

# Energy Audit PNCB+EOPS Audit Life Cycle

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Oil Sands Royalty Business Training

Alberta Energy

June 16, 2022

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# Types of Audits

- Prior Net Cumulative Balance (PNCB) Audits
  - New Oil Sands Project Applications
  - Amendments to existing approved Oil Sands Projects
- End of Period Statement (EOPS) Audits
  - OSR Projects
  - Conducted based on the audit planning and selection
- Non-Project Royalty (NPR) Audits
  - Monthly royalty reporting for non-Project well events
  - Often part of PNCB audit
- Other Audits pertaining to Oil Sands
  - Cost Allocation Order (CAO)
  - Review of Cost Allocation Methodology Report (CAMR)
  - Mineral Rights Compensation Regulation (MRCR) claims

# PNCB Audits (Overview)

- Completed based on submitted Project applications and Project amendments
- All PNCB forms are audited
- 9 month timeframe to ensure completion prior to issuance of Ministerial Order (MO) (OSRR09 Section 13(b))
- Once the audit is completed, the PNCB amount is not subject to future amendment (OSRR09 Section 16)

# PNCB Audit Lifecycle

- PNCB Pre-Screen Process
  - Includes notification by Oil Sands Project Engineering & Approvals team within 10 business days of Project application submission
- Commencement Letter
- Project Review
  - We assess risks, plan audit procedure, analyze financial data and execute audit procedures
- Types of Audit Adjustments
- Reporting and finalization
  - Closure Notice (Draft Audit Report) issued prior to or by 8th month of audit
  - Final Notice of Determination (Final Audit Report) issued prior to or by 9th month of audit

# PNCB Pre-Screen

- Purpose
  - Ensure that the transaction details reconciles to the PNCB submission
  - Ensure that the supporting documentation is sufficient to conduct audit
- Required supporting documentation:
  - Electronic detailed transaction listing of costs claimed
    - Invoice Number, Date & Amount
    - Account Number & Description
    - Vendor Name
    - Cost Centre (e.g. wells identified)
    - AFE Number & Description
    - Document Type (e.g. JE, A/P, etc.)
    - Payment Date
  - Copy of Authorization for Expenditures (AFE) for all costs claimed
  - Seismic maps
  - Methodology of cost allocations – CAMR, salaries, seismic, etc.

# PNCB Pre-Screen

- Detailed transactions  
Summarized journal entries are not adequate – full underlying details must be provided
- 10 business days  
Submission deficiencies are reported to the operator to be rectified within 10 business days. Failure to provide supporting documentation may lead to Project application rejection
- Multiple files  
If all data cannot be included in a single file, additional files with a common format are acceptable

# Project Review

- Gather additional operator information through review of the following:
  - PNCB application
  - Prior PNCB and EOP audits
  - Oil Sands Engineering/Economic reports
  - Operator Annual Reports & News Releases
- Complete initial Project interview with operator
- Complete analytical review of the cost claimed and revenues reported
- Stratified random and judgmental sample



# PNCB Audit Queries

- Capital and Operating Cost Sampling
  - Other Net Proceeds Reporting
  - Non-Arm's Length Transactions
  - Salary Cost Sampling
  - PNCB Revenue & Royalty Amounts Claimed
  - Sales Revenue - Netback Unit Price Calculations
  - Cost of Service Calculations
  - Duplicate Transactions
  - Journal Entries (Underlying details)
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- Response time is normally 2 weeks for each query.
  - All information provided by operators are kept confidential as dictated by Section 50 of the Mines & Minerals Act

# Audit Query

## Statistical sample testing

### ENERGY AUDIT – AUDIT COORDINATION INFORMATION REQUEST

FROM AUDITOR: \_\_\_\_\_ DATE: \_\_\_\_\_ REQUEST NO. \_\_\_\_\_  
AUDIT CONTACT: \_\_\_\_\_  
OPERATOR: \_\_\_\_\_  
PROJECT: R- \_\_\_\_\_

INFORMATION REQUESTED: (Ensure necessary supporting documentation is attached)

#### Sample Transactions

We have attached an Excel spreadsheet (R \_\_\_ Q\_ Audit Sample.xlsx) that includes a sample of transactions from the transaction detail file provided.

