

Principles to be applied in the audits of joint ventures established for United Kingdom Continental Shelf (UKCS) exploration, development and production activities.

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These Procedures set out what is generally regarded in the Industry as good practice. They are not mandatory and operators may adopt different standards in a particular situation where to do so would maintain an equivalent level of reporting. Where there is an inconsistency with the Accounting Procedure, the Accounting Procedure will prevail.

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1 **Introduction**

This document sets out good practice in Joint Venture (JV) auditing. Compliance with its statements of practice and principle is advised strongly, but it is not mandatory. Parties may adopt different standards in a particular situation where to do so would maintain an equivalent level of visibility and reporting.

For the non-Operators, JV auditing is an integral part of the assessment and management of JV risk. To that end, non-Operators choose to audit the data supporting JV transactions to identify areas of risk within the venture to the benefit of all partners (including the Operator), to gain comfort over the integrity and equitability of costs, revenues and allocations relevant to the venture and to form a view on controls.

Whilst the specific objectives of any JV audit may vary according to perceived risk, the fundamentals of the process are to:

- Review the Operator's implementation of the various governing JV agreements; and
- Verify actual JV billings against those agreements and/or against generally accepted UK oil and gas industry practice.

2 Statement of Practice

2.1 Ethics, Independence and Qualifications

The Operator and auditor shall conduct the audit in a professional manner at all times. Conflicts of interest shall always be disclosed and are best avoided. The auditor shall respect the confidentiality provisions of Agreements.

Auditors shall seek to ensure that their audit teams comprise personnel with adequate qualifications and experience

2.2 Audit Planning

2.2.1 General

The planning process should be visible to all parties involved. It is one of the most important and fundamental steps in the audit process. This involves full communication of the planning process between all parties.

Prior to the decision to audit there should be appropriate consultation between Operator and non Operators to consider, inter alia, risk, expiry of audit rights, time since previous audit, value to be audited, experience of Operator and complexity of activity.

Immediately following the decision to audit, the timing should be agreed between the Operator and all intending participating non Operators, taking into account the notice requirements of the relevant agreement. It is recommended that, whenever possible, the dates of audits are determined at an annual industry / Operator planning meeting. An experienced lead auditor should be selected, who will establish those non Operators who wish to cost share and the identities of potential auditors. He should agree a balanced team, preferably including continuity, and a draft scope with the non Operators. He should then agree the scope with the Operator, issuing the final scope to the Operator and the non Operators at least 30 days prior to commencement of the audit field work.

The Operator's role in the planning process includes ensuring that the non Operators receive early notification of key factors, such as changes to systems which may impact the auditors' risk assessment and work programme and ensuring that all necessary personnel will be available for the proposed dates of the audit...

2.2.2 Essential Steps Prior to Fieldwork

The phase from the decision to conduct the audit until the start of the audit fieldwork should include:

2.2.2.1 By the Operator

- Provision in E format of a transaction listing at least two weeks prior to commencement of the audit field work that sets out in sufficient detail, data to provide a clear audit trail to the base documentation and also to the relevant joint interest billing.

The following is a suggested list of minimum requirements:

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- Posting Date
 - Account Number (and name if possible)
 - AFE Number (and name if possible)
 - Transaction Description
 - Transaction Type
 - Vendor Number or Name
 - Amount in source and local currency
 - Document Number/Reference
 - Commitment Number (where applicable)

- Agreeing with the lead auditor what MV transactions are to be excluded from the JV Audit scope.
- Providing audit reports showing the values and / or rates which are the output from the MV audits relating to transactions which are excluded from the JV audit scope. If the reports are not available, the operator should prepare a statement giving all such MV outputs and support these statements by the provision of the reports when published. If there are ultimately differences between the statements and the reports, the auditor has the right to investigate the differences.
- Ensuring provision of an appropriate audit room and equipment
- Gathering all data requested by the auditors, after agreement with the auditors of any data they will themselves provide.

