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SOLOMON ISLANDS EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (SI EITI)

INCEPTION REPORT

SI EITI RECONCILIATION FOR THE YEARS 2012 and 2013

June 2014



This report has been prepared at the request of the SI EITI MSG charged with the implementation of the Extractive Industries Transparency Initiative in the Solomon Islands. The views expressed in the report are those of the Independent Reconcilers and in no way reflect the official opinion of MSG. This report has been prepared exclusively for use by MSG members and must not be used by other parties, nor for any purposes other than those for which it is intended.

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LIST OF ABBREVIATIONS

CBSI	Central Bank of the Solomon Islands
CED	Customs & Excise Division
EITI	Extractive Industries Transparency Initiative
GRML	Gold Ridge Mining Limited
IRD	Inland Revenue Division
MCIE	Ministry of Commerce, Industry and Employment
MMA	Mines and Minerals Act
MMERE	Ministry of Mines, Energy and Rural Electrification
MoFT	Ministry of Finance & Treasury
MSG	Multi-Stakeholder Group
NPF	National Provident Fund
NPF	National Provident Fund
NSG	National-Stakeholder Working Group
OPMC	Office of the Prime Minister and Cabinet
SBD	Solomon Islands Dollar
SIEITI	Solomon Islands Extractive Industries Transparency Initiative
ToRs	Terms of Reference
US\$	United States Dollar

1. EXECUTIVE SUMMARY

1.1. Overall Objective

The objective of the engagement is to carry out a detailed reconciliation of payments made by relevant extractive companies to revenue data provided by Government Agencies of the Solomon Islands. Specifically, the main tasks to be performed to achieve this objective include:

- a review of the EITI scope developed by EITI National Secretariat and MSG;
- the design of a reporting template and developing guidelines;
- the distribution of the reporting template along with accompanying instructions;
- collecting declarations from taxpayers as well as from Government Agencies and performing the reconciliation of the data collected;
- the identification and explanation of differences; and
- the formulation of useful recommendations to improve inadequacies and weaknesses.

1.2. Scope of work

We have carried out the work towards our Terms of Reference for the purpose of reviewing the scope of the reconciliation exercises for 2012 and 2013. This work covers the extractive industry in the Solomon Islands and its related entities (Government Agencies and extractive companies).

Our findings and proposed scope for the reconciliation exercises are set out in the relevant sections of our report, which is made solely to the Solomon Islands Extractive Industries Transparency Initiative (SIEITI) Secretariat in order to assist the SIEITI MSG in defining the perimeter for the reconciliation exercises including:

- the revenue streams to be reconciled;
- the extractive companies that will report;
- the Government Agencies to be included in the process;
- the materiality threshold for the revenue streams;
- the reliability of data provided by the reporting entities; and
- the degree of aggregation of data in the EITI report.

Our work included a general understanding of the extractive sector in the Solomon Islands. We have also carried out interviews with several entities involved in the EITI process in order to collect relevant information and documentation necessary to achieve the objectives of the scoping study.

1.3. Limitations to the scope of our study

- i. Gold Ridge represents the only Production Company and we are informed by MSG that its tax payments represent 99.9% of the Government's income stream from the mining sector. However, Gold Ridge has temporarily suspended its activities in the Solomon Islands and we have not been able to meet any of its key representatives. In the event they do not cooperate by failing to submit duly filled in reporting templates, this would jeopardise the entire reconciliation exercise.
- ii. Throughout our meetings with Government Agencies and Extractive Companies, we have requested information to check the materiality of taxes and companies selected on the basis of amounts paid. However:

- the Ministry of Provincial Government and Institutional Strengthening is not in a position to provide us with any information on the revenues streams collected by the different Provincial Governments from the mining companies unless it receives formal request from the Prime Minister's Office. As a result we were unable to analyse the importance and materiality of payments made to these government entities. It is worth noting that mining companies confirmed that they made payments to several Provincial Governments such as Business Fees. In addition and according to the Agreement signed between the Government and the Solomon Islands' sole operational mine (Gold Ridge), the Government shall establish funds to receive payments of royalties for the benefit of the Gold Ridge landowners (80%) and the Provincial Government (20%) (Cf. point 4.1.5 of the present report); and
 - the companies we have met with will get back to us once they have contacted their Board of Directors.
- iii. According to the information made available by the Customs and Excise Division (CED), there were 26 exporters in the mining sector (individuals and companies) which paid export duties during the period covered by the reconciliation exercises in addition to the sole production company (Gold Ridge Mining Limited). However, we were not provided by the MMERE with any details on the export licences granted as well as on the small mining sector. As a result, we were not able to reconcile the list of export permits granted by MMERE with the list of exporters provided by CED. We therefore proposed to include the revenues collected from all the mining exporters through a unilateral disclosure by the Government Entities.
- iv. The Agreement signed between MMERE and GRML (the sole production company) states that: "The mining company shall, no later than seven days after the end of each subsequent calendar quarter during the term of this Agreement, submit to the Minister a production statement containing the quantity of gold and other minerals produced". However, MMERE was unable to provide us with the production statements related to the reconciliation period, we only received the first quarterly report for 2014.
- v. We were not able to exploit the financial data provided by the under-secretary of the Ministry of Commerce, Industry and Employment (MCIE). The latter mentioned that MCIE is not in a position to provide us with assurance on the completeness of the information collected.

1.4. Key Conclusions

The main conclusions of our work can be summarised as follows:

1. According to information made available by MMERE, there were no operational activities carried out by extractive companies during the reconciliation period in the oil and gas sector. The Solomon Islands has no indigenous sources of natural gas or oil and lacks oil refining facilities. Therefore all of the country's oil and gas requirements must be imported.
2. The proposed materiality threshold for the reconciliation scope based on Government Entities revenues, is set at SBD 3.5 million (approx. USD 0.5 million) which is equivalent to 2.03 % of the total income from the extractive sector declared by the government.

