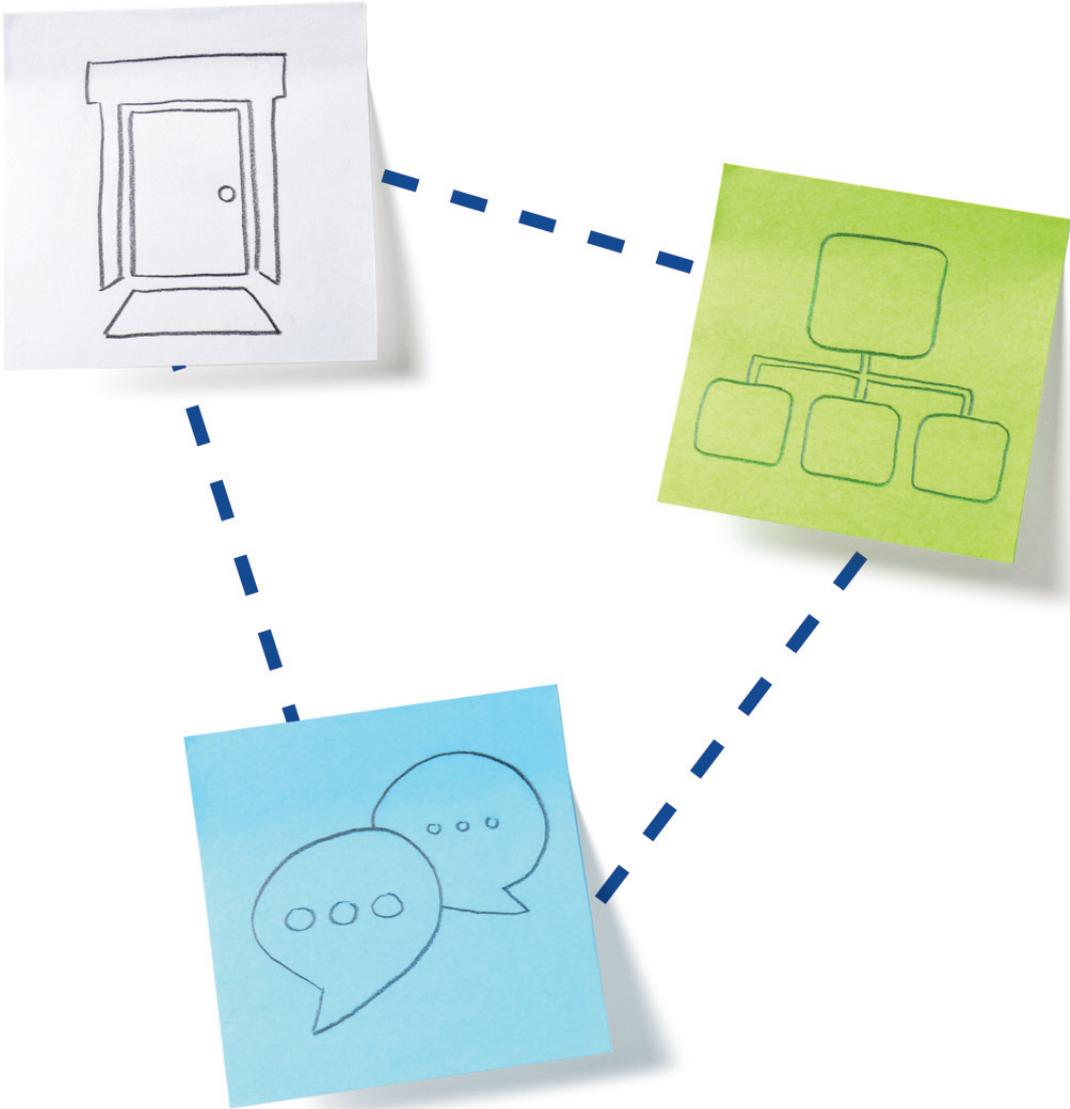


Connecting the
bright spots
Key components
of an oil and gas
governance framework



A governance framework that provides transparency and evokes confidence in the controls instituted across the NOC will provide benefits across the spectrum

Many developing and emerging economies try to take advantage of the natural resources available in their countries in order to boost development. National Oil Companies (NOCs) that pursue the extraction, development, and sale of oil and natural gas resources are a clear example of this. The role these NOCs play is significant in many regions around the world. Regardless of the type of NOC set-up, (entirely public, partnerships with private companies, or other operating models), there is one element that is common and essential to them all to ensure maximal returns are realized. This element is that of establishing and implementing a governance framework that can help overcome certain obstacles and yield many benefits.