2.2.2.2 By the Lead Auditor

- For the preparation of the scope, obtaining details of the locations to be visited, the type of accounting systems in use and the name of the audit co-ordinator.
- To facilitate decisions regarding cost sharing, preparing a budget.
 - Gathering and consideration of appropriate data, which can include agreements, opcom minutes, previous audit reports etc; however, there may be limitations on the quantities that can physically be moved from home base to audit location.
 - Obtaining the permanent venture audit file, if it exists, ensuring that it is appropriately updated before, during and after the audit.
 - Liaising with the operator to ensure that the necessary data will be readily available, clarifying the scope and discussing areas of significant concern.
 - Considering the data provided by the Operator and discussing with the Operator any omissions. This should be done at least seven (7) days prior to the start of the Audit.
 - It may be necessary for the lead auditor to conduct a pre-audit visit.

2.2.2.3 By the Auditors

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- A self-briefing process, probably including discussion with the relevant Opcom, Techcom and / or Fincom representatives from their own company
 - The disclosure of any special concerns of individual non operators to the lead auditor and, as appropriate, to the Operator
 - The auditors may pre-select some vouchers, assuming early provision of the transaction list. However, this cannot be taken as being the only selection; there must be the opportunity to select further as the audit progresses.

2.3 Materiality

The principle of materiality pervades the whole process of accountancy. What is material is a matter for professional judgement rather than mechanical rule and depends on the circumstances involved; materiality can only be considered in relation to context. Monetary Findings, Procedural Findings and Information Requests should not be made where, in the judgement of the auditor, the amounts involved are not material in either a monetary or control sense.

When assessing materiality, auditors should take into account the costs:

- To the venture of investigating and responding to audit findings.
- Of implementing and maintaining the proposed adjustments or additions to procedures and controls.

The level of materiality will vary depending upon the circumstances and should be agreed between the auditors and the operator in advance of the audit fieldwork. Formal Monetary Findings should not be submitted for individual amounts less than the amount shown in Appendix Three (3).

Individual errors amounting to less than the materiality levels established but which characterise material, systematic errors should always be reported formally to the Operator as should any errors required by law to be corrected, for instance, relating to VAT. Manifest errors discovered during fieldwork but for less than the materiality level established should also be notified informally to the Operator who should adjust for them as a matter of courtesy.

2.4 Liaison

Involvement of audit or finance committees and the use of multi-venture arrangements should be maximised. This may include regular half yearly meetings between the Operator and the chair of the Audit or Finance Committee to review activity, recent developments, the status of any open audits and planning of future audits.

2.5 Audit Closure

2.5.1 Closing Meetings and Audit Reports

At the end of the audit fieldwork, there must be a closing meeting between auditors and Operator representatives to agree the:

- Closed out audit findings and information requests;
- Dates for responses to open audit requests and findings to be agreed;
- Dates for correcting journals to be processed and issued;
- Final report issue date;

Outstanding issues arising from prior audits must be discussed at this closing meeting. All incidents of non-compliance with this SOAP by any party, if materially affecting the course of the audit should be discussed at the closing meeting and written up in the audit report. Similarly, procedural weaknesses identified during the course of the audit should be tabled and written as a Procedural Finding in the audit report.

At the conclusion of the fieldwork, the lead auditor should also debrief the audit team to ensure that all points for future audits are collected together. These points will include, for example, the impact of any findings on the future risk assessments and potential efficiencies that might be made in future audit work programme.

2.5.2 Resolution of Issues

Following the close out meeting, the Lead Auditor should develop a status report which shows all findings and information requests outstanding as at the date of the close out meeting. The status report should be updated on a regular basis and issued quarterly to the Operator's Audit Coordinator.

The Operator should respond to all open audit items as soon as possible but at the latest within 90 days of the Close Out Meeting. Auditors must issue the audit report as soon as possible but at the latest within 90 days of the close out meeting, irrespective of the requirements upon the Operator to respond to all open items in the same timeframe. The report should contain the Operator's latest responses and the audit reply.

