<u>Transparency Reporting in Oil & Gas Industry</u>

Hamdy A, Rashed, CMA, CAPM
Bachelor of accounting
Email: rashed.hamdy@gmail.com
Website: http://www.accountingsoul.com/

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However, full disclosure is a principle of accounting, practically many companies could not give full disclosure because the cost of preparing the full disclosure may exceed its benefits to the investors, governmental or international agencies, analysts or any of the stakeholders but it is not an excuse to hide information rather than to reveal it. The Companies with mysterious financial statements are considered as high risky and less valuable for investor. Also, since Sep 11, many countries and international organization seek toward transparency and still there are some nations offer shelter to financial criminals looking for protection.

Transparency of financial reports prepared by government and their agencies was one of the requirements that is enhanced by International Public Sector Accounting Standard Board. Transparency is another challenge for the private sector that International Accounting Standard Board (IASB) and FASB seek to offer greater in the form of full and better disclosure to stakeholders. IASB rejects the argument that say more transparency will be disadvantage to companies because lack of transparency means nasty surprises can come like what happened at Enron and Tyco.

During financial crisis, it was observed that lack of transparency in financial statements impacted the valuation of companies that knocked risk of reducing the confidence in the financial markets. Transparent financial information supposed to be more understandable, very clear frank or honest. The more branches and joint venture entities and types of business company have, the more complicated it is, and the more transparent information and disclosure is required by types of business and geographical locations. Company that is doing well, has nothing to hide and is eager to publish their key performance indicators and publish more about where it is making resources, and how it is spending the resources as widely as possible that lead investors consider them more valuable than the company that keep information to itself.

Should Company disclose anti-corruption programme?

In addition to the above, transparency is required for fighting against corruption too. Corruption expose the organization at significant risks, corrupt practices can occur during every phase of project, during planning, tender, project execution, and operation. Corruption may cause losses by additional cost that lead to make project uneconomic, and may cause reputational risk for company. Such practices can disadvantage owner (government or company) by awarding contract to inefficient contractor, and disadvantage individual directors or managers by resulting in criminal prosecution, loss or imprisonment.

Corruption has different types, the below two types are example of the corruption.

Bribery

That representative of a party may pay bribe to another party in cash or in-kind as significant or high expensive gift for retaining business or in exchange for award of a contract that a party is not effective or efficient to retain such business. Bribery may be paid directly or indirectly by intermediaries to conceal the bribes. The intermediaries can be agents, joint venture, subsidiaries and subcontractors.

Fraud

A representative of one party is try to deceive representative of another party to get wrong payment or deny another party due payment.

As long as corruption exposes a company at risks, Oil and Gas Companies are recommended to adopt the below anti-corruption programmes per Transparency international recommendations:

1. Company should maintain anti-corruption programme or code of conducts that
    a. publicly have zero tolerance of corruption.
    b. explicitly apply to all subsidiaries, all employees, subcontractors and suppliers and partners,
    c. require all employees to report potential violations of policy
    d. commit to be in compliance with all relevant laws and anti-corruption regulations.
    e. describe corruption-related risk assessment procedures.
    f. forbid or fully disclose political contributions and facilitation payments
    g. provide against the risk of charitable contributions and sponsorships being used as subterfuge for bribery, and company should fully disclose its charitable and sponsorship contributions.
    h. prohibit the offer or receipt of improper gifts, hospitality or expenses, and provide guidance on the offer or receipt of proper gifts, hospitality or expenses.
    i. prohibit retaliation for reporting violation of policy and the policy should include provisions for disciplining employees (including directors and managers) who involved in corrupt activities.
2. Company should maintain transparent, fair, objective and reasonable procurement procedures that include how the tenders should be evaluated and selecting the best supplier. Also, Company should have effective internal audit which to be able to monitor the tender process and perform

several internal audit to prevent and identify any corrupt practices. Internal audit should have several staff that have competency in accounting and technical.

