

**North West Shelf Project Ring  
Fencing Protocol  
Summary of Independent  
Compliance Review  
2014**

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## Independent Compliance Reviewer's Summary of Compliance with the North West Shelf Project Ring Fencing Protocol 2014

### Terms of reference

In accordance with instructions given by and the work program agreed with each of the Participants (defined below), Deloitte Touche Tohmatsu (Deloitte) has undertaken certain compliance review procedures (our Review) associated with the North West Shelf Project Ring Fencing Protocol (the Protocol) and other internal domestic gas ring fencing policies that each of the Participants had in place (together the Ring Fencing Arrangements) in respect to the North West Shelf Project (the Project) at the date of our review.

In accordance with the instructions given by the Participants to Deloitte, this summary of the reports of our Reviews has been prepared.

The Participants are the following companies and their successors or assigns:

- Chevron Australia Pty Ltd
- Shell Development (Australia) Pty Ltd (Shell)
- BHP Billiton Petroleum (North West Shelf) Pty Ltd (BHPB)
- North West Shelf Gas Pty Ltd (NWSG).

Capitalised terms in this summary have the meaning given to them in the Protocol or as otherwise defined in this summary.

### Context

The Project is a domestic gas and liquefied natural gas (LNG) development in the Carnarvon Basin, off the North West coast of Western Australia (WA). The Project has an onshore gas processing facility in Karratha, WA, with a maximum committable capacity of approximately 600 terajoules of domestic gas per day. The Project has been in production for over 25 years.

The Australian Competition and Consumer Commission's (ACCC) authorisation decision in relation to the Project dated 8 September 2010 (authorisation numbers A91220, A91221, A91222 and A91223) is conditional upon the Participants adhering to the Ring Fencing Protocol and the appointment of an independent auditor to oversee and report on compliance with that protocol. The determination came into force on 30 September 2010.

The ACCC agreed to the appointment of Deloitte as the independent compliance auditor (Reviewer).

The Participants were required to commit to an ongoing review by the Reviewer of the operation of, and the Participants' compliance with, the Protocol every 12 months (the Annual Review).

NWSG is a special purpose entity designed specifically for the purpose of marketing gas from the Project on behalf of the other Participants. NWSG does not directly employ staff. The various Participants provide staffing to NWSG on a secondment basis. NWSG also directly engages contractors who undertake various administrative and IT functions.

This document summarises the outcome of the 2014 Annual Review for each of the Participants.

## Responsibility for Ring Fencing Arrangements

The management of each of the Participants is responsible for ensuring the existence of appropriate Ring Fencing Arrangements that comply with the Protocol. This responsibility includes establishing and maintaining an appropriate governance framework and compliance culture surrounding the Protocol.

## Our responsibility as Independent Compliance Reviewer

Our responsibility is to express a conclusion on the Ring Fencing Arrangements each of the Participants had in place in relation to the Protocol based on the procedures conducted as part of our review, as identified in the work program. We conducted our review in accordance with Australian Standard on Assurance Engagements ASAE 3100 "Compliance Engagements" issued by the Australian Auditing and Assurance Standards Board, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Participants have not complied with the Protocol as at the date of our review. These standards also require us to comply with the relevant ethical requirements of the Australian professional accounting bodies. Our engagement provides limited assurance as defined in ASAE 3100. Our procedures are summarised in the 'Work performed' section below.

## Inherent limitations

Our Work is subject to the following limitations:

- We were engaged to undertake a limited assurance review only. A review is not an audit and we do not express an *audit opinion*. A review involves limited procedures and enquiries. It does not involve the work we would ordinarily undertake to complete an audit or issue a *reasonable assurance opinion*. Additional information may have come to our attention, which would have been reported in this review, had we performed a *reasonable assurance* "audit" as defined by ASAE 3100 or an audit as defined by Australian Standards on Auditing
- Because of the inherent limitations of any internal control structure, it is possible that errors or non-compliances may occur and not be detected or reported in our work. Our procedures were not designed to detect all weaknesses in the Ring Fencing Arrangements or compliance with the Protocol, as they were not performed continuously over a period of time and the tests performed are on a sample basis only
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the Ring Fencing Arrangements may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate
- Any matters raised in this summary are only those that came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made to the Ring Fencing Arrangements. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and its responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our summary to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist
- The conclusion expressed in this summary has been formed on the above basis.

## Limitations on use

This summary is prepared for the Participants and Herbert Smith Freehills<sup>1</sup> in accordance with the instructions from the Participants, for the purpose of summarising the reports of our Reviews and should not be quoted in whole or in part without our prior written consent.

Herbert Smith Freehills and the Participants may at their own discretion share a copy of our summary with the ACCC for its information only and we understand that Herbert Smith Freehills on behalf of the Participants will

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<sup>1</sup> Herbert Smith Freehills provides legal advice regarding the Project to the NWS Participants and serves as the Participant's legal representative for the review.