For the avoidance of doubt it is the responsibility of the Lead auditor's Participating Partner Company to resolve outstanding and disputed audit issues after due consultation, as required, with the relevant audit team member, all within the above timeframe.

The Operator must formally respond to the audit report within 90 days of receipt. In the 90 to 180 day period there should be correspondence between the parties. Following this period (i.e. 180 days from date of close out meeting), in the event that sufficient progress has not been made, both parties should consider raising the issues at the committee level i.e. Finance Committee or Technical Committee then Operating Committee

In the event of continuing disagreement at the conclusion of this period (270 days from closing meeting), it is recommended that the relevant Operating Committee be briefed.

2.6. Non Compliance with this SOAP

Issues of non-compliance with this SOAP by any party, if materially affecting the course of the audit should be discussed during the course of the audit, should be raised at the Closing Meeting, and should be written up in the relevant audit report.

APPENDIX 1 Additional Guidance

This section contains elements which have not been mentioned previously in this document

1. General

1.1 Conduct of the Audit

The auditor shall endeavour to conduct the fieldwork stage of the audit efficiently and effectively, without undue disruption to Operator's day to day operations.

The Operator shall appoint an experienced audit co-ordinator to facilitate an effective single point of communication between the auditor and the Operator, and shall endeavour to deal with auditors' enquiries promptly and completely.

.Formal Monetary and Procedural Findings (MFs & PFs) and Operator's responses thereto should ideally be clearly presented in e format, with appropriate justification and supporting material in each case.

The auditor should retain sufficiently complete and detailed working papers to support the audit findings and conclusions.

The working papers are the property of the auditor who should ensure that they remain safe and confidential. The auditor must not remove Operator's original documentation from the Operator's premises.

The auditors and Operator should seek to close as many audit findings and information requests as possible prior to completion of the fieldwork.

The lead auditor or the Company they represent shall issue the audit report to a manager of appropriate seniority within the Operator and a separate copy to the Audit Co-ordinator. Copies shall also be issued to all auditors and cost sharing non Operators.

1.2 Consistency

Wherever possible, it will benefit all Parties that continuity be maintained within the audit team so that a continuing level of knowledge about the subject matter and related issues is maintained.

Operators and auditors should have regard to the benefits gained from consistent treatment. As a general principle, auditors should take into account when they issue claims whether their own company, when acting as Operator, would be likely to agree to the matter concerned.

Likewise, Operators should take into account when considering claims against them whether those claims are made in accordance with the industry's general practice and whether when acting as non-operator they would expect the claim to be agreed.

1.3 **Costs of the Audit**

Where there is an agreement on the part of non-Operating Co-Venturers to carry out an audit, agreed costs of the audit shall normally be borne by all non-Operating Co-Venturers in proportion to their interest. This reflects the fact that all non-Operating Co-Venturers will benefit from any resulting claims. All non-Operators should state clearly their position on cost sharing on the audit when requested to do so.

1.4 **Co-operation and Openness**

The auditors and Operator shall conduct the audit in a co-operative and open manner with full disclosure of all material relevant facts and financial information. The Operator has an important part to play in maximising the effectiveness and efficiency of the audit process by actively participating at all stages with the right level of staff.

1.5 **Role of Lead Auditor**

The Lead Auditor has the right to refuse any proposed auditor, given valid reasons.

In order to give staff audit experience, it should be possible, with the approval of the Lead auditor, for a minimal number of novice audit staff to assist on audits as long as their costs are not charged to the audit. In such circumstances, the lead auditor should try to ensure that this does not impact negatively on the Operator.

In cases where there is a change of Lead Audit Company, there should be a properly documented transfer of audit issues. In the absence of such a handover, there is an inherent danger that audit history may be lost.

