

Proposed Framework for Government Auditing Standards of Oil Companies

**Meeting of INTOSAI Working Group on Audit of
Extractive Industries
September 25-28, 2017**

**Federal Board Of Supreme Audit
Iraq**

INTRODUCTION

There is no doubt that oil takes a great space in economic and strategic of essential source of energy, it is a major source of energy adopted by the world as well as being a primary material involved in many manufacturing products

Oil industries require large capital to be used in the production stages of oil, from exploration and exploration to transportation, refining, and other technical and political reasons. The oil-rich countries have been unable to invest their oil wealth to give concessions to foreign companies for oil exploration and investment.

The oil-owning countries on different bases have evolved over time and with the development of the wealth of the landlords and the increase in awareness and acquisition of their technical expertise

Most of the exploration and production companies are exploring and producing in international areas. This wide spread creates a situation of multiplicity in the models of the legal relationship between the exploration and production companies and the owners of the underground wealth whether they are individuals or companies or governments

- The exploration and production companies conclude a contractual agreement with the sovereign parties According to the forms of contracts available according to the conditions of the host country and the rest of the professions and their own contracts, the oil contracts are a privacy differ from each other because of the political and economic situation and other reasons and these contracts Contract of Excellence (Contract of Exploration and Production)
- Contract production development
- Repurchase Contract (Buy)
- (Service contract)
- Production sharing contract

1-The main phases of oil production

- Oil production process including many operations and activities go through several phases before reaching to the last consumer as the following:
- **Survey and Exploration phase**
- **Exploration and drilling phase**
- **Production or extraction stage**
- **Storage, transport and sale phase**
- **Refining phase**

2- The nature of accounting and its role as an information system in the oil production companies of the service contracts:

- Accounting has a strong relationship with the theory of systems in general and information systems in particular. Accounting, like any information system, accepts data as input, and during a special operation that produces information (as outputs of its system), the nature of accounting as an information system in oil companies is no different from The nature of the companies in many different and different activities, where this nature is in general and essential in the delivery of information on the economic units of the parties and government bodies and so on Accounting plays its role as an information system in a continuous process and integrated can be identified in three main steps:

- (A) Restricting the financial operations related to the activities of the economic unit and representing them in the form of raw data recorded in the accounting books.
- (B) the operation or processing of basic data in accordance with the set of generally accepted accounting principles and principles, with a view to converting such data into financial information serving the purposes of its users;
- C. Communicate the information that has been addressed to the interested parties by means of a set of financial reports, thus accounting also becomes a system of communication inside and outside the establishment.

3- Components of the accounting system in oil production companies under service contracts:

- A- Documents and supporting documents supporting the operations that occur in oil production companies.
- (B) the databases in which the financial statements of financial operations are stored;
- C) Applied software used in processing data to convert it into information.
- (D) Written and written accounting procedures that show the sequence of various financial transactions within the entity (ie), the nature of the accounting cycle).

- E) Entities that contain all of the above, namely electronic computers and accessories, and communications technology used in the framework of these devices for the purpose of linking them.
- F) Individuals dealing with elements of the accounting system.

4- Accounting system functions in oil production companies under service contracts

These elements are summarized as follows:

- The function of collecting and indexing accounting data.
- Function of entering and store accounting data in the system.
- Function of accounting data processing (processing) with the help of applied software for the purpose of producing information.
- Function of transferring or conveying information to users about the application, including the importance of the presentation in the appropriate ways, i.e., a summary presentation of the information in quantitative or graphical form and reports.
- Data control function where Data protected from errors, manipulation, threats to ensure accuracy and integrity in general, in order to produce reliable information.

- economic performance
- The accounting system should be closely related to the organizational structure of the company.
- It should achieve high accuracy and speed in data processing and conversion of information
- Must be objectively in terms of accuracy in overall and detail and summarize the products of the information and accounting reports in addition to the objectivity in the time periods necessary to prepare
- To provide the Department with the necessary information in a timely and appropriate manner to make a decision as to the best alternative among the alternatives available

- To provide the Department with the necessary information to assist in the performance of the planning function of various types short, medium and long term
- To provide the Department with the necessary information to achieve effective oversight and to evaluate the activities of the economic unit
- The accounting system fulfills all the needs of third parties
- Must have the absolute ability to interact and integrate with other subsystems within the corporate information management system.
- The accounting system must be flexible.
- The accounting system should be simple and clear.
- The accounting system must have the acceptance factor.