The materiality threshold proposed above means that extractive companies contributing 97.97% of total reported payments will be included in the reconciliation exercise. This was achieved by including all companies which have made payments in excess of SBD one (1) million (approx. USD 144,000). According to this threshold three additional extractive companies should be selected for the reconciliation exercise 2012 and 2013. As a result, the list of the companies agreed by MSG is as follows:

N° Mining Companies	
1	St Barbara Mining Ltd (GRML)
2	SMM Solomon Limited
3	Nautilus Minerals Solomon Islands

- 4 Bluewater Metals (SI) Ltd
- 5 Axiom Mining Ltd
- 6 Pacific Porphyry (SI) Ltd
- 7 Solomon Sheet Steel Ltd
- 8 S.I Cement Products Limited

3. For extractive companies and mining exporters which have made payments of less than SBD one (1) million, we recommend unilateral disclosure of Government Entity receipts from these companies and individuals, in accordance with point (b) of EITI Requirement 4.2.
4. 31 payment streams were identified and proposed for the reconciliation exercises 2012 and 2013. The table below shows the different categories of the selected payment streams and the reporting entities concerned by the reporting:

Type	Excel Sheet
a. Identification sheet	Extractive companies only
b. Reporting template	Extractive companies & Government Agencies
c. Payment flow details	Extractive companies & Government Agencies
d. Social payment details	Extractive companies only
e. Production details	Extractive companies & Government Agencies
f. Export details	Extractive companies & Government Agencies
g. Sub-national transfers	Government Agencies only

5. Based on the proposed list of extractive companies and payment streams, the Government Entities which will be covered in the reconciliation exercises 2012 and 2013 are detailed as follows:

Central Entities	
1	Ministry of Finance & Treasury (MoFT)
2	Inland Revenue Division (IRD)
3	Customs and Excise Division (CED)
4	Ministry of Mines, Energy and Rural Electrification (MMERE)
5	Ministry of Commerce, Industry and Employment (MCIE)
6	Central Bank of Solomon Islands (CBSI)
7	National Provident Fund (NPF)
Provincial Government	
8	Central
9	Choiseul
10	Guadalcanal
11	Isabel
12	Makira Ulawa
13	Malaita
14	Rennell and Bellona
15	Temotu
16	Western

6. In accordance with Recommendation 19 of the EITI source book, we recommend applying a margin of error for the resulting discrepancies, after adjustment, between the payments made by the extractive companies and revenues reported by Government Entities, equal to 1% of total declared revenues. The margin of error proposed above means that the reconciliation work will be completed if the final net difference between companies' payments and government receipts is equal or less than 1%.

7. For the purpose of the reconciliation work, we recommend retaining the threshold of **SBD 10 thousand** to define a material deviation of an individual financial flow. All discrepancies exceeding this amount should be investigated and would ultimately require the submission of justification from reporting entities in order to proceed with the analysis and adjustment.
8. Based on our scoping study and in order to ensure credibility of the figures reported by extractive companies and Government Entities, we recommend that:
 - all reporting templates submitted by extractive companies or Government Entities should be signed off by an authorised officer;
 - all reporting templates submitted by extractive companies should be certified by their statutory auditors or by an external auditor;
 - all reporting templates submitted by Government Entities should be certified by the Auditor General; and
 - a letter is issued by the Auditor General to confirm that the Government Entities reporting were audited under International Standards.

However, we were informed by the Auditor General's office that he will not be able to certify the reporting templates and to issue a letter to confirm that the Government Entities reporting were audited under International Standards. The Auditor General's staff stated during our meeting that the lack of available human resources and the short deadline to meet do not allow him to provide the requested certification.

9. We recommend that the EITI report will present the reconciliation results on a disaggregated basis. The report should present figures by individual company, government entity and revenue stream.



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2. APPROACH AND METHODOLOGY

2.1. Opening Meeting

The inception phase started on 5 May 2014 by an opening meeting with the SI EITI Secretariat during which we were able to discuss the objectives of the assignment, request all documents and information required for the inception phase and schedule all interviews to be conducted with key people of Government Agencies and extractive companies.

2.2. Meetings with Authorities and Companies

We conducted interviews with key officials of Government Agencies and companies. During these meetings, we explained that this phase would involve understanding and documenting the size of the Solomon Islands Extractive industries, established practices and tax system and the payment flows within the extractive industry, including payments and transfers between local and district levels of government, as well as the identification of all extractive companies and Government Agencies involved including companies that trade and export minerals extracted by artisanal and small scale mining operations.

We also explained that this information would be gathered and assimilated through a review of official documents.

In addition, we were able to take cognizance of various taxes paid by extractive companies, the nature of the information available within the various administrations and procedures implemented.

Government entities and mining companies contacted in this regard are as follows:

Government Entities

Ministry of Mines, Energy and Rural Electrification - MMERE

Ministry of Commerce, Industry and Employment - MCIE

Ministry of Finance & Treasury - MoFT

Customs and Excise Division - CE/MoFT

Inland Revenue Division - IRD/MoFT

Central Bank of Solomon Islands - CBSI

Office of the Prime Minister and Cabinet - OPMC

Mining Companies

Nautilus Minerals

Bluewater Metals (Solomon Islands) Ltd

Axiom Company Ltd

2.3. Data collection

In order to understand and document the size of the Solomon Islands Extractive Industry: payment flows, extractive companies and Government Agencies involved in this sector, we collected data on:

- the legislation applying to the extractive sector;
- the revenues and payment streams received by Government Entities;
- the updated list of the different mining licenses granted by MMERE ;
- statistics and financial indicators of the extractive sector in terms of contribution in the Solomon Islands revenue performance; and
- all changes which occurred during 2012 and 2013 with regards to legislation, new contracts or agreements that might impact the extractive sector.

2.4. Data Compilation

In order to identify all payment flows as well as relevant entities in the extractive sector, we conducted the following controls and calculations:

- collection of the list of all active licences during the reconciliation period;
- collection of all receipts made by the state from companies operating in the extractive sector;
- reconciliation of the list of mining licences provided by MMERE with the list of companies declared by the other Government Entities;
- consolidation of revenues collected by Government Entities by type of flow and by company;
and
- calculation of the impact of the consolidation results on the materiality analysis.

3. OVERVIEW OF THE MINING SECTOR IN THE SOLOMON ISLANDS

3.1. Background and profile of the mining sector in the Solomon Islands

The mining industry is currently at an early stage of development but has the potential to become the single largest component of GDP in the future, contributing to government finances and foreign exchange earnings.

The Gold Ridge Mine is the only operating mine in the Solomon Islands. Gold Ridge expected production is 135,000 ounces a year during the first five years and 120,000 ounces annually during the subsequent two years. Production so far been disappointing as a result of ongoing disputes between St. Barbara Limited and landowners disrupting production, the quick depletion of the mine's most productive pits, and illegal mining. In 2013, output was 59 000 ounces, significantly short of the amount envisaged when the mine started operating. This and the impact of the near-30 percent fall in international gold prices from their 2012 peak throws into doubt the mine's profitability.