Please provide the associated supporting documentation for each of the transactions listed including a copy of the:

- G/L coding slip,
- Vendor invoice,
- Purchase order,
- Cheque stub, electronic funds transfer documentation or other proof of payment,
- Relevant contract (where the information noted above refers to an agreement or contract).

Please ensure that a description of each transaction is included with the supporting documentation provided. If the transaction was settled electronically and no document to indicate payment was generated, please provide details extracted from your records that show method of payment and the date payment was made.

If you have any questions or if you cannot provide this information by \_\_\_\_\_, please contact me directly at (780) \_\_\_\_\_.

#### REASON REQUIRED:

Audit examination of this information is required in order to substantiate that the amounts claimed are eligible for inclusion in the PNCB for the **amendment/application** applied for.

# Audit Queries - Salary Costs

Salary queries may include requests for:

1. Payroll process and organization charts
2. Supporting documentation for the sample transactions selected:
  - Employee name
  - Actual salary paid to the employee
  - Description of the amount (Salary, bonus, benefit etc)
  - Position title of the employee
  - Duties performed by the employee
  - Location of the employee
  - Pay period, date worked, date paid
  - Timesheets
  - Hourly rate for employee
  - Detailed description of allocation methodology if costs are allocated

(OSRR09 Section15(3)(iv) and OSACR Schedule 1.1 items 4 and 58, IB 2013-14)

# Types of Audit Adjustments

- Cost Adjustments
  - Costs outside Project lands or Project description
  - Costs incurred outside allowable PNCR period (5 years preceding the effective date – OSRR09 Section 15(2)(a))
  - Cost duplication between PNCR & End of Period Statement (EOPS) reporting
  - Ineligible costs claimed (Overhead, membership, shared services etc) - OSACR Schedule 1.1
  - Ineligible salary costs-E.g not solely dedicated to Project activities
  - Cost of Service calculations
  - Cost Accruals
- Revenue Adjustments
  - Volumetric
  - Valuation – Netback sale prices
  - Handling Charges
  - Other net proceeds not reported

