ACCOUNTING, AUDITS AND FINANCIAL PROCEDURES IN THE PSA

By Allan K. Amanyà
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/PSC

- Compliance audits
- Cost recovery audits

Performance audits
(Local content, Environment management etc)
# PSA Cost Recovery Audit Standards

<table>
<thead>
<tr>
<th>SAI</th>
<th>Auditing Standard used</th>
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<tbody>
<tr>
<td>Uganda</td>
<td>ISSAI 4000-Compliance audit standard</td>
</tr>
<tr>
<td>Indonesia</td>
<td>State Finance Audit Standard 2017-Specific purpose i.e Compliance, Investigation</td>
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Subject Matter

Cost recovery statement
**Criteria**

- Regulations
- Cost recovery audit criteria
- National laws
- International best practice
- PSAs/PSCs

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

**Exploration**
- Seismic surveys
- Exploration & Appraisal
- Well drilling
- Technical studies
- Plug and abandonment

**Development**
- Front End Engineering Design (FEED)
- Environmental Social Impact Assessments (ESIAs)
- Resettlement Action Plan (RAP)
- Technical studies
- EPC

**Production**
- Central processing facilities (CPF)
- Production wells
- Feeder pipelines
- Decommissioning
Importance of cost classification

- To avoid recovery of unqualifying 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**

<table>
<thead>
<tr>
<th>Technical Studies</th>
<th>Time-writing (HQ support)</th>
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<tbody>
<tr>
<td>• Duplication of studies</td>
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<td>• Unapproved studies</td>
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<td>• Failure to submit study reports</td>
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<td>• Deviation of studies</td>
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<td>• Uncertified rates</td>
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<td>• No Transfer pricing documentation</td>
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<td>• Non beneficial services</td>
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<td>• No subsidiary request</td>
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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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