Without proper governance, NOCs can face significant challenges in many areas, both external and internal to the organization. From an external point of view, sourcing funding and attracting investment will be very difficult if those sources of funding and investment are not convinced that there are adequate controls, checks and balances that a governance framework can provide in place. Additionally, the view of earnings and balance sheet performance can be impaired by the lack of trust and confidence in the numbers that are being published without proper oversight. Internally, the lack of governance can lead to inefficiencies in the system in all aspects such as capital deployment, organizational performance and operational issues. There are also adverse effects on sustainability and social responsibility given the nature of NOCs' responsibilities and their impact on society. However, with a thoughtfully planned and successfully implemented governance framework, all of these problems can be reversed.

A governance framework that provides transparency and evokes confidence in the controls instituted across the NOC will provide benefits across the spectrum. First of all, funders and investors will be more confident that their capital will be employed to the best interests of the organization, leading to lower risk and better returns for them. Internal issues will also be addressed through stringent standards enforced through proper organizational design, delineation of authorities, and detailed policies and procedures that safeguard the well-being of the NOC as a whole. In some instances, due to the high profile many NOCs hold in their countries, they can be seen as the benchmarks for governance that all other entities and industries, both public and private, aspire to achieve, thus providing a sound example of proper governance for them to follow. Figure 1 below describes the characteristics of a good governance framework.

Figure 1: Characteristics of a good governance framework

Characteristics of a good governance framework

- Crisp articulation of the mission, vision, core values, and principles by which the company operates
- Outline of the organization structure, reporting lines, and responsibilities for functional and operational elements of the organization
- Clarity on ownership of governance, policies, and control activities
- Expression of the core business processes and how they interface
- The framework for assuring compliance

A governance framework spans multiple areas across an organization starting with defining the core purpose for the organization and drilling down to details such as setting standards for policies and procedures. Additionally, it should also specify the support mechanisms that should be arrayed around it to aid in achieving proper governance and control. These include areas such as a suggested organizational structure, reporting lines and definitions of roles and responsibilities, a defined approach to risk management, and the ability to monitor and enforce compliance, among others. In short, to yield the previously mentioned benefits, an effective governance framework should provide clear answers to the following questions:

- What is the mandate of the organization? What are the roles and responsibilities of entities/departments?
- What capabilities, processes and systems will be required?
- How should the risk governance be organized?
- What information and reporting requirements support the proposed governance model?
- What are the appropriate mechanisms and interfaces required to support the proposed governance model?

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In Figure 2 below, we see that an effective governance framework also includes the following four key elements: values, operating model, management system, and governing bodies. Values set the purpose of an organization and guide the rest of the governance framework to those ends. As such, the values must be clear and understandable, forming the basis for behaviors and principles for the organization as a whole. The operating model deals with the distinction between operations and functional roles, provides detail on delegations throughout the organization and provides the mechanism for planning and measuring success against those plans.

Figure 2: Key elements of a governance framework

| Governance framework | | | |
|---|--|---|--|
| Values | Operating model | Management system | Governing bodies |
| <p>A defined set of values that resonate with the business and are:</p> <ul style="list-style-type: none"> • Clear; • Memorable; • Mission focused; and • Guide decision-making. <p>The values naturally extend to the behaviors expected of individual employees and become guiding principles for “doing things right”.</p> | <p>An explanation of:</p> <ul style="list-style-type: none"> • The distinction between an operational role and a functional role; • Delegations; and • How the business plans its activities plus measures its success against that plan. | <p>Documented:</p> <ul style="list-style-type: none"> • Policies, procedures and guidance – ordered in a hierarchy; • Process of self-attestation; and • Summary of how the business operates. | <p>Roles and responsibilities at a ‘corporate’ level e.g.:</p> <ul style="list-style-type: none"> • Charters of the Board and its sub committees; • Non executive and top tier executive roles and responsibilities; • The role of Internal Audit (IA), compliance and risk management; and • The role of bodies such as a Functional Council to control and maintain policies and procedures etc. |

The management system includes the set of hierarchically structured policies and procedures for the organization, including the process of self-attestation. Additionally, it entails a summary of how the business operates across the relevant areas. Governing bodies provides oversight for the whole governance framework, from the top level board of directors' charter down to executive and non-executive roles

and responsibilities. The second large part of the governing bodies' element is that of compliance, internal audit and risk management, which monitors the policies and procedures and ensures that they are adhered to. For more detail, the elements above can be broken down into discrete work streams, along with designated owners and deliverables, to make the development of the governance framework easier as can be seen in Figure 3.