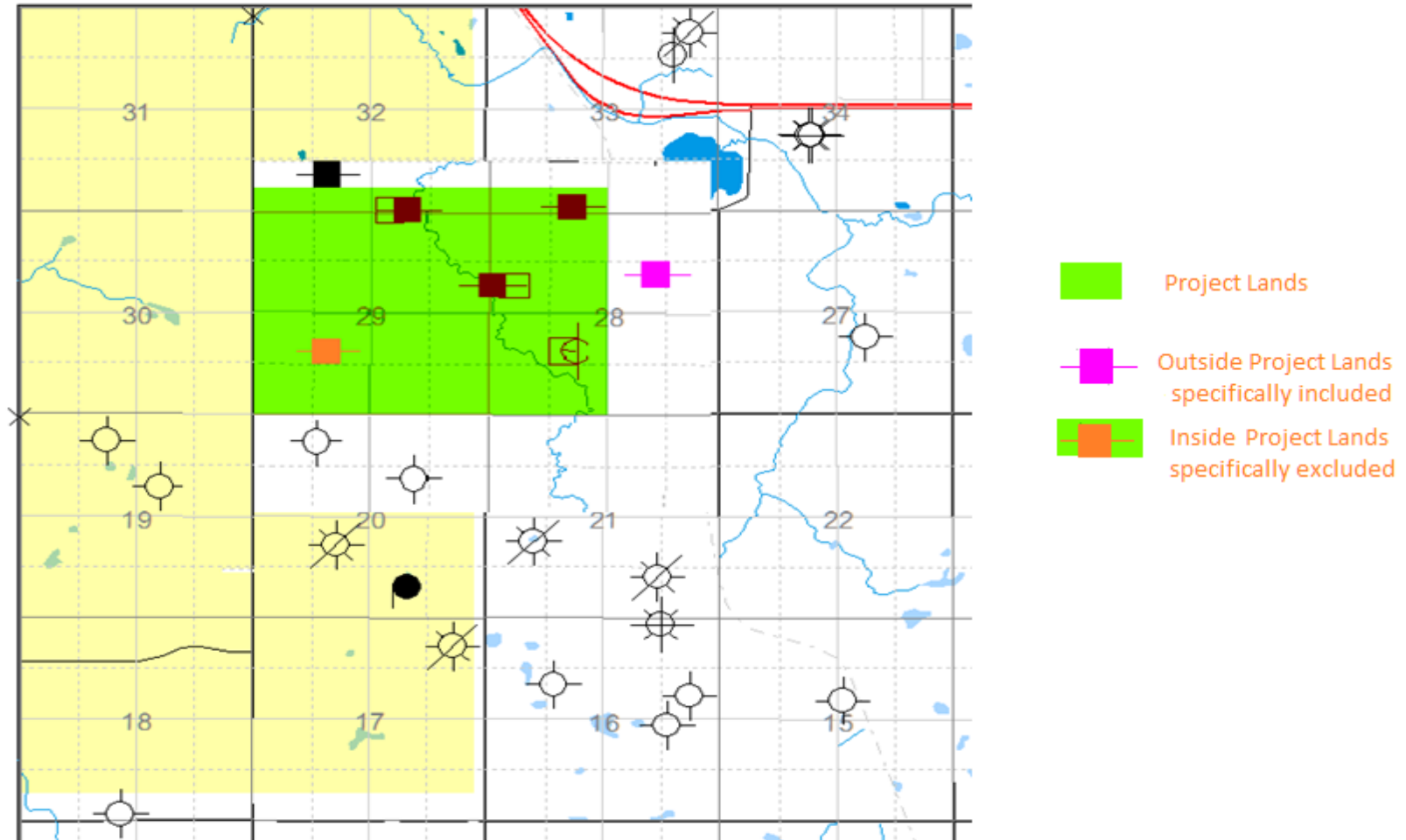
# Common Cost Adjustment

## Costs outside Project lands or Project description

- Eligible PNCB & EOPS costs are incurred on OSR Project area
  - AER approval includes AER development area and AER Project area whereas the Oil Sands Project approved lands are only the Ministerial Order Project lands and may also include specifically includable assets off Project lands
- Eligible PNCB & EOPS costs are incurred for Project activities only and are outlined in the Project description
  - The Ministerial Order may specifically exclude assets or activities (e.g. camps, roads, airstrips, electricity portion of co-generation, etc.)
- The Ministerial Order describes the “ring fence” of the Project that determines the eligibility of costs.

# Common Cost Adjustment

## Costs outside Project lands or Project description



# Common Cost Adjustment

## Cost Duplication

PNCB transaction details are reviewed to determine if there is a potential for duplication of allowed costs between:

- New Project application and an amendment to an existing Project.
- Project application and Oil Sands EOPS reporting  
(Note that amendment Project application PNCB amounts should not be reported in the EOPS until the audit of the PNCB has been finalized and the Ministerial Order issued to the operator)
- Project A and Projects B owned by the same operator

# Common Cost Adjustment

## Accrued costs

Accrued costs are deemed to be ineligible since they do not represent actual cost paid.

- A cost is deemed to be incurred in the month in which the cost becomes payable.
- OSRR09 Section 18 defines when allowed costs are incurred and enter into royalty calculation.
- Information Bulletin (IB) [2013-11](#) clarifies when costs are considered “payable” and “incurred” under OSRR09.



# Revenue Adjustments

Sales revenues reported in the PNCB are a deduction from the allowable costs claimed

Reconciliation completed between PNCB reporting and NPR submissions for the following:

- Sales volumes are equal to the conventional oil well's production for the month.
- Sales value is calculated using the netback price received for the product in that month.
- Royalties paid on production from conventional oil wells are an allowable PNCB costs.

# PNCB Sales Revenue

## Prior Net Cumulative Balance -- Revenue Detail

Project Operator \_\_\_\_\_ [Operator Name]  
 Project Name \_\_\_\_\_ [Project Name]  
 For the Period From \_\_\_\_\_ To \_\_\_\_\_  
 MM/YYYY MM/YYYY