Other potential mineral deposit sites have been identified in Guadalcanal, Isabel, Choiseul, and Western Province. To date three companies have been granted mining licenses and there are 16 companies prospecting in the country – two off shore and 14 on shore. These include Sumitomo Metals Mining, Newmont, Nautilus, and Allied Gold.

The Solomon Islands' most significant mining potential remains untapped pending the resolution of a license dispute between two foreign firms and clarification on land access regimes. If it were to go ahead, the Sumitomo nickel project, with a projected 30 year life, would be easily the country's largest mining project. Initial production would be by direct shipping of unprocessed ore worth \$150-200 million (depending on prices) but development of a nickel refinery facility, involving \$1.25 billion of investment and exporting approximately 30,000 tons of nickel per year, could follow within a 10 year period after the start of mining. Exports could be worth US\$460 million per year and more than 1,000 jobs could be created.

Mining could contribute significantly to the Solomon Islands' economic development if plans are put in place for investing the proceeds in basic services and community development. Even if the benefits of new mining projects are shared equitably with foreign investors, the direct benefits to the local economy would be spread unevenly, with some parts of the country benefitting greatly and others remaining untouched. However, even if mining revenue should increase substantially, it will still be important to broaden exports and production in order to create employment and income for a large number of Solomon Islanders.

3.2. Legal context

The Mineral Policy is dictated by the Mines and Minerals (Amendment) Regulation of 1999. It has been formulated with the aims of strengthening integration of the mineral sector with other sectors of the economy; improving economic environment for investment; maximising benefits from mining; improving the legal environment; strengthening capacity for administration of the mineral sector; developing small scale miners; promoting and facilitating value addition to minerals; and strengthening environmental management.

The Mines and Minerals Act creates a centralised regulatory framework for mining in the Solomon Islands, primarily consisting of three main stages: reconnaissance, prospecting and mining.

3.3. Licensing

Three types of licence are available to the large-scale operators:

- **Reconnaissance Permits:** Reconnaissance is the first stage in the mining process, for which a company must obtain a Reconnaissance Permit from the government. Reconnaissance is more straightforward than prospecting and mining. A company with a Reconnaissance Permit is only allowed to take photos and small samples from rocks on the surface of the ground. A Reconnaissance Permit does not allow the use of machinery to drill holes or dig trenches in the ground. Reconnaissance Permits can cover very large areas of land. If a company has a Reconnaissance Permit, this does not mean that it will definitely go ahead to the mining stage – it just means the company wants to look around and see if it can find any minerals worth examining further. A Reconnaissance Permit lasts for one year and can be renewed for one additional year.
- **Prospecting Licence:** Prospection is the second stage in the mining process. If a company wants to prospect it must first get a Prospecting Licence from the government. Prospection can be more intensive than reconnaissance. A company with a Prospecting Licence is allowed to use machinery to drill holes and dig trenches. Prospecting may involve clearing large areas of vegetation to allow vehicles and drilling rigs onto the land. A Prospecting Licence can cover an area of up to 600 square kilometres, and is valid for three years. It can be renewed for two further two year periods. Companies do prospecting to learn about the amount and type of minerals in the area. If they find what they are looking for they may proceed to the next phase (mining). If they do not find what they are looking for, they will likely not do any further work.
- **Mining Lease:**
Mining is the third and most important stage. A company will want to go ahead with mining if there are enough minerals in the ground to make mining worthwhile (the process used to decide this is known as a 'feasibility study'). If a company wants to carry out mining it must get a Mining Lease from the government. Mining Leases cover a smaller area of land than Reconnaissance Permits and Prospecting Licences, but a company with a Mining Lease is likely to do much more extensive work than during the other phases. This work includes constructing roads and site clearing, extracting ore from the ground, disposing of unwanted waste rock and soil ('overburden'), processing the ore and disposing of the processing waste ('tailings'). A Mining Lease lasts for 25 years, with unlimited additional renewals for 10 years at a time.

Small scale mining in the Solomon Islands is centrally regulated through the MMA. Part VI of the MMA sets out a separate process for small-scale miners to obtain permits, referred to as 'alluvial miner's permits'. 'Alluvial mining' in this context refers specifically to small scale mining carried out by individuals or groups.

3.4. Environmental Framework

The Mines and Minerals Act does not contain extensive environmental protections. It empowers the Minister for Mines to make regulations for the disposal of waste and the protection of the environment. These regulations primarily require a mineral sector developer to 'carry out operations with due diligence, efficiency and economy and in accordance with good technical engineering practices generally used in the mining industry.

The Environment Act imposes two contingencies on mineral sector developments.

First, the Environment Act requires a mineral sector developer to obtain a Development Consent from the Director of the Environment and Conservation Division before it is allowed to carry out a

'prescribed development'. The Environment Act sets up a second contingency for mineral sector developments which requires a mine to be licensed.

3.5. Taxation

The current mining tax regime comprises of a number of pieces of generic legislation. There is currently no sector-specific tax policy. The primary legislative instruments having a bearing on the sector: Income Tax Act, Sales Tax Act, Goods Tax Act, Customs and Excise Act and Stamp Duties Act

Income Tax: Income tax is charged by assessment on the total income (excluding exempt income) derived by any person (individuals, corporations or body of persons excluding partnership). In ascertaining the total income chargeable with tax, certain specific and general categories of expenditure are allowed as deductions.

Goods Tax: Goods tax is charged on the sale value of goods manufactured in the Solomon Islands and goods imported into the Solomon Islands for home consumption. The sale value of goods manufactured in the Solomon Islands is generally the wholesale price of the goods. The sale value of goods imported for home consumption in the Solomon Islands is 130% of the sum of the cost, insurance and freight (CIF value) plus customs duty payable.

Sales Tax: Sales tax is a tax on the supply of certain prescribed goods and services. Tax is charged on the goods and services by the vendor at the time of supply/sale and is subsequently remitted to the Commissioner.

Royalties: MMA requires mining lease holders to pay royalties, but does not prescribe specific royalty rates. Instead, MMA and the Customs and Excise Act provide that the Minister for Mines may set the royalty rate on a case-by-case basis, in consultation with the Minister for Finance. According to the Agreement signed with the Solomon Islands sole operational mine, Gold Ridge, the royalty rate was set at 1.5% of gross revenue from the sale of gold and silver. The MMA permits the Minister for Mines, on application from a mining lease holder, to defer or wholly or partly remit royalty payments.

Import duties: The Customs and Excise Act provides for the levy of import duties. Some imports capable of being classified as input to manufacturing are granted a generic partial exemption, while some specified imports receive a full exemption. The relevant Minister has discretion to grant ad hoc exemptions.