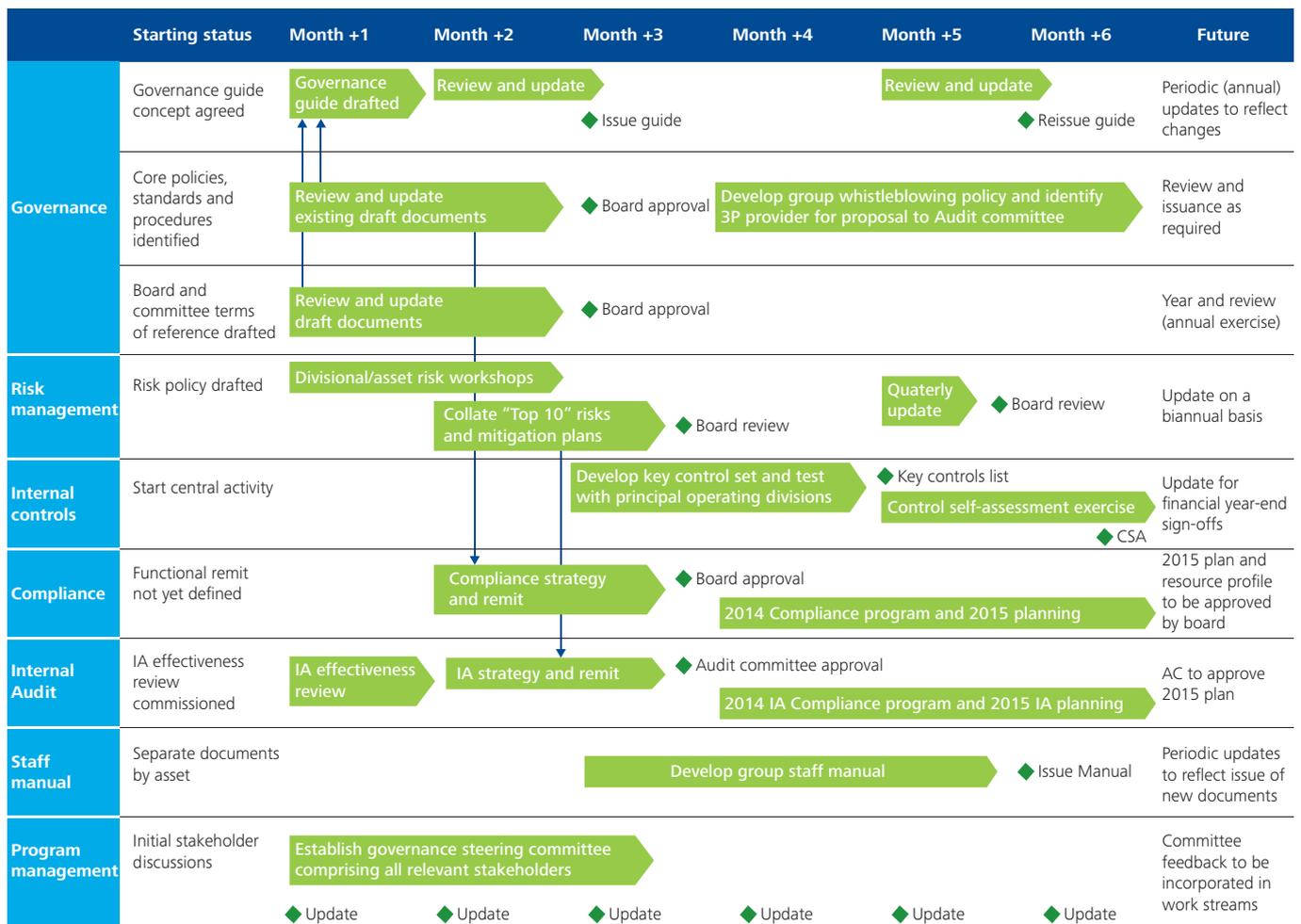
Figure 3: Work streams for delivering a governance framework

| Work stream | Owner | Objectives/Deliverables |
|--------------------|---------------------|--|
| Governance | Board | <ul style="list-style-type: none"> • Develop a "Governance guide" – i.e. a single document that provides a clear and concise overview of the governance and operating system • Updated and approved corporate policies, standards, and procedures • Updated and approved terms of reference for all Board Committees • Codes of Conduct and Ethics for all company members |
| Risk management | Risk | <ul style="list-style-type: none"> • An updated group "Top 10" risk assessment supported by a robust risk identification and mitigation process |
| Internal control | Finance | <ul style="list-style-type: none"> • An agreed set of core control objectives and a self-certification process to support an annual control assessment |
| Compliance | Compliance | <ul style="list-style-type: none"> • A clear remit and operational plan for compliance, grounded in core policies and regulatory requirements |
| Internal Audit | Internal Audit | <ul style="list-style-type: none"> • A clear remit and operational plan for internal audit |
| Staff manual | HR | <ul style="list-style-type: none"> • A common staff manual updated to reflect all updated policies and procedures |
| Program management | Governance and risk | <ul style="list-style-type: none"> • Establish (and deliver) a clear plan for the development and implementation of the governance framework • Effective engagement and involvement of all stakeholders to support the delivery of the above |