Year	Month	Sales Volume** (m3)	Sales Revenue (\$)	Less: Handling Charges (\$)	Other Oil Sands Product Sales (\$)	Other Net Proceeds (\$)	Project Revenue (\$)
YYYY	January	0	\$0	\$0	\$0	\$0	\$0
	February	0	\$0	\$0	\$0	\$0	\$0
	March	0	\$0	\$0	\$0	\$0	\$0
	April	0	\$0	\$0	\$0	\$0	\$0
	May	0	\$0	\$0	\$0	\$0	\$0
	June	0	\$0	\$0	\$0	\$0	\$0
	July	0	\$0	\$0	\$0	\$0	\$0
	August	0	\$0	\$0	\$0	\$0	\$0
	September	0	\$0	\$0	\$0	\$0	\$0
	October	0	\$0	\$0	\$0	\$0	\$0
	November	0	\$0	\$0	\$0	\$0	\$0
	December	0	\$0	\$0	\$0	\$0	\$0
	Sub-total	0	\$0	\$0	\$0	\$0	\$0
	<b>Grand Total</b>	<b>0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*\* Report sales revenue, sales value and Handling Charge for the primary oil sand product and report net revenue for Other Oil Sands Products.

- Sales volumes are equal to the conventional oil well's production for the month.
- Sales value is calculated using the netback price received for the product in that month.

# Closure Notice

## Summary of Proposed Audit Adjustments R XXXA Operator Project Name January 1, 2014 to December 31, 2018



	Operating Costs	Capital Costs	Revenue (-)	PNCB
As originally claimed:	\$400,000	\$7,000,000	(\$42,000)	\$7,358,000
Less:				
1 Costs outside the PNCB period	\$0	\$900,000	\$0	\$900,000
2 Ineligible AFE	\$0	\$2,500,000	\$0	\$2,500,000
3 Unsubstantiated costs	\$0	\$260,000	\$0	\$260,000
Total adjustments:	\$0	\$3,660,000	\$0	\$3,660,000
Amended PNCB	\$400,000	\$3,340,000	(\$42,000)	\$3,698,000

### ISS.1 - Costs outside the PNCB period

Revenue: Allowed Costs: (\$900,000) Pending Client Response

The PNCB period for R XXXA Operator Project is from January 1, 2014 to December 31, 2018. We identified that the PNCB submission included \$900,000 from outside the PNCB period.

As a result, an audit adjustment of \$900,000 is required.

*Oil Sands Royalty Regulations 2009 (OSRR 09) 15(2)(a)*

### ISS.2 - Ineligible AFE

Revenue: \$0.00 Allowed Costs: (\$2,500,000) Closed - Client concurred

We identified that AFE 123456 and AFE 654321 do not form part of the Project description.

Consequently, an audit adjustment is required to remove the costs associated with AFE 123456 and AFE 654321.

The operator agreed with the removal of AFEs on April 22, 2019.

*Oil Sands Allowed Costs Regulation (OSACR )3(1)*

# Final Notice of Determination

- After 30 days if the PNCB audit is concluded the final PNCB amount is provided to Oil Sands Engineering for inclusion in the Ministerial Order.
- Oil Sands Engineering will issue the Ministerial Order to the operator.
- Energy Audit completes a final reconciliation of Ministerial Order to the Final Notice of Determination and then issues the Final Notice of Determination to the operator.
- In some instances the Ministerial Order will be prepared with a reviewed PNCB amount while the audit continues resulting in the PNCB amount being subject to further adjustment.

# After the Final Notice of Determination

- If this Project application is for a new Project, the PNCR amount becomes the opening cumulative cost balance of the OSR Project
- The approved PNCR amount is reported in the monthly Oil Sands royalty reporting forms (MRC/GFE) in the month the Project application/amendment became effective
  - E.g. If the effective date of the Project application is March 1, 2018 for a new OSR Project, the operator would report the PNCR amount in the March 2018 MRC royalty form (presuming the Project is in pre-payout status)
- Allowed costs included in the PNCR data for a Project amendment application should never be included in the Oil Sands Royalty reporting until the Project application is approved

# EOPS – End of Period Statements

## Audit Objective

- The objective of Energy Audit is to ensure that Crown Royalties are **complete, accurate and fairly valued**.