Export duties: Export duties are levied by virtue of the Customs and Excise Act, and apply to the export of natural resources. This can be contrasted with the export of manufactured goods, which instead are covered by the goods tax provisions set out in the Goods Tax Act. The Customs and Excise Act applies a 15% duty to the export of minerals. The MMA mandates that mining lease holders are liable to pay export duties. MMA states that the Comptroller of Customs and Excise must take into consideration the royalties paid in respect of the minerals being exported in determining the applicable export duty in a given case.

3.6. EITI in the Solomon Islands

The Solomon Islands joined the Extractive Industries Transparency Initiative in July 2012 (<http://eiti.org/solomon-islands>). The decision to join the initiative was publicly endorsed by the Minister of Finance and Treasury in January 2012.

A National-Stakeholder Working Group (NSG) was established to lead the EITI implementation in the Solomon Islands in February 2012. NSG is composed of representatives from each of the following three groups: civil society organisations, extractive companies, and the Government. NSG is led by Mckinni Dentana the EITI National Coordinator and Under Secretary Economics (Ministry of Finance and Treasury). NSG is supported by a Secretariat to deal with its day-to-day operations.

To date, the Solomon Island has yet to publish any EITI Reports.

4. RECONCILIATION SCOPE

Our work included a general understanding of the extractive sector in the Solomon Islands. We visited Government Entities and companies in order to collect relevant information on the size of the extractive sector in the Solomon Islands and its contribution to government revenues.

We have taken into account all the available information presented to us during our fieldwork.

4.1. Payment flows

For the determination of significant payment streams, we consulted Government Entities which received flows from the extractive sector. We present below details of these flows based on disclosures made by Government Entities.

4.1.1. Specific payments related to the extractive sector

All specific payments related to the mining sector identified in the Mines and Minerals Act have been included in the scope of reconciliation irrespective of the materiality threshold.

The specific flows that should be included in the reconciliation scope are listed below:

Type of Tax	Legal reference	Description
Royalties	GRML Agreement	The mining company shall pay to the Government a royalty equal to one and half percent (1.5%) of the Gross Value of all Gold and Silver produced from the Mining Area under the Mining Lease.
Mining License Fees	Mines and Minerals Act	Various fees paid by mining companies for application or renewal of licences.
Prospecting Licence Fees		
Gold Dealers License Fees		
Reconnaissance License Fees		
Alluvial License Fees		
Special Site License Fees		
Road Access License Fees		
Building Material License Fees		

The Mines and Minerals Act does not foresee any payments relating to production entitlement and signature, discovery or production bonuses.

4.1.2. Common law taxes

All payments identified in the primary legislative instruments which have a bearing on the mining sector have been included in the scope of reconciliation irrespective of the materiality threshold:

Inland Revenue Division/Ministry of Finance and Treasury.

Type of Tax	Legal reference	Description
Tax on Profit/Turnover Tax	Income Tax Act	This tax is charged each year by assessment of the total income for that tax year (excluding exempt income).
Provisional Tax	Income Tax Act	Every taxpayer in business is liable to pre-pay quarterly instalments of tax for the current tax year under the provisional tax system. The tax is assessed on the profits of the business for the previous year and is due on the 20th of March, June, September and December of the current year.
Additional Profit Tax	GRML Agreement	An additional Profit Tax shall be assessed and levied on the mining company.

Type of Tax	Legal reference	Description
Property Taxes	GRML Agreement	Mining Companies shall be subject to such taxes on real property as are generally in effect on a non-discriminatory basis. Real property shall be valued without taking into account minerals or improvements on or under land.
Pay-As-You-Earn (PAYE)	Income Tax Act	Every employer is required to deduct tax from payments made to employees under the PAYE system. The tax deducted is due for payment by the 15th day of the month following the month of deduction.
Withholdings Tax	Income Tax Act	Withholding tax is deducted from a range of specified payments to residents and non residents at varying rates. The payments subject to withholding tax and the rates of deduction include inter alia: -Contracting/Sub Contracting -Royalties -Interest -Professional Services -Management services -Rent/Lease
Sales Tax	Sales Tax Act	Sales tax is a tax on the supply of certain goods and services. It is charged on the goods and services by the vendor at the time of supply/sale.
Goods Tax	Goods Tax Act	Goods tax is charged on the sale value of goods manufactured in the Solomon Islands and goods imported into the Solomon Islands for home consumption. The sale value of goods manufactured in the Solomon Islands is generally the wholesale price of the goods.
Stamp Duties	Stamp Duty Act	Stamp duty is a tax levied on documents. Major forms of stamp duty include the duty on the sale or transfer of properties, businesses, shares and other forms of property mortgages; lease agreements, etc.

Ministry of Commerce, Industry and Employment,

Type of Tax	Legal reference	Description
Registration Fees	Companies Act	Fees paid by mining companies for registration
Residence Permit Fees	Immigration Act	Fees paid by mining companies for application for entry and residence permits
Work Permit Fees	Labour Act	Fees paid by mining companies for application for work permits

Customs and Excise Division/Ministry of Finance and Treasury

Type of Tax	Legal reference	Description
Export Duties	Customs Act	Export duty is levied on specified goods exported from the Solomon Islands.
Import Duties	Customs Act	Import duty is levied on specified goods imported into the Solomon Islands.
Goods Tax	Goods Tax Act	Goods tax is charged on the sale value of goods manufactured in the Solomon Islands and goods imported into the Solomon Islands for home consumption. The sale value of goods imported for home consumption in the Solomon Islands is 130% of the sum of the cost, insurance and freight (CIF value) plus customs duty payable

National Provident Fund

Type of Tax	Legal reference	Description
NPF	National Provident Fund Act [year]	All employees or workers through their employers are obliged to pay contributions to the Fund.

Provincial Governments

Type of Tax	Legal reference	Description
Taxes, Fees and other payments made to Provincial Government	Provincial Government Act	Business Fees and other paid to Provincial Government

4.1.3. Other payment flows and information

We propose the inclusion in the reporting template through a unilateral declaration of extractive companies the following categories of payments and other information:

- others taxes and fees; and
- social payments.

During our analysis of the extractive sector in the Solomon Islands we did not come across any other type of revenue streams collected by government entities such as the sale of the state's share of production, in-kind payments, Infrastructure provisions and barter arrangements.

a. Others taxes and fees

This category includes all other taxes and fees not listed elsewhere on the SIEITI reporting template. This category has been included in order to avoid any misunderstandings from the reporting entities and to facilitate the reconciliation work.

b. Social payments

These payments consist of all discretionary social contributions as well as those mandated by law or the contract with the government, made by mining companies to promote local development and to finance social projects in accordance with point 4.1 of EITI Standard. It encourages MSGs to apply a high standard of transparency to social payments and transfers, the parties involved in the transactions and the materiality of these payments and transfers to other benefit streams, including the recognition that these payments may be reported even though it is not possible to reconcile them.