1.6 **Role of Audit Co-ordinator**

Audit Co-ordinators nominated by Operators should be of sufficient seniority and have adequate familiarity with the Operator's activities, management organisation and accounting processes to enable them to deal promptly and professionally with the auditor's queries and to ensure that the auditors are given appropriate and timely access to the Operator's personnel and records

1.7 **Audit Planning**

Good risk analysis and Operator liaison will provide the opportunity to identify the most effective type of audit and the skills required to perform the audit.

The following is recommended:-

- use of multi venture, functional, multi field or other combined audits within the limits imposed by the need for venture specific and Operator proprietary data to remain confidential.

If the opportunity arises for the auditors to review new systems prior to implementation, such a review would enhance efficiency and effectiveness and avoid potential conflicts in the future.

2. Auditor Responsibilities

2.1 Pre Audit

2.1.1

The auditors shall:

- Co-operate with other auditors to reduce the number of separate audits of operating companies i.e. an asset should only be audited once for a given period.
- Discuss with the non Operators if there may be justifiable reasons for an auditor to be refused;

2.2 Audit Fieldwork Period

2.2.1 The auditors shall

- Request information, data and access to Operator's personnel appropriate to the stated audit objectives
- Review the opportunity to limit audit work by placing reliance on other work that may be made available, such as reports or briefings from internal audit work, statutory audit work or multi venture audits;
- Maintain an independent and objective viewpoint;
- Adhere to and respect the Operator's office hours, environment, working practices and procedures;
- The lead auditor shall provide an itinerary for all auditors at the outset of the audit, identifying if and when any auditors plan to be absent;
- Respect the privacy of the Operator's records where they do not concern the venture being audited;
- Recognise the role of the audit co-ordinator
- Avoid conflicts of interest which may arise from auditing Operators with whom the auditor has, or has had within the recent past, a business relationship. Such relationships should be disclosed to the non-Operating Co-Venturer being represented by the individual, the lead auditor and if appropriate, the Operator;
- Comply with the ethical guidelines of any professional body of which the auditor is a member;
- Adhere to the spirit of these standards as laid down;
- Adopt a thoroughly professional approach to confidentiality when taking part in either joint venture or multi venture audits and with regard to relevant clauses in the JOA;
- Avoid sensitive or commercial areas of offices where access is not directly required in pursuit of audit objectives and scope

2.2.2 Monetary and Procedural Findings (MF & PF) and Information Requests (IR)

MFs and PFs should be agreed with the Lead Auditor and must be communicated to the Operator on standard forms that clearly record the:-

- Nature of the finding
- Estimated financial effect of the finding where possible to estimate
- Responsible auditor handling the matter
- Relevant supporting data or information

IRs should be communicated to the Operator on standard forms that clearly record the:-

- Nature of the request
- Support as appropriate
- Responsible auditor raising the request

MFs, PFs and IRs should be passed to the Audit Co-ordinator as soon as possible. Auditors need to be clear in their requests and wherever possible Operators should attempt to respond within 48 hours, but if not possible before the end of the audit fieldwork. Information requests outstanding at the end of an audit must be formally documented and submitted at the closeout meeting. If it is likely that an MF, PF or IR will be issued after the conclusion of the fieldwork then this should be raised at the closeout meeting.

All MFs, PFs and IRs shall clearly show the name of the auditor raising the document.

2.3 Post Audit

2.3.1 Reporting

The auditors shall ensure that the Audit Report:-

- Is concise;
- Is supported by relevant and reliable audit evidence sufficient to support the conclusions made;
- Is issued to the Operator and all cost sharing Partners within 90 days of the closeout meeting. In those cases where the Operator handles distribution, the same timescale applies;
- Shows the name of the auditor raising the MF, PF or IR;
- Reflects the consensus view of the audit team;
- Contains unambiguous statements of agreed actions.

Audit reports should include a management summary. Positive as well as negative aspects should be included. The report should clearly identify any outstanding audit points from previous years and any discernable trends in Operator performance. Attention should be drawn to unresolved MFs, PFs and IRs; closed issues should be shown in an appendix which should aid concise reporting

- 2.3.2 Auditors shall keep safe and confidential any copies of documents taken from Operator's offices.