# EOPS Audit Lifecycle

- Commencement Letter
- Project Review
- Data Analysis
- Queries and Standard of Evidence
- Closure Notice
- Notice of Determination

# EOPS Audit Lifecycle

## Commencement Letter

- Used to notify Project owners that their Project is under audit
- Will request data that supports and reconciles to all costs and revenue claimed on the EOPS:
  - Electronic Format
  - Vendor Name
  - Invoice Number, Date and Paid Date
  - Description of Transaction
  - AFE Number and description
  - Location
  - Account Number and Description
  - Document type
- See Section 50 of the MMA regarding confidentiality of records



# EOPS Audit Lifecycle

## Initial Project Review

- Auditor will review the following documents:
  - Prior EOPS audits and PNCB audits
  - Ministerial Orders
  - Engineering/Economic reports
  - Project Briefings
  - Cost Allocation Methodology Reports (CAMR)

# EOPS Audit Lifecycle

## Data Analysis

- Auditor Assignment
  - Audit Commencement meeting may be required
- Initial Data Analysis
  - Data Summaries
  - Trend Analysis
  - Area price comparisons
  - Fair market value tests
  - Duplicate testing
  - Project boundary reviews

# EOPS Audit Lifecycle

## Queries

- What is included in a Query:
  - Background of issue in discussion
  - What information is being requested (invoice, contracts, etc)
  - Reason for information request
  - Regulatory authority (OSRR-09, OSACR, BVM Ministerial Order, IL, IB, etc.)
  - Timeline to provide information

# Standard of Evidence

- All cost, revenue, handling charge, and diluent information submitted for royalty calculation purposes must be auditable, properly documented and supported by evidence. Evidence must be valid, relevant and impartial to be considered appropriate – [IB 2013-14](#)



# Standard of Evidence

## Solely Dedicated Costs

The next three slides will examine the standard of evidence for employees performing corporate overhead type functions as per [Item 58 of schedule 1.1 of OSACR 2009](#), that is effective January 1, 2017

Salaries for employees performing corporate overhead type functions are claimed on an employee level.

SAP GL details are most likely not compliant to the Regulations.

# Standard of Evidence

Item 58 of schedule 1.1 of OSACR 2009

## Specifically Included

**Salaries, wages, benefits, training, travel and accommodations for employees solely dedicated** to carrying out Project operations

**Salaries, wages, benefits, training, travel and accommodations for employees or personnel performing the following functions and solely dedicated to operations of one or more Projects** operated by the same operator:

- **information technology**
- **accounts payable**
- **office administration** and support
- **capital and operating accounting**

*Column continued on next slide*

## Specifically Excluded

**Salaries, wages, benefits, training, travel and accommodations for executive or management employees not solely dedicated** to carrying out Project operations

**Salaries, wages, benefits, training, travel and accommodations for employees or personnel performing the following functions and not solely dedicated to the operations of one or more Projects** operated by the same operator:

- **information technology**
- **accounts payable**
- **office administration** and support
- **capital and operating accounting**

# Standard of Evidence

## Item 58 of schedule 1.1 of OSACR 2009

### Specifically Included

**Salaries, wages, benefits, training, travel and accommodations, for employees to the extent those employees carry out Project operations in the following circumstances:**

- **legal counsel** for matters integral to furthering Project operations
- providing **production accounting** and **royalty accounting** for oil sands products
- **purchasing or disposing** of assets, materials or supplies used in Project operations
- conducting employee classification or **employee relations activities** for employees carrying out Project operations
- **engineers, geologists, geo-scientists or biologists** carrying out engineering, geological, geo-physical or environmental activities for Project operations
- carrying out **marketing activities** for oil sands products

# Standard of Evidence

## Employees Performing Corporate Overhead Type Functions

### Capital and Operating Accounting

Employee	Position	Salary <sup>(1)</sup>	Benefits	Training	Travel Costs	Total SWB	Project Time Allocation <sup>(2)</sup>	OSR 200 Allocation	OSR 300 Allocation
Smith, J	AFE Analyst	\$ 150,000	\$ 60,000	\$ 20,000	\$ 15,000	\$ 245,000	70%	OSR 200	\$ 171,500
							30%	OSR 300	
<i>Allowed: Solely dedicated to operations of one or more Projects</i>									
Singh, V	AFE Analyst	\$ 120,000	\$ 10,000	\$ 20,000	\$ 15,000	\$ 165,000	50%	OSR 200	
							50%	Natural Gas Assets	
<i>Not Allowed: Not solely dedicated to operations of one or more Projects</i>									
White, D	Engineer	\$ 75,000	\$ 30,000	\$ 20,000	\$ -	\$ 125,000	80%	OSR 200	\$ 100,000
							20%	NPR Wells	
<i>Allowed to the extent those employees carry out Project operations</i>									
Pitt, B	Business Analyst Team Lead	\$ 175,000	\$ 30,000	\$ 20,000	\$ -	\$ 225,000	100%	OSR 200	\$ 225,000
<i>Allowed: Management employee solely dedicated to carrying out Project operations</i>									
Wong, K	Accounting Manager	\$ 150,000	\$ 60,000	\$ 20,000	\$ 25,000	\$ 255,000	50%	OSR 200	\$ 127,500
							50%	OSR 300	
<i>Not Allowed: Management employee not solely dedicated to carrying out Project operations</i>									