## **Independent Compliance Reviewer's Summary of Compliance with the North West Shelf Project Ring Fencing Protocol 2014**

provide our summary to the ACCC and that this summary will be placed on the ACCC's public register. However, we accept no responsibility to the ACCC or any other party for our work or our summary and we disclaim all liability to any other party (including the ACCC) for all costs, loss, damages, and liability that may be suffered or incurred arising from or relating to or in any way connected with our work or our summary.

### **Independence, competence and experience**

All professional personnel involved in this engagement have met the independence requirements of APES 110 (Code of Ethics for Professional Accountants) and have the required competencies and experience for this review.

### **Approach**

In order to develop the work program outlined in the following section, we undertook the following preliminary tasks before we commenced our review:

- Researched publicly available information relating to the Project and each of the Participants' involvement in the Project
- Reviewed the Protocol requirements
- Prepared the work program and mapped the work program steps against the Protocol clauses
- Identified all key stakeholders who should be involved in the Review
- Discussed and confirmed the work to be performed with each of the Participants and Herbert Smith Freehills.

### **Work performed**

In order to arrive at the conclusion outlined above, we undertook the following procedures in relation to the Ring Fencing Arrangements by:

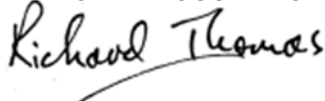
- Holding interviews with relevant Participants' representatives
- Reviewing relevant policy and procedure documents and manuals
- Conducting a physical tour of each Participant's office at the respective locations
- Considering relevant observed controls, which relate to the Protocol.

For each of the Participants, we executed a detailed work program as set out in Appendix A.

### **Conclusion**

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Participants have not complied with the Protocol in all material respects, as measured by the evaluation criteria set out in the Protocol, as at the completion date of our fieldwork for each Participant. This conclusion is subject to the limitations detailed in this summary and should be read in this context.

DELOITTE TOUCHE TOHMATSU



**Richard Thomas**  
**Partner**  
**Perth**  
**31 October 2014**

## Appendix A: Work Program

Area Reviewed
<b>Planning</b>
Obtained a complete population of each Participant's domestic gas projects to gain an understanding of its competing domestic gas projects (if any) by performing research on publicly available information and corroborative enquiry with its representatives.
<b>Compliance culture</b>
Reviewed the management representation provided by each entity, which detailed position changes and policy documents.
Reviewed relevant policies, near miss register or equivalent and procedures and document management processes to confirm our understanding of the governance framework and compliance culture surrounding the Protocol.
Reviewed policies and procedures and the document management processes against the Protocol to understand whether the policies and procedures and the document management processes in place remain aligned with the requirements of the Protocol and the compliance culture.
Reviewed compliance culture for each Participant against ACCC published benchmarks for continued effectiveness.
<b>Marketing personnel</b>
Observed and understood each Participant's organisational structure, job descriptions and definitions of Marketing staff against the definition provided in the Protocol to confirm consistency of the definitions.
Observed the Protocol training regimes in place.
Observed staff knowledge of the Protocol requirements.
Observed or enquired into the transfer and secondment processes to confirm our understanding of the controls implemented to mitigate the risk of non-compliance with the Protocol.
Observed the performance incentive schemes in place and confirmed our understanding of the controls in place to mitigate the risk of non-compliance with the Protocol and encourage a compliance culture.
<b>Management of physical information</b>
Observed the definition of and methodology for identifying Marketing Information to understand the document management process.
Observed security over physical Marketing Information including document management logs (where applicable) to confirm our understanding of the relevant process.
Observed the physical security of the premises, including issue of permanent and temporary access cards.
Observed the physical arrangement of staff and floor/building security.
Observed the security of multi-purpose printers that generate Marketing Information.
<b>Management of electronic information</b>
Observed the security of electronic information through the use of restricted network drives, including assignment and amendment of access to confirm our understanding of the control environment.
Observed the process of network user access creation and maintenance to understand the controls in place.
Observed the Data Management System and design of user administration system to confirm our understanding of the controls implemented.
Observed the security of electronic communication such as email, newsletters, eRoom and intranet data to confirm our understanding of the controls over dissemination of electronic Marketing Information to unintended recipients.
Observed the security over multi-purpose printers to understand the controls in place to mitigate the risk of Marketing Information being generated using an inappropriate multi-purpose printer.
<b>Marketing Information distributed outside the ring fencing structures</b>
Observed and understood which employees, consultants, auditors, independent contractors or agents can access Marketing Information outside the ring fencing structures.
Observed and confirmed our understanding of how access is approved and controlled.
Observed and understood where these employees, consultants, independent contractors or agents fit into the organisation.
Observed and understood whether the employees, consultants, auditors, independent contractors or agents appreciated and understood the ring fencing requirements attached to receiving this information.
Understood the Marketing Information that is disseminated to such employees, consultants, auditors, independent contractors or agents.