3. Operator Responsibilities

3.1 Pre Audit

- 3.1.1 Discuss with the non-Operators if there may be justifiable reasons for an auditor to be refused

3.2 Fieldwork Period

3.2.1 The Operator shall:

- Support the audit with the resources the audit requires;
- Ensure access to staff of the appropriate seniority within a reasonable timeframe;
- Provide access to staff or records required to achieve the objectives in the audit scope;
- Provide reasonable office accommodation, office hours and utilities to allow efficient conduct and completion of the audit;
- Recognise the role of the lead auditor
- Adhere to the spirit of these standards as laid down;
- Act in a manner likely to encourage an atmosphere of trust, co-operation and openness;
- Be prepared to meet the standards of disclosure outlined below.

3.2.2 **Disclosure**

Details disclosed by the Operator to the auditor, or to which the auditor shall have access, unless previously and specifically agreed between the Operator and non Operators:

- Contract and procurement records, including matters relating to the selection, award and administration of contracts;
- Aspects of internal audit reviews which impact on the control environment or financial records or assets involved as agreed with the Operator;
- Detailed explanation of the methodology adopted for cost allocation procedures, timewriting charges and other related cost allocation processes;
- Explanation and description of changes in procedure which will have a material impact on the audit process. This should be preferably in advance of the change occurring and in advance of the audit;
- Timewriting records or timesheets;
- Supporting documentation on key audit issues;
- Related party transactions;
- Any direct or allocated cost that cannot be traced, via an identifiable audit trail, to a primary source document e.g. an invoice, should not be charged.

APPENDIX 2

Inter-company Audit Cost Sharing Principles and Rates

For the period **January 1, 2011 to December 31, 2011**, the following will apply:

Day Rate £650 per day

This rate applies to:

1. All auditors engaged in field work.
2. Reasonable time for Lead Auditors engaged in planning, reporting and issue follow up.

Overnight Expenses

These rates apply to auditors required to work away from home, involving overnight stays.

1. London only £200 per day
2. All other UK locations £175 per day

The overnight expense rate should be charged for each field day worked irrespective of whether an overnight was incurred or not. No other costs will be claimed.

Local Expenses £25 per day

This rate applies to auditors not requiring an overnight stay.

Air Fares

All flights under 4 hours duration should be charged at actual cost. Opportunities should be taken to obtain lowest logical fares wherever possible, rather than standard fares.

Where flights are scheduled to exceed four hours in duration, the lead auditor and the non-operators should be advised at the audit planning stage so that agreement on cost sharing can be achieved prior to such costs being included in the approved audit budget.

General

The return air fare should be charged for a "middle" weekend in a two week, or longer, audit unless the person did not return home for the weekend, in which case two days additional overnight expenses may be charged.

There may be other expenses which are substituted or additional and which are appropriate to be charged, e.g. weekly mileage allowance from home to location of audit instead of airfares. Such charges should be agreed at the pre audit budget cost stage.

It should be noted that OIADG will review the Inter Company audit cost sharing rates on an annual basis.

APPENDIX 3

Materiality

1. Joint Venture Audits

Formal Monetary Findings should not be submitted for individual amounts less than £10,000 gross.

2. Multi Venture Audits

Formal Monetary Findings should not be submitted for individual amounts less than £20,000 gross.

APPENDIX 4

Glossary

AFE	Authorisation for Expenditure
AP	Accounting Procedure
Fincom	Finance Committee
IR	Information Request
JOA	Joint Operating Agreement
JV	Joint Venture
MF	Monetary Finding
MV	Multi Venture
OIADG	Oil Industry Audit Development Group
Opcom	Operating Committee
PF	Procedural Finding
SOAP	Standard Oil Industry Accounting Procedures
Techcom	Technical Committee
UK	United Kingdom
UKCS	United Kingdom Continental Shelf
UOA	Unit Operating Agreement
VAT	Value Added Tax

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