Using the work streams in Figure 3, we can extrapolate an indicative roadmap for the activities and tie them into a timeline for the development and implantation of a governance framework that spans six months. As seen in Figure 4 below, the roadmap breaks down steps within work streams that run in parallel and then in series to deliver an implemented final governance framework. At the end of the roadmap, the process continues with periodic reviews or updates as needed by changing business requirements. Over the course of the implementation, there are several important segments to include in the planning to ensure that the developed governance framework is both implementable but also takes root within the organization to ensure its benefits are realized.

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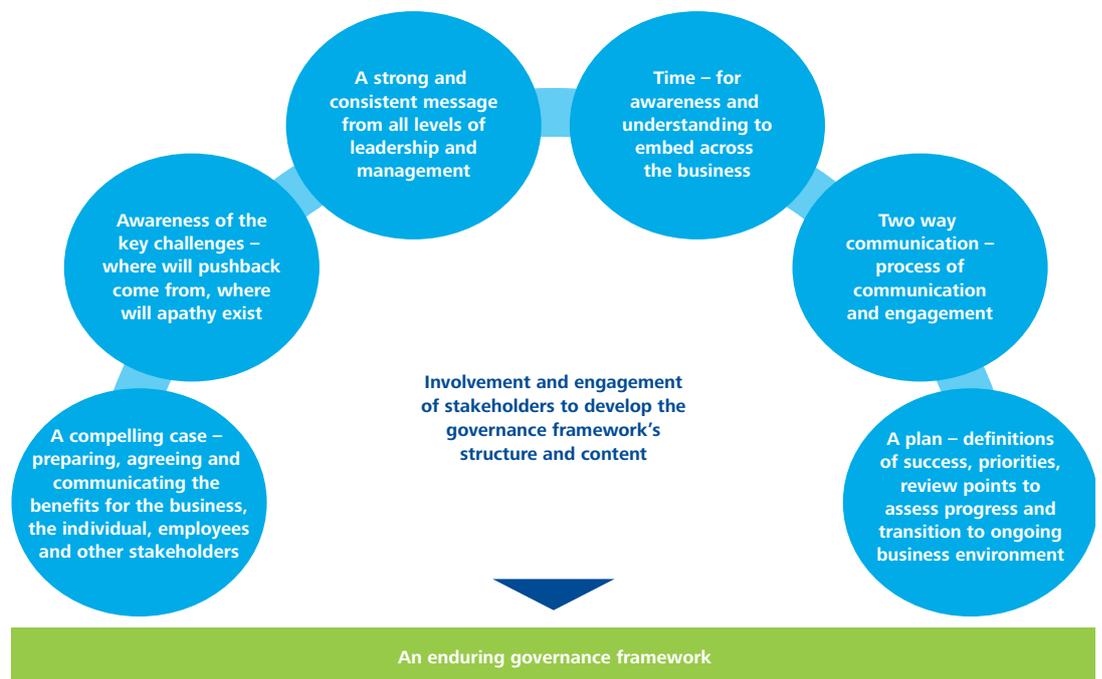
Figure 4: Indicative roadmap for governance framework development and implementation



Once the governance framework is developed, there are six critical success factors for effective implementation. These six elements also rely heavily on the involvement and engagement of stakeholders who understand and support the values of the organization. These are mostly focused around creating a compelling case through a thorough understanding of what motivates the stakeholders. Secondly, by interacting with the stakeholders, you will be aware of where pushback will come from and on which issues, leading to better mitigation strategies. Thirdly, a strong, united leadership will create a unified front for all stakeholders to get behind, to accomplish the task at hand. Next, providing

enough time for all the changes to embed across the organization will ease the transition from the previous state to one with more controls and governance. All along, ensuring that there is proper two-way communication between the stakeholder groups will provide both with a means to deliver the messages across the organization, as well as relay feedback and concerns from the stakeholders back up to the leadership team. Lastly, having a well-articulated and detailed plan, along with review points and targets, will help with establishing the transition to an organization with proper governance at all levels of the organization.

Figure 5: Critical success factors for effective governance framework implementation



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