes	No
	28	SK ENERGY	SK ENERGY EUROPE LIMITED	Received	Yes	Yes	No
	29	CHINA OIL	CHINA NATIONAL UNITED OIL CORPORATION	Received	Yes	Yes	No
	30	PETRONAS	PETRONAS TRADING CORPORATION SDN BHD (PETCO)	Received	Yes	Yes	No
	31	SINOCHEM	SINOCHEM INTERNATIONAL OIL (LONDON) CO. LTD	Received	Yes	Yes	No
	32	UNIPEC	UNIPEC ASIA CO. LTD.	Received	Yes	Yes	No
	33	PETROVIETNAM	PETROVIETNAM OIL CORPORATION (PV OIL)	Received	No	No	No
	34	INDIAN OIL CORP.	INDIAN OIL CORPORATION LIMITED - INDIA	Received	No	No	No