These contributions can be made in cash or in-kind:

Type of Tax	Legal reference	Description
Social Payments		
Corporate Social Responsibility cash payments	-	These are monetary payments relating to contributions made by extractive companies to promote local development and to finance social projects. They include, inter alia, health infrastructure, school infrastructure, road infrastructure and other projects and donations for local communities.
Corporate Social Responsibility in-kind payments	-	These are non-monetary payments relating to contributions made by extractive companies to promote local development and to finance social projects. They include, inter alia, health infrastructure, school infrastructure, road infrastructure and other projects and donations for local communities.

We recommend including the social payments in the EITI scope through a unilateral disclosure by mining companies.

4.1.4. Volumes and value of produced and exported mining products

In order to comply with the new EITI Rules (May 2013), we recommend that the volume and value of exports are disclosed by the extractive companies and Government Entities for the current reconciliation exercises. As a result we have proposed in the reporting template a separate section for that purpose to be filled in by the reporting entities.

4.1.5. Sub-national transfers

According to the Agreement signed between the Government and the Solomon Islands' sole operational mine (Gold Ridge), the Government shall establish funds to receive payments of royalties for the benefit of the Gold Ridge landowners (80%) and the Provincial Government (20%).

As a result we have proposed in the reporting template a separate section to be filled in by CBSI for the transfers made to the landowners and the Provincial Government.

Type of Tax	Legal reference	Description
Sub-national Transfer		
Transfers to Landowners	GRML Agreement	The Government shall establish funds to receive payments of royalties for the benefit of the Gold Ridge landowners (80% of royalties collected)
Transfers to Provincial Government	GRML Agreement	The Government shall establish funds to receive payments of royalties for the benefit of the Gold Ridge Provincial Government (20% of royalties collected)

4.2. Extractive companies

4.2.1. Materiality threshold

The information provided to us during the inception phase was limited to the payments received by MoFT, MMERE, IRD and CED. We set out in the table below the tax collection per Government Entity from each company:

Company	2012			2013			Total	%
	IRD (MoFT)	MoFT	CED (MoFT)	IRD (MoFT)	MoFT	CED (MoFT)		
Gold Ridge Mining Limited	42,137,501	-	20,650,610	39,882,980	4,500	22,901,199	125,576,791	72.73%
Pacific Porphyry (SI) Ltd	7,946,756	114,830	-	6,073,885	114,006	-	14,249,477	8.25%
Solomon Sheet Steel Ltd	4,290,007	5,000	-	5,484,632	-	-	9,779,639	5.66%
Smm Solomon Limited	4,577,282	68,121	-	3,889,921	14,547	-	8,549,871	4.95%
Nautilus	-	2,877,256	-	-	2,747,720	-	5,624,976	3.26%
S.I Cement Products Limited	2,653,530	-	-	2,551,083	-	-	5,204,613	3.01%
Axiom	-	73,470	-	44,472	-	-	117,942	0.07%
Bluewater Metals (SI) Ltd	8,187	48,250	-	8,187	-	-	64,625	0.04%
Other companies	689,524	66,344	675,885	521,200	128,578	1,421,346	3,502,877	2.03%
Total	62,302,788	3,253,271	21,326,495	58,456,360	3,009,351	24,322,545	172,670,810	100%

According to the above table, the companies paying taxes of more than **SBD one (1) million** represent **97.87%** of the total revenue collected by IRD, CED, and MoFT.

The materiality threshold of SBD 1 million recommended above means that extractive companies making 97.87% of reported payments will be included in the reconciliation (6 companies).

However, according to MMERE, Axiom and Bluewater Metals (SI) Ltd are considered as companies having comparatively large activities despite their payments being immaterial. Consequently, these two companies were included in the reconciliation scope.

According to the above, **8** mining companies will be selected for the reconciliation exercises 2012 and 2013

For the extractive companies that have made payments falling below SBD one (1) million, they will be included in the EITI report through a unilateral disclosure of revenues streams collected by Government Agencies in accordance with the option 4.2 of EITI standard.

4.2.2. Extractive companies proposed for the reconciliation exercises 2012 and 2013

According to the previous section, **Eight (8)** mining companies will be selected for the reconciliation exercise. These companies are listed below:

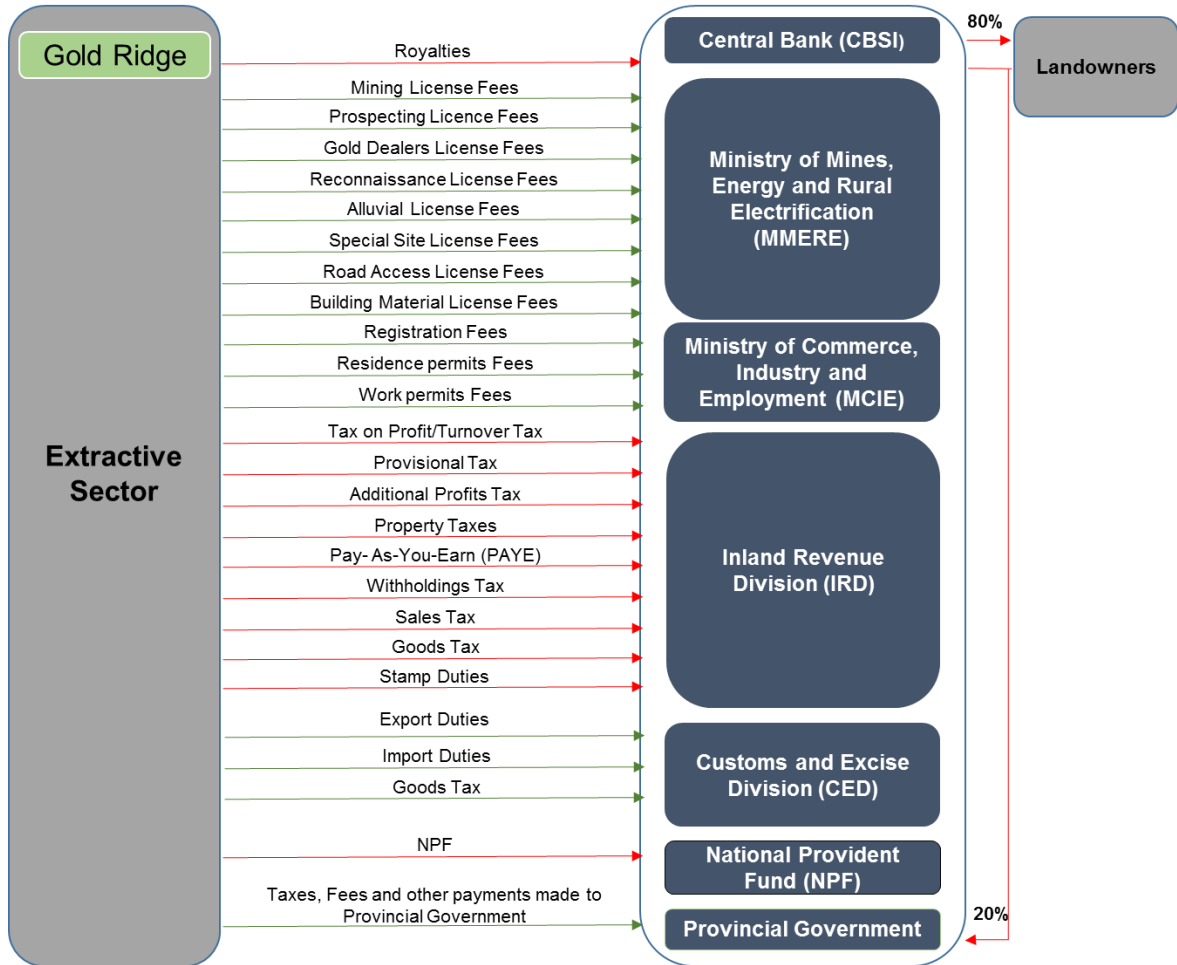
N° Mining Companies	
1	St Barbara Mining Ltd (GRML)
2	SMM Solomon Limited
3	Nautilus Minerals Solomon Islands
4	Bluewater Metals (SI) Ltd
5	Axiom Mining Ltd
6	Pacific Porphyry (SI) Ltd
7	Solomon Sheet Steel Ltd
8	S.I Cement Products Limited

4.3. Government entities

Based on the proposed list of extractive companies and payment streams, the Government Entities which will be involved in the reconciliation exercises 2012 and 2013 are detailed as follows:

Central Entities	
1	Ministry of Finance & Treasury (MoFT)
2	Inland Revenue Division (IRD)
3	Customs and Excise Division (CED)
4	Ministry of Mines, Energy and Rural Electrification (MMERE)
5	Ministry of Commerce, Industry and Employment (MCIE)
6	Central Bank of Solomon Islands (CBSI)
7	National Provident Fund (NPF)
Provincial Government	
8	Central
9	Choiseul
10	Guadalcanal
11	Isabel
12	Makira Ulawa
13	Malaita
14	Rennell and Bellona
15	Temotu
16	Western

4.4. Flow chart of payment flows



5. REABILITY AND CERTIFICATION OF DATA

In order to comply with EITI Requirement 5.2 and to ensure the credibility of data submitted, we propose the following approach in the preparation of the 2012 and 2013 EITI reports:

- ❖ All company template declarations must be signed at Board level or by a Senior Official of the company;
- ❖ All Government Agency template declarations must be signed by a Senior Official;
- ❖ All figures reported in the template declaration should be detailed payment by payment and date by date in the supporting schedule;
- ❖ Private companies are required to appoint an auditor to audit their financial statements if requested by the companies' rules. In addition, during our working meetings held with the different companies, we were informed that their previous financial statements have been audited by an external auditor.

Accordingly, Mining companies: will be required to obtain confirmation from an external auditor that their 2012 and 2013 financial statements have been audited under International Auditing Standards and that the transactions reported in the template are in accordance with instructions issued by SIEITI, are complete and are in agreement with the accounts for the years 2012 and 2013

- ❖ The Public Finance and Audit Act requires the preparation of the SIG financial statements on a cash basis. Section 38 of this Act stipulates that within a period of six months after the end of each financial year, the Permanent Secretary shall prepare the financial statements and transmit them to the Auditor General. The existing legislation provides limited detail in terms of the adoption of an appropriate financial reporting framework. However, the Chapter 2 of the Interim Financial Instructions 2014 requires that the preparation and presentation of the annual accounts must be in accordance with the IPSAS accounting standards. The MoFT has started developing the framework and supporting arrangements to allow for moving towards the IPSAS Cash Standard, and being able to meet other international reporting obligations in the future.

The SIG annual accounts should be audited by the Auditor General who is mandated by the Solomon Islands Constitution and the Public Finance and Audit Act 1978. The Section 39 stipulates that the Auditor-General shall cause the annual accounts to be examined and audited and shall, within a period of twelve months after the end of the financial year to which the accounts relate, certify in respect of each account the result of the examination and audit.

Accordingly, Government Agencies: will be required to obtain confirmation from the Auditor General that the transactions reported in the template are in accordance with instructions issued by SIEITI, are complete and are in agreement with the accounts of government for the years 2012 and 2013. The Auditor General will be required also to provide a letter confirming that the accounts of the Government Agencies were audited in accordance with international standards.

However, we were informed by the Auditor General that he will not be able to certify the reporting templates and to issue a letter to confirm that the Government Entities reporting were audited under International Standards. The Auditor General stated during our meeting that the lack of available human resources and the short deadline to meet do not allow him to provide the requested certification.

- ❖ For any update to the information provided on the original data collection templates, supporting documents and/or conformation from reporting entities will have to be made available to the Reconcilers.

6. FINDINGS AND RECOMMENDATIONS

6.1. Lack of EITI Database

It appeared that to date the SIEITI Secretariat does not have a comprehensive database of all extractive companies operating in the extractive sector. This is due to the lack of formal communication procedures between the Secretariat and Government Agencies with regard to active extractive companies.

Accordingly, SIEITI did not have the list of active companies along with their TIN, activity status (exploration or production stage), active licenses and the type of minerals extracted.

We recommend that, in the first instance, each Government Agencies selected for the reconciliation work maintains an updated database of all extractive companies operating in the extractive sector. To this end, we believe it is vital that any new entrants to the extractive sector are registered before or at the same time as they obtain their operating licence.

The Secretariat should then liaise with the Government Agencies to ensure it obtains adequate information in real time and updates the database regularly. A quarterly review with the Government Agencies of the list of extractive companies licensed to operate in the sector is also recommended.