3. Company should have statement of support for the UN convention against corruption.
4. Company should publish statement from CEO or Chair of BOD supporting anti-corruption principles of a company.
5. Company should provide direct contact or channels which employees can report potential violations of policy or seek advise in confidence.
6. Company should disclose number of complaints received or incidents report for corrupt activities through the communication channels.
7. It is recommended to have part in or explicitly support leading voluntary anti-corruption initiatives and codes.
8. Company's anti-corruption programme should be periodically reviewed for adequacy and effectiveness.
9. It is recommended company to undergo external independent audit of its corruption programme.

What are the requirements for the transparent financial statement and annual report of oil and gas companies?

United Nation Global Compact reports a principles against corruption that include policies, management system and performance to evaluate the reliability of Company's accounts, recommend to make public details of their subsidiary's whatever is fully or non-fully consolidated, subsidiaries' countries and parent company's interests on the financial statements or websites to make it accessible to stakeholders and recommend oil and gas Company to report country by country and their country to amend relevant legislation to require their registered Companies to report country by country.

Oil and Gas Companies is recommended to perform following to increase the transparency per Transparency International Recommendations, IFRS, and some stock exchange regulations

1- Companies should publicly disclose the names of its fully and non-fully consolidated material subsidiaries with percentage of ownership and countries of incorporation in their financial statements including the joint ventures. Also, this disclosure is required by IAS 31 and 28 and 27 which require disclosure of list of significant joint venture, subsidiaries and associates that include names, proportion of ownership, countries of incorporation and description of interests in all joint venture and discloses the aggregate amounts of each the following related to interests in joint venture associates such as assets and liabilities, revenue and expenses, disclose joint venture contingent liabilities and commitments separately.

2- Companies should publicly identify its material upstream fields of operation with percentage of interest in their annual report or stock exchange filing.

3- Companies should publicly identify other partners in their material upstream fields of operation with percentage of interest in their annual report or stock exchange filing.

4- Companies should ensure that its accounts are prepared in accordance with national GAAP or IFRS and prevailing laws.

5- Companies should be subject to independent external audit.

6- Companies should disclose payments to host governments along EITI revenue streams indicators that include government profit taxes, royalties, bonuses, rental fees, entry fees, profit oil and any other significant benefits to government and by country. This recommended disclosure can be added in the annual report along with management discussion or analysis or information on Company page. Or those information can be disclosed in the financial statements but showing all the operational results in gross then in net.

7- Companies should disclose their revenue, operating cost, development and exploration expenditures, profit before taxes, and after taxes as net share by country. Also, IAS 14 that requires disclosure of the revenue, cost, net profit and assets by geographic segment or business segment. But IAS 14 does not specify the geographic location is by country and segment is reportable if revenue or net profit or loss of the segment is greater than or equal to 10% of total revenue or net profit or loss, company can group some countries in one geographic location, such as "Asia, Middle East, Africa"

8- Companies should disclose the gross production volume, net production volume and gross reserves and net reserves by country in its annual report.

9- Companies should disclose gross well and net well drilled during the period and by country.

10- Companies are recommended to disclose reserves replacement ratios, reserves life ratio, average daily production per well, reserves replacement cost ratios.

In our view of point, Oil and Gas Companies, should adopt the above programme but regarding to paragraph no. (i) above, most of national regulations such as (U.S FCPA) does not prohibit any payments made for facilitating business process, but it prohibits any payments made for retaining a business. In fact, and practically we could not fight against immaterial corruptions for facilitating process, but we recommend oil and gas companies to establish transparent accounting records for controlling and monitoring such kind of payments or unsupported expenses which are supposed to be periodically reviewed by legal department, internal audit and external audit. For example, it is recommended to add special subcode for accounts that are indicated to unsupported expenses or payments for facilitations.

Finally, transparent financial information can be appropriately provided to stakeholders by designing proper accounting system and reporting process. Accounting Department or internal audit department of oil and gas companies should make quality financial information requirements analysis and matrix to know how to provide transparent financial information to stakeholders. And this matrix and the process of improving the financial reporting will be discussed in our upcoming papers.

Source:

- Promoting Revenue Transparency. 2011 Report on Oil and Gas Companies.Transparency International. The global coalition against corruption. Revenue Watch Institute.