

ACCOUNTING, AUDITS AND FINANCIAL PROCEDURES IN THE PSA

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African Organisation of English-speaking Supreme Audit Institutions

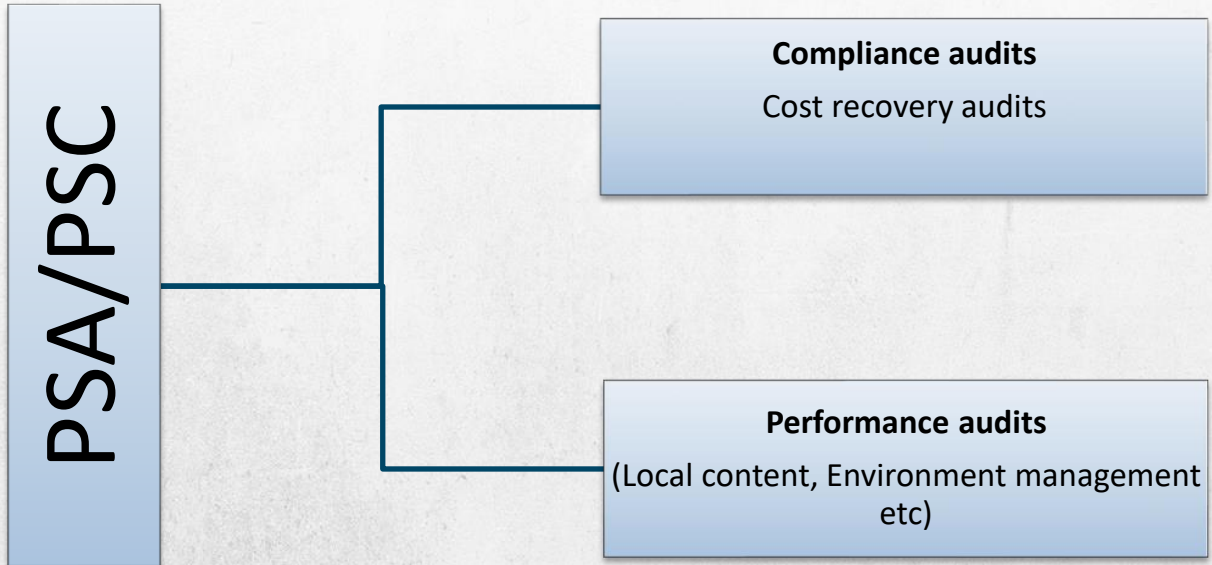


Learning Outcomes



- Gain an understanding of audit standards and methodology used for cost recovery audits.
- To be able to identify and classify the various costs presented in the cost recovery statement.
- Gain an understanding of the recoverable and non recoverable costs/negative list.

AUDIT TYPES



PSA Cost Recovery Audit Standards

| SAI | Auditing Standard used |
|-----------|---|
| Uganda | ISSAI 4000-Compliance audit standard |
| Indonesia | State Finance Audit Standard 2017-Specific purpose i.e Compliance , Investigation |
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Subject Matter