6.2. Weaknesses in the scoping study

We noted several weaknesses in the scoping study conducted in cooperation with the EITI National Secretariat and MSG as follows:

Reporting Entities

In accordance with the ToRs there are 35 companies registered in the mining sector. We are informed that the taxes collected from the 34 prospecting companies amounted to 0.01% of the total revenue collected in the mining sector. The MSG prepared the scoping study and included the only production company and 4 prospecting companies. We are informed that the 4 prospecting companies were selected on the basis that they were actively prospecting and thus participating in the mining sector. This basis of selection is somewhat biased as it is difficult to measure such activity and this method of selection could not necessarily give a representative sample for the reconciliation exercise.

We have requested the underlying figures from the Solomon Islands Inland Revenue as well as Customs and Excise Division and the Ministry of Mines Energy and Rural Electrification in order to ascertain that the amount of revenue collected by the government from these 34 prospecting companies are actually immaterial (0.01%). However, the figures received show that the sole production company (GRML) contributes only 72.73% of mining revenue.

We also note that the data compiled by MSG is based on the total government revenue contribution in 2013 only, while 2012 has apparently been left out. This situation does not exclude the possibility that some companies could have paid more taxes in 2012. As a result, such companies would have been eliminated from the sample de facto.

The Ministry of Mines Energy and Rural Electrification provided a list of licences granted to companies in 2012 and 2013. We note that, with regard to one reporting company (Axiom Mining Ltd), the licence presented in the scoping study related to 2014 but the Ministry of Mines subsequently informed us that this Reporting Company should be excluded from the scope. However, following discussions held with the company officials, we are informed that Axiom did pay taxes previously and they are in possession of others licences. As a result, we have reinstated Axiom as part of the reporting entities within our scope.

We recommend for the future, that all data regarding licences and fees are fully reviewed when preparing the scoping study in order to ensure the completeness of the list of payments which were received during the period covered by the reconciliation.

Revenue streams

The scoping study did not include payments to Provincial Governments. We note that there are nine provincial governments (Ministry of Provincial Government and Institutional Strengthening website) which are empowered (by the Provincial Government Act 1997) to pass ordinances at their level. One of the taxes charged at provincial level is the Business Licence Fee, which was not reported on the tax template.

We were unable to meet representatives of the Ministry of Provincial Government and Institutional Strengthening in order to assess the materiality of this revenue stream.

In view of the above, we recommend, for the future, that this income stream is reconciled, but rather reported unilaterally by the reporting companies and presented in the reconciliation report for information purposes only. Going forward, these must be reported by both parties and should be reconciled.

Reporting templates

The reporting template did not include payment details for each tax. It only showed annual figures.

Details of payments are vital data for completion of the reconciliation exercise. All companies and Government Agencies should be instructed to send their detailed schedules after the start of the reconciliation exercise. It would have been more efficient and would have saved time if all reporting entities were requested to send details of their payments along with their reporting templates.

In addition, we noted that templates lacked necessary information for the reconciliation exercise such as the tax Identification number and the type of licences.

We further note that some taxes were included twice in the reporting template such as Withholdings of rent lease and professional services.

Detailed schedules should be requested with the templates and instructions for filling in the templates should be prepared and sent along with the templates. To ensure better efficiency of the reconciliation process, SIEITI could arrange for a workshop where all stakeholders are invited in order that the reconcilers are able to explain the contents of the templates provide to them with the instructions and explain their expectations.

ANNEXES

Annex 1 Reporting template and Supporting Schedule



Data Sheet (*)

Name of the Entity	
---------------------------	--

TIN	
------------	--

Company Shareholding	Name	Amount (SBD)	% Interest
	Total	-	0%

Core business	
----------------------	--

Secondary activities	
-----------------------------	--

Please state if the last financial statements have been audited (yes/no)	
---	--

Name of the last financial statements Auditor	
--	--

(*) This sheet must be filled in by extractive companies only

EITI PAYMENT/RECEIPT REPORT

(From 1 January 2012/2013 to 31 December 2012/2013)



A- Basic information

Name of the Entity (Extractive company / Government Entity)	
--	--

TIN	
-----	--

Licence No.	1.		Type of licence	
	2.		Type of licence	
	3.		Type of licence	
	4.		Type of licence	

Reporting template prepared by		Position	
Email address		Tel.	

B- Direct Payments/Revenues

Ref.	Type of Tax	Paid/Received Amount		Comments
		SBD	USD	
MMERE - MoFT- CBSI				
1	Royalties			
2	Mining License Fees			
3	Prospecting Licence Fees			
4	Gold Dealers License Fees			
5	Reconnaissance License Fees			
6	Alluvial License Fees			
7	Special Site License Fees			
8	Road Access License Fees			
9	Building Material License Fees			
MCIE - MoFT				
10	Registration Fees			
11	Residence permits Fees			
12	Work permits Fees			
IRD - MoFT				
13	Tax on Profit/Turnover Tax			
14	Provisional Tax			
15	Additional Profits Tax			
16	Property Taxes			
17	Pay- As-You-Earn (PAYE)			
18	Withholdings Tax			
19	Sales Tax			
20	Goods Tax			
21	Stamp Duties			
CED - MoFT				
22	Export Duties			
23	Import Duties			
24	Goods Tax			
National Provident Fund				
25	NPF			
Provincial Government				
26	Taxes, Fees and other payments made to Provincial Government			
Government Entities				
27	Other Taxes, Fees and others payments made to Government (*)			
Total payments		-	-	

C- Production

MMERE - MoFT		Qty	Comments
1			
2			
3			
4			
5			

D- Export

CED - MoFT		Qty	Value SBD	Value USD	Comments
1					
2					
3					
4					
5					

E- Social responsibility (*)

Social Payments		SBD	USD	Comments
28	Corporate Social Responsibility cash payments			
29	Corporate Social Responsibility in-kind payments			

F- Subnational Transfer ()**

Subnational Transfer		SBD	USD	Comments
30	Transfers to Landowners			
31	Transfers to Provincial Government			

(*) These sections should be filled in by extractive companies only

(**) These sections should be filled in by Governéent Entities only

Confidentiality - All information provided on this form shall be treated on a confidential basis and is only for the use of the Reconciler and Government solely for the purposes of EITI Reporting requirements. Other than information disclosed in the EITI Report, no information shall be disclosed to any third party without the disclosing party's written consent, unless disclosure is required by law.

