

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.

All rights reserved. This document may be freely reproduced and used while acknowledging its source, but may not be hosted on any website other than OEUK's. While the information in this document is given in good faith and belief in its accuracy, neither Offshore Energies UK nor its members accept any responsibility whatever for the consequences of its use in any particular circumstances.

Crown copyright material is reproduced with the permission of the Controller of Her Majesty's Stationery Office.

Copyright © 2022 The UK Offshore Energies Association Limited trading as OEUK

PUBLISHED BY OEUK

London Office:

OEUK, 1<sup>st</sup> Floor, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB  
Tel: 020 7802 2400

Aberdeen Office:

4<sup>th</sup> Floor, Annan House, 33-35 Palmerston Road, Aberdeen, AB11 5QP  
Tel: 01224 577250

info@oeuk.org.uk  
[www.oeuk.org.uk](http://www.oeuk.org.uk)

<b>Contents</b>	<b>Page</b>
1. Introduction	1
2. Ethics, Independence and Qualifications	1
3. Costs of the Audit	1
4. Audit Planning	1
5. Disclosure	3
6. Fieldwork	3
7. Audit Closure and Reporting	6
8. Non Compliance with SOAP	8
<b>Appendix</b>	
A. Materiality	9

## 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 Co-venturers, JV auditing is an integral part of the assessment and management of JV risk. To that end, Co-venturers choose to audit the data supporting JV transactions to identify areas of risk within the venture to the benefit of all parties (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 governing JV agreements; and
- Verify actual JV billings against those agreements and/or against generally accepted UK oil and gas industry practice.

## 2. 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 all agreements.

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

## 3. Costs of the Audit

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

## 4. Audit Planning

### 4.1 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 Co-venturers to consider, inter alia, risk, expiry of audit rights, time since previous audit, value to be audited, experience of Operator and complexity of activity.

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. It is recommended that 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, are considered.

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.

Following the decision to audit, the timing should be agreed between the Operator and all intending participating Co-venturers, taking into account the notice requirements of the relevant agreement. Ideally and whenever possible, the dates of the next audit should be determined during the Close Out meeting whereby the Operator and representatives of the Co-venturers will be present to propose and potentially agree future dates.

An experienced Lead Auditor should be selected, who will establish those Co-venturers who wish to cost share and the identities of potential auditors. They should agree a balanced team, preferably including continuity, and a draft scope with the Co-venturers. They should then agree the scope with the Operator, issuing the final scope to the Operator and Co-venturers at least 30 days prior to commencement of the audit field work.

#### **4.2 Essential Steps Prior to Fieldwork**

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

By the Operator:

- Provision, in excel format, of a transaction listing preferably one month 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 (JIB)

The following is a suggested list of minimum requirements:

- Posting Date and Accounting Period;
- Account Number and Name;
- AFE Number and Name;
- Transaction Description;
- Transaction Type;
- Document Number/Reference;
- Commitment Number (where applicable);
- Vendor Number and Name;
- Amount in source and local currency;
- 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 (Cost Matrix) 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.

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 and preparing a budget;
- Obtain copies of JOA's, accounting Procedure, Tariff Agreements, Production Sharing Agreements etc;
- Identify and request major contracts to be available at commencement of fieldwork;
- 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 7 days prior to the start of the audit;
- It may be necessary for the Lead Auditor to conduct a pre-audit visit;
- Plan, identify and agree audit work with members of the audit team at least 7 days prior to the start of fieldwork. Ensure the audit team are aware of audit location and have completed any office access instructions.

By the Auditors:

- 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 Partner 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.

## **5. 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 Co-venturers:

- 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 with any related parties;
- 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.

## **6. Fieldwork**

### **6.1 Conduct of the Audit**

The auditor shall endeavor 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 strive to deal with auditors' enquiries promptly and completely.

On the first day of audit fieldwork the Operator is to hold an Opening Meeting where the audit scope is reviewed, the Operator presents an overview of the Joint Venture being audited together with any significant operational/commercial events that have occurred during the period under review. In the meeting the Operator shall provide any office safety instructions and general administration required for the duration of the work.

## **6.2 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.

## **6.3 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; and
- 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 A.

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.

## **6.4 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.

## **6.5 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 and the Operator, 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.

## 6.6 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.

## 6.7 Audit Fieldwork Period

An Informal Information Request (IIR) register should be utilized by all parties. Prior to audit fieldwork commencing, the Lead Auditor shall issue a template of the register to both the Audit Co-ordinator and the audit team. This may or may not be pre populated with requests made prior to the commencement of the fieldwork. The IIR log will be used throughout the period of fieldwork as a document to control the flow of information between the audit team and the Operator. It is suggested that during the fieldwork period, informal meetings are held to discuss progress, responses and remaining outstanding requests.