(1) Salary must be actual amount incurred and paid

Day rates, estimates, or industry averages should be replaced with actual salaries paid to employees

(2) The allocated rate must be supported with verifiable evidence illustrating the relationship of the service the Project receives



# Audit Lifecycle

## Closure Notice

- Draft Audit Adjustments with description, dollar amount and regulatory authority
- Usually a 30 day deadline for a response
- Request for any additional information for any audit adjustments in dispute by operator
- Mines and Minerals Dispute Resolution Regulation Section 4(2): no additional information will be considered during the appeal process

# Audit Lifecycle

## Notice of Determination

- What is included in the Notice of Determination:
  - Signed letter with final Audit adjustments
  - Information on the Appeal Process
  - Obligation to correct systemic errors – OSRR 2009 44(5-6)
  - Summary of Adjustments
  - Adjusted EOPS/PNCB schedules

# EOPS Timelines

- Operators file their original EOPS within 3 months after the end of each period [OSRR, 2009 Section 39\(1\)](#)
- Amended EOPS [MMA Section 38](#)
  - (4) An amendment made under subsection (3) must be made no later than 3 years after the end of the calendar year determined under the regulations.
  - (5) The Minister may, in examining a record, conduct an audit of the submitted records or conduct any other form of examination determined by the Minister.
  - (6) An examination referred to in subsection (5) must be completed no later than 5 years after the end of the calendar year determined under the regulations.
  - (7) If, after the completion of an examination under subsection (5), the Minister determines that a calculation in respect of a prescribed matter is required, the Minister shall provide a notice of the Minister's determination to the reporting person whose record is the subject of the examination.
  - (8) A calculation referred to in subsection (7), including any related interest and penalties, must be made no later than 5 years and 6 months after the end of the calendar year determined under the regulations.
  - (9) Notwithstanding subsections (3) to (8), the Minister may at any time conduct an examination under this section and make a calculation under subsection (7) if a reporting person or any other person authorized by the reporting person has made any misrepresentation that is attributable to neglect, carelessness or wilful default or has committed a fraud in providing any record or other information under this Act or the regulations.

## Links to Oil Sands Legislation & Information Bulletin/Letters

Link to Act and Regulations

<https://www.alberta.ca/oil-sands-acts-and-regulations.aspx>

Link to Oil Sands Royalty Guidelines

<https://www.alberta.ca/oil-sands-royalty-guidelines.aspx>

Link to Information Bulletins and Letters

<https://www.alberta.ca/oil-sands-information-bulletins-and-letters.aspx>

IB 2013-11 : Arm's Length Costs Incurred and Cost Accruals

<https://open.alberta.ca/dataset/bb1e16fa-db5c-460a-b7ff-37293610f3ae/resource/a1b6cde6-811d-4d27-8774-327a7799d7ec/download/ib-2013-11.pdf>

IB 2013-08 Change of Operatorship or Ownership: Clarification of Responsibilities and Entitlements

<https://open.alberta.ca/dataset/bb1e16fa-db5c-460a-b7ff-37293610f3ae/resource/5ca1c903-d71e-494e-b4cb-5cc6dac29dd4/download/ib-2013-08.pdf>

IB 2013-14 : Determination and Treatment of "Solely Dedicated" Employee Costs

<https://open.alberta.ca/dataset/bb1e16fa-db5c-460a-b7ff-37293610f3ae/resource/03f3ae4b-5280-4cbf-ae8d-d8c65ddf64f1/download/ib-2013-14.pdf>

Access to records – OSRR09 Section 42 & Mines and Minerals Act Section 47

[http://www.qp.alberta.ca/documents/Regs/2008\\_223.pdf](http://www.qp.alberta.ca/documents/Regs/2008_223.pdf)

# Questions?

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