KNOWLEDGE OF THE CLIENT'S BUSINESS CHECKLIST

This appendix provides a checklist that may help the auditor obtain and document knowledge of some of the characteristics of the client's business. This checklist is not meant to be an exhaustive list of the characteristics of the client's business that may be important for the audit. In addition, this checklist is not designed to group all of the information necessary for understanding internal control for planning purposes and assessing control risk.

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| I. KNOWLEDGE OF THE ENTITY | | | | |
| A. | CHARACTERISTICS OF OWNERSHIP AND MANAGEMENT | | | |
| 1. | **Type of entity:** | | | |
|  | Corporation | | Sole proprietorship | |
|  | * Private   Public | | Joint venture | |
|  | Crown corporation | | General partnership | |
|  | Not-for-profit organization | | Limited partnership | |
|  | Other (describe) | | | |
| 2. | **Jurisdiction of incorporation:** | | | |
|  | Statute: Alberta | | | |
|  | Date: Not Available | | | |
| 3. | **Listed on stock exchange: (name of stock exchanges, listed securities)** | | | |
|  | Not Applicable | | | |
| 4. | **Principal owners, directors and officers:** | | | |
|  | Name | Title | | % interest |
|  | Darrell Haines | CEO | | 100% |
|  | Elaine To | CFO | |  |
|  |  |  | |  |
|  |  | | | |

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| I. KNOWLEDGE OF THE ENTITY | | |
| B. | OPERATIONS | |
| 1. | **Nature of activities** (manufacturing, distributing, service, etc.; industrial, commercial, residential, individual, etc.): | |
|  |  | % of activities |
|  | The company is involved in buying oil fields and oil operations focusing particularly on orphan wells. Orphan wells in this context refer to wells which are unable to produce an output which can justify high corporate overheads. | 100% |
| 2. | **Territory covered** | |
|  | Location | % of activities |
|  | Alberta | 100% |
|  |  |  |
| 3. | **Production or sales cycles** | |
|  | The company’s production cycle begins with acquisition of an oil well or producer which is immediately followed by up gradation to control gas leakage. Given that company focuses on existing orphan wells in most cases hole are drilled and connected to systems hence company production cycle is primarily focused on maintenance and connection of wells to compressors. | |
| 4. | **Patents, trademarks, rights, permits:** | |
|  | 25 year renewable land leases valued at $ 8.47 Million in 2018. | |

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| I. KNOWLEDGE OF THE ENTITY | | | |
| C. | FINANCIAL POSITION | | |
| 2. | **Sources of financing:** | | |
|  | Financial institutions (name, address, bank accounts) | | |
|  |  | | |
|  | Other sources of financing: | | |
|  | *Convertible debt owed to former Lead Partner at 6% per annum.*  *Long term borrowing at 7% per annum secured using production properties.* | | |
| 3. | **Is there a doubt as to the entity's ability to continue as a going concern?** | | |
|  | Not Applicable | | |
|  |  | | |
| D. | INFORMATION SYSTEMS | | |
| 1. | **Accounting records and documents:** | | |
|  | Accounting cycle or subsystem | System or software | Frequency |
|  | *Our IS specialty group will look at system after we agree to audit. Current system is a small network with a PC server. Manufacturing systems are based on a DELL T610 with numerically controlled integrated management software. The manufacturing system does not produce accounting information, so we do not need to study it.* | | |
| 2. | **Description of computerized system**: | | |
|  | *Our IS specialty group will look at system after we agree to audit. Current system is a small network with a PC server. Manufacturing systems are based on a DELL T610 with numerically controlled integrated management software. The manufacturing system does not produce accounting information, so we do not need to study it.* | | |