Management sign-off

I acknowledge for and on behalf of the above Entity's responsibility for the truthful and fair presentation of the attached reporting template in accordance with the reporting instructions. Specifically, I confirm the following:

1. The information provided in respect of amounts paid/received is complete and has been faithfully extracted from the Entity accounting records;
2. All amounts paid/received are supported by genuine receipts and substantiated by documentary evidence;
3. The amounts paid/received exclude payments/income made before 1 January 2012/2013 and payments/income made after 31 December 2012/2013;
4. The classification of amounts paid/received on each line is accurate and does not include amounts due to be reported on other line;
5. The amounts paid/received do not include amounts paid/received on behalf of other Entities;
6. The amounts paid/received only include amounts paid/received by the Entity;
7. The accounts of the Entity on which the figures are based have been audited and an unqualified audit opinion issued.

_____ Name

_____ Position

_____ Signature and Stamp

Auditors Certification

I, (name), registered external auditor, have examined the foregoing SIEITI reporting template of (insert name of Mining Company/Government Agency) and can confirm that I have tested the completeness and accuracy of the extraction of the payments data included on the reporting template from the audited accounting records/financial statements of the Entity for the period(s) [stat dates] under International Auditing Standards.

Based on this examination, we confirm that the transactions reported therein are in accordance with instructions issued by TETI, are complete and are in agreement with the books of account for the respective period.

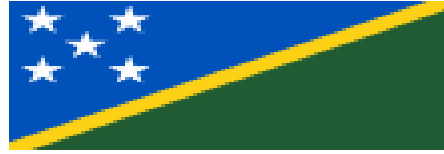
_____ Name

_____ Position within the Audit firm

_____ Name of the Audit Firm (if applicable)

_____ Address of the Audit Firm (or Auditor)

_____ Signature and Stamp



Template for payment flow details (*)
(From 1 January 2012/2013 to 31 December 2012/2013)

Name of the Entity
 (Extractive company /

TIN

Prepared by

Date	Receipt No.	Payment description / tax name	Amount SBD	Amount USD
Total			-	-

(*) If more convenient, the supporting schedules can be prepared in another format or be in the form of computer print outs or typed lists. However, they must contain the same information. Critical information that should be included is the official receipt number and payment date as without this, it will be very difficult to trace the payment/receipt in the records of the extractive company or Government Entity.



**Template for social payments details (*)
(From 1 January 2012/2013 to 31 December 2012/2013)**

Name of the Entity

TIN

Prepared by

Date	Type/kind of contribution	Location of expenditure	Paid to	Amount SBD	Amount USD
Total				-	-

(*) This template must be filled in by extractive companies only



**Template for production details
(From 1 January 2012/2013 to 31 December 2012/2013)**

Name of the Entity

TIN

Prepared by

Date/month of production	Type/Quality of Mineral/Product	Field/Licence	Unit	Quantity
Total			-	-

(*) This template must be filled in by extractive companies only



Template for Subnational Transfer details ()
(From 1 January 2012/2013 to 31 December 2012/2013)**

Name of the Entity

TIN

Prepared by

Date	Type /kind of contribution	Paid to	Amount SBD	Amount USD
	Total	-	-	

(**) These sections should be filled in by Governéent Entities only

Annex 2 List of mining companies paying taxes below the materiality threshold

N°	Other Companies	N°	Exporters
1	Honiara Holdings Ltd	1	Jennifer Sifoni
2	Australian Resource Management (ARM) Pty	2	Canada Sunny (SI) Co Ltd
3	Eastern Porphyry (SI) Ltd	3	Zheng Enterprises Ltd
4	Solomon Bauxite Limited	4	Wilfred Baetalua
5	Asia Pacific Investment Development Ltd	5	Micheal Bosa
6	Solomon Resources Ltd	6	Joe Hoasihau
7	Investment on Resources of Solomon Islands Co.	7	Island Gold
8	Guadalcanal Resources Pty Ltd	8	Mary Makau
9	Solomon Alluvial Mining Ltd	9	Chen Zhen Company Ltd
10	Guadalcanal Exploration Pty Ltd	10	Philip Neisa
11	Kentor Energy Pty Ltd	11	JUDITH SAKE
12	Solomon Commodities Ltd	12	MR MICHEAL TSINGOLIS
13	Tymnah Mineral Resources Pty Ltd	13	LSE Store
14	Global Ore Pty Ltd	14	Henry Matoku
15	Nepia and Wasara Mining Ltd	15	Japhet Fatai Olofia
16	Au Capital Mining	16	Nazar Gold (SI) Limited
17	Sol-Sing Marine Enterprises Ltd	17	Geoffery Hanaria
18	South Pacific Minerals Ltd	18	Landends Ltd
19	Omex Resources Ltd	19	Jackson Holosiui
20	Worldlink Minerals Ltd	20	Peter Likai
21	Minerva Investment Ltd	21	Mr Thomas Roubas
22	Linc Corporation Ltd	22	PAWEL MISIEC
23	Worldlink Gold and Copper Ltd	23	Maxi Hura
24	Solomon Mining Resources Ltd	24	Kingdom Jewellery Company Ltd
25	Oriental New Energy Group Co. Ltd	25	Fred Navi Koelua
26	Sino Solomon Resources Group Co. Ltd	26	Hon Bradley Tovosia
27	Solomon Islands Gold Pty Ltd		
28	SIPIC (Solomon Islands Property Investment		
29	PT Mega Bintang Borneo Ltd		
30	Phoenix International (SI) Limited		
31	Solomon Islands Cement Ltd		
32	Red Devil		
33	BJM International Ltd		

Annex 3 Persons contacted and involved in the assignment

Moore Stephens - Independent Reconciler

Tim Woodward	Partner
Ben Toorabally	Head of Office – Mission Director
Maher Ben Mbarek	Audit Senior

Ministry of Finance & Treasury

Mckinnie Dentana	EITI National Coordinator
Simon James	Program Support Advisor
Rockson Orelly	Head of EITI Secretariat

Ministry of Mines, Energy and Rural Electrification

Krista Tapatu	Principal Tenement Officer
Lilian Danitofea	Senior Tenement Officer (Exploration)

Inland Revenue Division - Ministry of Finance & Treasury

George Tapo	Deputy Commissioner
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Ministry of Commerce, Industry and Employment

James Apato	Under Secretary
-------------	-----------------

Central Bank of Solomon Islands

Raynick Aquilla	Chief Manager
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Customs and Excise Division

Peter Hughes	Deputy Comptroller
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Axiom Company Ltd

Francis Waleanisia	General Manager
--------------------	-----------------

Bluewater Metals (Solomon Islands) Ltd

Baoro Koraua	National Agent
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