5-Characteristics to be provided in the accounting system for oil production companies under service contracts

- The efficiency and efficiency of the accounting system of the oil companies requires the existence of several characteristics, if they are available, to make it a dynamic and effective information system in the performance of the job and achieve a goal, these characteristics are as follows:

- The stage of the modern accounting system should be based mainly on the operation of the data on computers and their various accessories so that the work is suitable for its information products
- The accounting system must be characterized by economic performance
- The accounting system should be closely related to the organizational structure of the company.
- It should achieve high accuracy and speed in data processing and conversion of information
- Must be objectively in terms of accuracy in overall and detail and summarize the products of the information and accounting reports in addition to the objectivity in the time periods necessary to prepare

- To provide the Department with the necessary information in a timely and appropriate manner to make a decision as to the best alternative among the alternatives available
- To provide the Department with the necessary information to assist in the performance of the planning function of various types short, medium and long term

- To provide the Department with the necessary information to achieve effective oversight and to evaluate the activities of the economic unit
- The accounting system fulfills all the needs of third parties
- Must have the absolute ability to interact and integrate with other subsystems within the corporate information management system.
- The accounting system must be flexible.
- The accounting system should be simple and clear.
- The accounting system must have the acceptance factor.
-

6-The components of the accounting system in the crude oil companies under service contracts

- The components of the electronic accounting system in the oil production companies represent the integration of the two financial accounting systems and the accounting of the following:
 - - Documentary Collection
 - - The book collection
 - - Guide Cost Units
 - -Cost Centers Guide
 - -Accounting Guide
 - -Financial Statements and Reports.
 -

- **7-The general auditing procedures followed in auditing oil extraction operations under service contracts**

The following procedures are adopted when auditing the extracting of crude oil exported by the extractive companies and provide it to (export, refineries, other) of this oil during the audit year:

- Checking production movement Verification of quantities delivered to (refineries, exports, etc.)
- Verification of the quantities supplied to the beneficiaries through the carrier companies
- Request for data on quantities of crude oil received by companies Transport, refineries, marketing, etc.)
- Check the inventory and follow the fundamental procedures in its implementation
- Match the actual inventory results with the book
- Check for counters in production field, delivery and receiving locations.
- Auditing returned quantities of wells (re-injection wells) if any and study the causes
- Field visit to production and processing sites.

● **8. Standards of government auditing of oil companies under service contracts**

- The scope: This standard applies to the state oil companies as a part in service contracts signed with companies developing oil fields.

Requirements: To carry out the audit of oil companies under the service contracts requires the provision of a set of standards are:

1-The First Group (General Standards)

The first standard: is the scientific and professional qualification of the auditor and his knowledge of the basic requirements of the government auditing of oil companies (the government auditor for the oil companies should be available under the service contracts of the scientific degree and professional qualification and knowledge of oil industry activities and related contracts to be able to carry out its work to the fullest extent).

- **The second Standard**: maintaining professional competence (the need for specialized programs for the continuous training of the government auditor in the field of auditing and maintaining oil contracts will lead to maintaining the efficiency of the professional auditor and improve the view of others in practice).
- **The third Standard**: Independence (the need for professional and self-reliance of the audit team for oil production companies under service contracts)

- **The second group** (Field Work Standards)
- **Standard 4**: Audit Planning Standard)
- **Standard 5**: of supervising the work of assistants
- **Standard 6**: Standard for the Examination and Evaluation of the Internal Control System
- **Standard 7**: (Documentation and Worksheets)

- Group III - Performance Auditing Standards
- **Standard 9**: Planning work sufficiently to implement performance audit
- **Standard 10**: Proof guidance of Performance Audits
- **Standard 11**: Economic Audit and Efficiency Standard.
- **Standard 12**: Software Efficiency Audit
- **Standard 13**: Standard for auditing the expenses of recovery of oil companies under service contracts
- **Standard 14**: Performance Auditing Standard