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 Co-venture 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.

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.

## 6.8 Monetary and Procedural Findings (MF & PF) Information Requests (IR) and Informal Information Requests (IIR)

IIRs should be written in a clear, concise and professional manner. As much appropriate information should be given to allow the Audit Co-ordinator to understand the query and therefore direct to the relevant Operator personnel. The details of the IIR is to be logged in the register to allow tracking with current status being updated in a timely manner.

Formal Monetary and Procedural Findings (MFs & PFs) and Operator's responses thereto should ideally be clearly presented in electronic format, with appropriate justification and supporting material in each case. All MFs & PFs should be agreed with the Lead Auditor and as a result of the Operator's response to an IIR/IR.

MFs and PFs 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, if there is no satisfactory response to the initial IIR. The IR must clearly provide:

- Nature of the request;
- Appropriate support;
- 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. The auditors and Operator should seek to close as many audit findings (MF & PF), Information Requests (IR) and Informal Information Requests (IIR) as possible prior to completion of the fieldwork.

Any 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.

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.

## 6.9 Definitions of Formal Findings:

**Monetary Finding (MF)** – is raised where the auditor believes a financial correction is required to be made by the Operator or the Vendor. In most cases the party being audited (Operator or Vendor) will agree or reject the finding. Occasionally if the finding is material and no agreement can be made it will be escalated via the normal dispute procedure in the joint venture agreement or contract.

**Procedural Findings (PF)** – will be issued by the auditor where a weakness in process has been identified and the auditor wishes to note the detail on the finding and propose a recommendation to ensure improved processes going forward so that the issue does not re-occur.

**Information Requests (IR)** – are drafted normally when additional information is required to assist the auditor in determining if there is monetary finding or if there is process weakness which requires remediation. Formal IR's are raised normally post fieldwork and will include potentially outstanding Informal Information Requests (IIR's) which have not been answered during the course of the audit.

**Informal Information Requests (IIR)** – during the course of the fieldwork the auditor will maintain an Informal Information Register of IIR's which will be information requests raised by the audit team for the Operator / Vendor to respond to. Most of these items will be closed once satisfactory responses have been provided but some may be formalised to become MF's; PF's or IR's. The advantage of using an Informal Information Register is that not only does it provide visibility on questions being raised during the audit but can be referred to on future audits so that they same question is not asked again.

## **7. Audit Closure and Reporting**

### **7.1 Closing Meeting**

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

- 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;
  
- Propose next audit dates, if applicable.

Outstanding issues arising from prior audits must be discussed at this closing meeting. 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 program.

In some circumstances it may be worth consideration of holding a follow-up meeting at a later date. This meeting between Audit Lead, Audit Co-ordinator and any available auditors can provide renewed focus on the audit and open items of which may not have received an initial satisfactory response.

### **7.2 Draft Report**

The Lead Auditor should circulate a draft report amongst the audit team for comment/agreement prior to the audit report being issued to the Operator.

### **7.3 Audit Report**

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 Co-venturers 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 with closed issues being shown in an appendix which should aid concise reporting.

The Lead Auditor or the Co-venture 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 Co-venturers.

#### **7.4 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 Audit Co-ordinator.

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 Co-venturer 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 the 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.

#### **8 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 A**

**Materiality**

**Joint Venture Audits**

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

**Multi Venture Audits**

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

**Original issued October 1997**

**Revision 1 issued October 2006 and prepared by:**

J Ramsay	:	Petro-Canada
D Madill	:	BP
M Jacques	:	BG
R Boyd	:	Talisman
J Sandison	:	Accenture

**Revision 2 issued March 2011 and prepared by:**

T Taylor	:	Murphy
----------	---	--------

**Revision 3 issued June 2015 and prepared by:**

T Taylor	:	Murphy
----------	---	--------

**Revision 4 issued February 2016 and prepared by:**

T Taylor	:	Murphy
----------	---	--------

**Revision 5 issued March 2019 and prepared by:**

G Robertson	:	Anderson, Anderson & Brown
I McPherson	:	Anderson, Anderson & Brown
I Finlayson	:	Anderson, Anderson & Brown
J Hutton	:	Anderson, Anderson & Brown
S McKenzie	:	Anderson, Anderson & Brown
D Strachan	:	CNOOC

**Revision 6 issued April 2022 and prepared by:**

D Strachan	:	CNOOC
------------	---	-------