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| II. KNOWLEDGE OF THE INDUSTRY | | | |
| 1. | **Economic conditions of the industry:** (market conditions, decline or expansion of business, price changes, economic cycle of products, etc.)**:** | | |
|  | According to a 2015 study Canada has the world’s third-largest oil reserves at approximately 171 billion barrels. Currently, the largest players in the industry based within Canada are Enbridge which generated revenues above USD 33.7 Billion in 2021. Over the past five years industry was adversely affected by both a decline of almost 20% in the value of Canadian currency as well as a fall in global oil prices. (Statista, 2021)  Following the overall economic slowdown due to the COVID 19 pandemic, Canada’s oil and gas sectors showed significant recovery by April 2021. Specifically, the industry’s employment and exports were at 95.7% and 102.5% of their corresponding January 2020 levels. The expansion in the Canadian oil and gas industry was in turn a reflection of the overall increase in global oil demand which was expected to recover by 5.5 mb/d to 96.6mb/d in 2021. (Wang, 2021)  Global oil prices going forward are also expected to increase with recovered demand from lows experienced in 2020. Specifically, global oil markets experienced an increase in prices where Brent rose to $57/bbl and WTI to $53/bbl as a result of higher demand from Europe and Asia along with supply cuts implemented by OPEC. ((IEA, 2021) | | |
| 2. | Description of technological changes, internationalization of business transactions and  their effects on the market: | | |
|  | Much of the innovation and technological changes within the company’s industry are led by the external pressures faced by the industry to not only reduce costs but also the overall negative environmental impacts. For instance, companies operating within Canada’s oil sands are considered global leaders in environmental innovation as well as in the development of new technology.  Examples of technological innovations to reduce the environmental impact include Carbon Capture and storage (CCS) technology, Partial Upgrading to reduce the need to dilute bitumen when making it suitable for transport using pipelines, Advanced oil sands recovery technologies which effectively reduce the use of steam for in situ bitumen recovery. (CAPP, 2021)  In this context, the use of CCS is already prevalent within the larger industry players such as Suncor. Further, there has also been an increase in the use of multilateral drilling technologies aimed at generating greater flexibility in reservoir development. (Smith, 2021) | | |
| 3. | **Major competitors:** | | |
|  | **Name** | **Products or services offered** | |
|  | Imperial Oil Resources Limited | Oil & gas extraction | |
|  | Suncor Energy Inc | Oil & gas extraction | |
|  | Shell Canada Limited | Oil & gas extraction | |
|  | Top three oil & gas extraction companies operating within Alberta, Canada in terms of revenue are presented above. (DNB, 2021) | | |
| 4. | **Financial statement users and reporting requirements:** | | |
|  | Given that the company aims to attain listing by merging with a dormant listing following which the company plans to raise funds using a secondary offering. In this context, once the company attains listed status it will need to satisfy the following periodic reporting requirements Quarterly financial statements and interim MD&A, Annual financial statements, and annual MD&A, Annual report, Annual Information Form along with CEO and CFO Certification. (TSX, 2021)  The users of the company’s financial statements will include stakeholders such as potential investors, shareholders, debt holders, tax authorities, industry analysts, company management, and employees. | | |
| 5. | **Specific knowledge required of the audit team:** | | |
|  | **Type of knowledge** | | **Description** |
|  | Canadian accounting standards | | Specific knowledge of International Financial Reporting Standards will be required which were adopted by Accounting Standards Board for all publicly accountable enterprises. |
|  | US accounting standards | | Given that the company will be listed in Canada GAAP compliance / knowledge is not required. |
|  | Other accounting standards | | N/A |
|  | Specific industry guidance | | Knowledge of upstream and downstream activities within the industry,  Application of standards such as IFRS 16 for lease accounting. |

**Materiality:**

According to the International Standard of Auditing 320 different benchmarks may be used by an auditor when determining materiality levels. Such benchmarks may include profit before tax, total income or expenses, gross profit, total equity or net assets. For entities which are mature and are financed by one private equity investor or considerable debt the most appropriate materiality benchmark is total assets. In this context commonly used percentage range from 0.5% to 1% of total assets. (Pearson, 2021)

The appropriate materiality number for the company therefore is:

***Total Assets (2018) x 1% = $327,003,204 x 1% = $ 3,270,032***

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