Subject Matter

**Cost recovery
statement**

Criteria



Economical,
Necessary and
Appropriate



Assurance Engagement

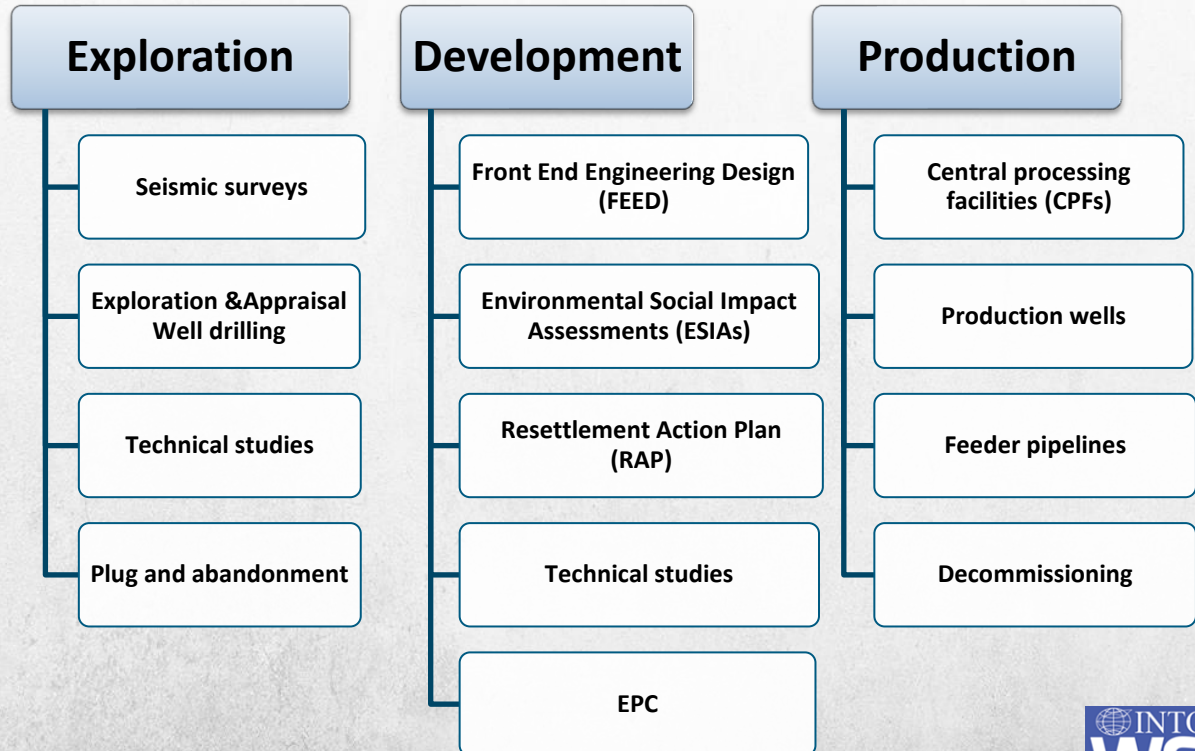


Attestation

- Cost recovery statements are prepared and presented/ provided by IOC/Regulator/Ministry of Petroleum

Reasonable assurance

Classification of costs

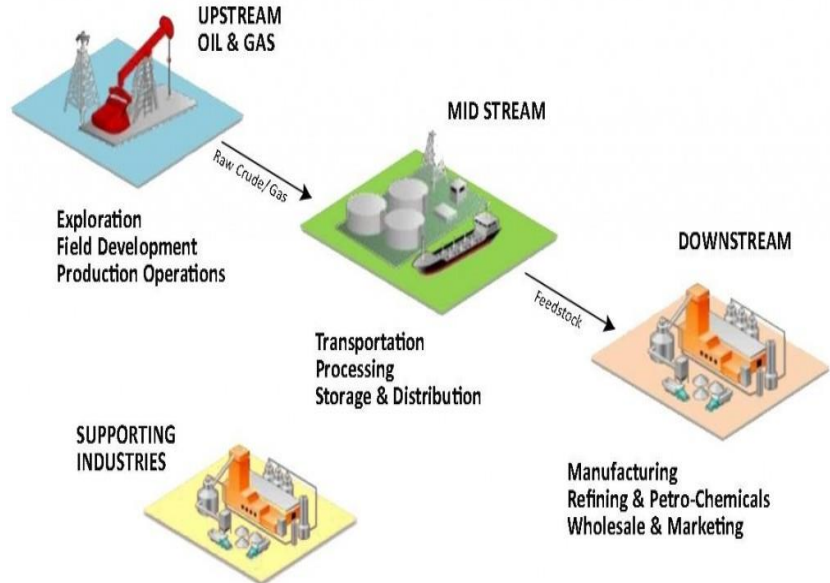


Importance of cost classification



❑ To avoid recovery of un-qualifying costs. For example claiming for costs in production phase before being issued with a production licence.

❑ To avoid comingling of costs incurred in unlicensed segment of the petroleum value chain. Like midstream; pipeline and refinery with upstream costs



Cost recoverability ??



Source of costs classified as recoverable/non recoverable

- PSA/PSC

- Regulations for example in Indonesia “The Negative List” of Cost Recovery Regulation No. 79/2010

- Any other laws that have a bearing on petroleum operations

Cost recoverability??



Recoverable costs-Explicitly stated in the PSA or not captured in the “The negative list”. They include:

- Surface Rights**

This covers all direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Contract Area

- Labour and Associated Labour Costs**

- Offices, Camps, Warehouses and other facilities**

- Payments into the Decommissioning Fund.**

- Materials**

Cost recoverability??



Non Recoverable costs/Negative list-These are usually stated in the PSA or regulations (“The negative list”).They include;

- Costs incurred before the Effective Date
- Signature and other Bonuses
- Royalty
- Income tax
- Fines and penalties
- Interest incurred on loans to finance Exploration activities
- Donations and charitable contributions
- Any other expenses incurred without the approval of the Authority.

Key risk areas



Technical Studies

- Duplication of studies
- Unapproved studies
- Failure to submit study reports
- Deviation of studies

Time-writing (HQ support)

- Uncertified rates
- No Transfer pricing documentation
- Non beneficial services
- No subsidiary request

Key risk areas Cont'd



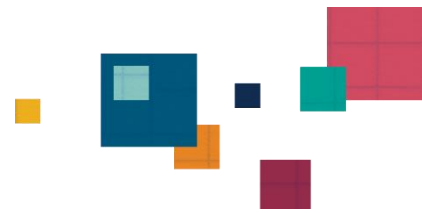
Well Drilling costs

- Drilling without consent
- Rig stand by costs
- Operations outside Work program
- Excessive budget overruns

Personnel costs

- No work permits (Expatriates)
- No contracts for expatriate staff
- Unapproved expatriates
- Unnecessary and uneconomical expenditure
- Penalties and Interest

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